We do life.

HK Stock Code: 2378

Prudential plc
Annual Report 2018

Prudential helps people de-risk their lives and deal with their biggest financial concerns.

Our year in numbers

Summary financials	**2018**	2017	Change on an actual exchange rate basis[8]	Change on a constant exchange rate basis[8]
Adjusted IFRS operating profit based on longer-term investment returns[1]	**£4,827m**	£4,699m	3%	6%
Underlying free surplus generated[2]	**£4,047m**	£3,640m	11%	14%
Life new business profit[3]	**£3,877m**	£3,616m	7%	11%
IFRS profit after tax[4]	**£3,013m**	£2,390m	26%	30%
Net cash remittances from business units[5]	**£1,732m**	£1,788m	(3)%	–
IFRS shareholders' funds	**£17.2bn**	£16.1bn	7%	
European Embedded Value (EEV) shareholders' funds	**£49.8bn**	£44.7bn	11%	
Group Solvency II capital surplus[6,7]	**£17.2bn**	£13.3bn	29%	

Full-year ordinary dividend

2018	**49.35 pence**	**+5%**
2017	47 pence	

Notes

[1] This alternative performance measure is reconciled to IFRS profit for the year in note B1.1 of the IFRS financial statements.

[2] For insurance operations, underlying free surplus generated represents amounts maturing from the in-force business during the period less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the period. Restructuring costs are presented separately from the underlying business unit amount. Further information is set out in note 10 of the EEV basis results.

[3] New business profit on business sold in the year, calculated in accordance with EEV principles.

[4] IFRS profit after tax reflects the combined effects of operating results determined on the basis of longer-term investment returns, together with short-term investment variances, results attaching to disposal of businesses and corporate transactions, amortisation of acquisition accounting adjustments and the total tax charge for the year.

[5] Net cash remitted by business units are included in the Holding company cash flow, which is disclosed in detail in note II(a) of the Additional unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.

[6] 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 estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

[7] Estimated before allowing for second interim ordinary dividend.

[8] Further information on actual and constant exchange rate basis is set out in note A1 of the IFRS financial statements.

Contents

The Directors' Report of Prudential plc for the year ended 31 December 2018 is set out on pages 2 to 7, 88 to 130 and 378 to 423, and includes the sections of the Annual Report referred to in these pages.

Chairman's statement – Paul Manduca

Continuing to deliver long-term value to our customers

I am pleased to introduce Prudential's 2018 Annual Report. The Company has performed well amid uncertain macro-economic conditions, continuing to deliver value for our customers, shareholders and wider stakeholders. We have also made good progress towards our planned demerger of M&GPrudential from Prudential plc.

Our performance depends on the quality of our products, which meet essential needs for our customers. We are strongly aware of our purpose, which is to help people de-risk their lives and deal with their biggest financial concerns. Our products and services are designed and delivered with that purpose clearly in mind. The quality of our financial performance during 2018 is a reflection of our success in providing value to our customers.

We have been working hard on the proposed demerger of M&GPrudential from the Group, which we announced in March 2018. We remain confident that it will result in the creation of two businesses with distinct investment prospects, each offering compelling propositions to customers and shareholders. The practical steps needed to deliver the demerger are progressing as planned. The Board is focused on ensuring a smooth transition and that both businesses have the necessary management and board expertise to give them the best possible start to life after the demerger. This has included the appointment of Mike Evans as Chair of M&GPrudential.

Performance and dividend

The Group delivered another year of sustainable operating and financial performance during 2018. In view of this performance, the Board has decided to increase the full-year ordinary dividend by 5 per cent to 49.35 pence per share. In line with this, the Directors have approved a second interim ordinary dividend of 33.68 pence per share.

Board changes

A well-run company is built through good decision-making and execution, and robust governance is the foundation. During a time of both external and internal change, the Board must be decisive and exercise its judgement in a timely manner.

It has been a privilege to serve on the Board of Prudential plc since October 2010, and to have served as Chairman since July 2012. The Board is mindful that the Corporate Governance Code states that a chair should not remain in post beyond nine years from the date of first appointment to the Board. However, to help provide Board stability during the period covering the demerger of M&GPrudential, I have agreed to remain as Chairman until May 2021, subject to re-election each year.

We have also looked at our wider Board composition as we head towards the demerger of M&GPrudential. As Chief Executive of M&GPrudential, John Foley will naturally stand down from the Board as part of the transition. Having taken into account the changed shape of the Prudential Group post-demerger and the reduced number of business units, the Board has decided that the roles of Chief Executive of Prudential Corporation Asia and Chairman and Chief Executive of Jackson Holdings will no longer be executive director roles on the Board, although they will remain on the Group Executive Committee. John Foley, Nic Nicandrou and Michael Falcon will not seek re-election and will step down at the 2019 Annual General Meeting (AGM). My thanks go to all three of them for their service on the Board.

Lord Turner has also announced that he will retire from the Board at the 2019 AGM. I would like to take this opportunity to thank him for his significant contribution to the Board over the last three and a half years, as a Non-executive Director and a member of the Risk and Audit Committees. I would also like to welcome Fields Wicker-Miurin, who joined the Board in 2018, and to thank Anne Richards and Barry Stowe, who both stepped down during 2018, for their valuable contributions to the Board and the Group.

Our customers and wider stakeholders

Regardless of the nature of the external environment and the changes we are making to the Group, we maintain our strong focus on delivering for our customers. In Asia, we are developing innovative digital solutions; in the US we are providing new retirement propositions; and in the UK we are making our successful PruFund products increasingly available to people who are looking for ways to ensure their financial security in retirement, including through our digital platform. We are also taking active steps to ensure that we are prepared for the impact of the UK's exit from the European Union. At the same time, we are using our customers' capital to invest in companies and infrastructure around the world, driving economic growth and supporting the communities in which we operate.

The Board is committed to ensuring that the Group continues to make a positive social and economic impact. In our Corporate responsibility review, beginning on page 70 of this Annual Report, we provide an overview of our approach as a responsible corporate citizen. More details can be found in our 2018 Environmental, social and governance report (ESG), which will be published in May.

Our shareholders

The Board's role is to represent the interests of all shareholders. A regular and frank dialogue with our shareholders ensures we are responsive to our owners' priorities and concerns. We have an ongoing programme of shareholder engagement, which enables us to make better decisions based on the well informed feedback we receive. I personally find these discussions hugely valuable and take the ideas and suggestions received very seriously.

In addition, policy and regulatory change can have a significant effect on both our operating environment and our customers. We are committed to developing constructive and open relationships with all our supervisors, as well as governments and civil society. We are grateful for the constructive engagement of our regulators during the demerger process, and the Board is committed to continuing to work closely with them.

Our people

Prudential has always been a business built on our people. It is the commitment, drive and creativity of our teams in markets around the world that has enabled us to deliver these results while moving towards our demerger. The commitment of our people to our customers is inspiring, and understanding their needs and priorities is a focal point for the Board. An environment where we continually develop our talent, reward great performance, protect our people and value our differences is key to delivering results such as these.

We are also determined to make sure our people represent the diverse communities we serve. Ensuring that our colleagues have a wide range of experience and viewpoints is vital to our success, and the Board has made diversity and inclusion one of our strategic priorities. There is much to do in this area, but I am encouraged by the progress we have made.

I am also particularly pleased with the efforts so many of our people make in regard to community involvement. We have an active programme of community investment in our businesses around the world, with a total contribution of over £27 million. Our projects range from Cha-Ching, the financial education platform aimed at primary-school children, which began in Asia and is now present on all four continents on which we operate, to Prudential RideLondon, now in its seventh year, which has raised more than £66 million for charity, plus our many other activities around social inclusion, education and life skills and disaster preparedness.

A key part of our community contribution is made by our people volunteering their time and skills for the benefit of their communities, and this makes me particularly proud. I support this activity personally through the Chairman's Challenge, our flagship international volunteering programme, which brings together people from across the Group to get involved in their communities. In 2018, more than 9,000 of our colleagues around the world took part in the Chairman's Challenge, volunteering over 49,000 hours to support 33 different projects.

Looking forward

We have delivered solid results while making good progress towards a significant change that we believe will secure the long-term future for both Prudential plc and M&GPrudential. The Board is confident that shareholders, customers and all our stakeholders will benefit from the creation of the two focused and innovative companies that will result, and that we will continue delivering value well into the future.

Paul Manduca
Chairman

Bringing Money Smarts to kids across the US

Since 2017, the Jackson Charitable Foundation has been helping American students to form better financial habits from the youngest ages. *Cha-Ching Money Smart Kids* music videos and activities, originally developed by Prudential Corporation Asia, are now used in elementary schools across the US with programmes led by classroom teachers and community volunteers.

'Helping children learn money management concepts while engaging them in fun and memorable activities prepares them for a promising future,' said Jackie Prester, Business and Technology Teacher, Mansfield Public Schools, Massachusetts. 'With Cha-Ching, we are putting students on a path to financial freedom in adulthood, where money smart habits can positively impact their families, communities and lives.'

Partnering with Junior Achievement USA (JA), Cha-Ching has been incorporated into JA's third grade classroom curriculum which is taught in more than 15,000 classrooms annually by community volunteers, including Jackson associates. The Foundation has also teamed up with Discovery Education to make Cha-Ching available at no cost to teachers and families through streaming services and www.cha-chingusa.org

Between these two efforts, Cha-Ching has reached more than 2.6 million students since 2017 and continues to grow in popularity, teaching young people how to 'Earn, Save, Spend and Donate!'

Group Chief Executive's report – Mike Wells

Capturing the structural opportunities ahead of us

I am pleased to report that we have delivered another year of positive financial performance across the Group. Through the combination of our consistent strategy, our diversified portfolio of businesses and our disciplined execution, we have continued to produce high-quality earnings and deliver consistent returns for our investors and good outcomes for all our stakeholders.

Our purpose is to help people de-risk their lives and deal with their biggest financial concerns. Whether they are starting a family, saving for a child's education or planning for old age, we provide them with the freedom to face the future with confidence through our long-term savings and protection products, retirement income solutions and asset management capabilities. At the same time, we invest our customers' savings in the real economy, helping to drive the cycle of growth and build stronger communities.

We serve this purpose through our clear, consistent strategy, which is focused on long-term structural trends and gives us unrivalled access to the world's largest and fastest-growing markets. In Asia, our distinguished brand, extensive footprint and broad product and distribution reach across 14 markets leaves us well positioned to serve the health, protection and savings needs of the rapidly growing and increasingly affluent population. We are also a leading provider of retirement products in the US, where the number of people aged 65 and older is expected to grow from 55 million in 2020 to 72 million by 2030[1], and we are continuing to enhance our product set and distribution reach to capture the opportunity in this market. In the UK and Europe, where ageing populations provide growing demand for managed savings solutions, M&GPrudential is transforming itself to meet those needs in new ways. In Africa we are building a presence in one of the world's most under-penetrated insurance markets, with operations in five markets.

We are continuing to develop our product offering and improve our capabilities in order to meet the needs of customers in all these markets. Across our businesses, we are listening to our customers and creating new and better products in response to their changing needs. At the same time, we are constantly upgrading our capabilities, including, by investing in digital technology that enables us to meet our customers' needs more quickly and efficiently.

In March 2018, we announced our intention to demerge M&GPrudential from the Group, in order to create two separately listed companies with distinct investment characteristics and opportunities. After the demerger, our shareholders will have shares in Prudential plc, which will be even better positioned to capture the structural opportunities ahead of us, and M&GPrudential, with greater freedom to deploy its capital where and how it likes to meet the changing needs of customers.

We are making good progress towards the demerger. On the structural side, we have established the holding company for M&GPrudential, and we have completed the first stages at the High Court of England and Wales for the transfer of part of the M&GPrudential annuity book to Rothesay. On the operational side, we are moving forward with separating the functions of the two businesses and building new ones to prepare M&GPrudential for its post-demerger future. We have also raised £1.6 billion of subordinated debt, with substitution clauses to be activated on demerger, supporting the capital rebalancing of the two businesses, and we continue to work with our regulators.

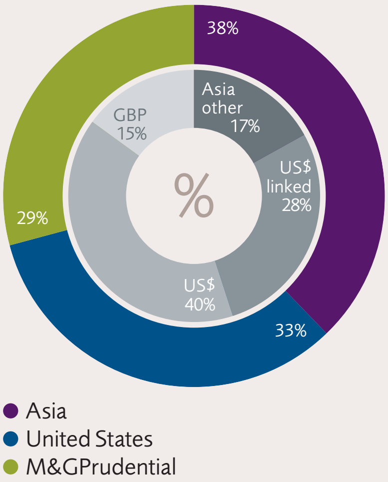
Our financial performance

Our financial performance in 2018 reflects our focus on high quality execution of our strategy, and is again led by our business in Asia.

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

New business profit[2] increased by 11 per cent[3] to £3,877 million (up 7 per cent on an actual exchange rate basis), driven by the favourable impact of our strategic focus of increasing health and protection sales in Asia, the benefit of higher US interest rates and a resilient performance in the UK and Europe.

Operating profit*,[4] by business and currency mix
% 2018



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

Group adjusted IFRS operating profit based on longer-term investment returns[4] ('operating profit') was 6 per cent[3] higher at £4,827 million (up 3 per cent on an actual exchange rate basis). Operating profit from our Asia life insurance and asset management businesses grew by 14 per cent[3], reflecting continued broad-based business momentum across the region and high-quality sales, with over 85 per cent of operating income from our preferred sources of insurance income, fee income and with-profits. In the US, Jackson's total operating profit was 11 per cent[3] lower, with higher fee income outweighed by an increase in market-related deferred acquisition costs (DAC) amortisation expense and the anticipated reduction in spread earnings. In the UK and Europe, M&GPrudential's total operating profit was

Innovation through partnership

In 2017, Prudential Singapore announced a commitment to the Monetary Authority of Singapore to be a Grand Sponsor of the Singapore FinTech Festival from 2018 to 2022, demonstrating our dedication to fostering a culture of innovation, collaboration and co-creation among financial institutions, fintech companies and regulators globally. The Singapore FinTech Festival is the largest festival of its kind in the world, with the 2018 event hosting more than 250 speakers, more than 400 exhibitors and 16 international pavilions, and drawing close to 45,000 participants from almost 130 countries.

Prudential's stand at the festival featured some new tools powered by partnerships between Prudential and local start-ups. Initiatives on show included an instant health check through an app that determines body fat using pictures taken on a mobile phone, a new financial planning service that uses sophisticated algorithms to predict money needs across the customer's lifetime, and Prudential Singapore's new PRUworks service, which provides a range of legal, HR and employee benefit services for SMEs in one convenient app.

Singapore is a key innovation test-bed for Prudential as it harnesses technology to make insurance simpler and more accessible. Recognising that customers are demanding greater speed, seamlessness, convenience and control over their finances, we have been investing in understanding customers' needs more deeply and in creating a distinctive Prudential customer experience across multiple touchpoints. We are also creating digital tools to help our more than 4,900 financial consultants in Singapore work more efficiently and serve our customers even better.

19 per cent higher than the prior year, which principally reflects the benefit from updated longevity assumptions and an 11 per cent[5] increase in the shareholder transfer from the with-profits business, which includes a 30 per cent[5] increase from PruFund.

The Group's capital generation is underpinned by our large and growing in-force business portfolio, and focus on profitable business with fast payback of capital invested. Overall, underlying free surplus generation[6] increased by 14 per cent[3] to £4,047 million and cash remittances to the Group from business units were £1,732 million (2017: £1,788 million). The Group's overall performance supported a 5 per cent increase in the 2018 full year ordinary dividend to 49.35 pence per share.

The Group remains robustly capitalised, with a 2018 year-end shareholder Solvency II cover ratio[7,8] of 232 per cent. Over the period, IFRS shareholders' funds increased by 7 per cent to £17.2 billion, reflecting profit after tax of £3,013 million (2017: £2,390 million on an actual exchange rate basis) and other movements that included dividend payments to shareholders of £1,244 million and favourable foreign exchange movements of £348 million. EEV shareholders' funds increased by 11 per cent to £49.8 billion, equivalent to 1,920 pence per share[2,9].

In Asia, we have maintained our focus on value, whilst continuing to develop our capabilities and reach, which build scale and enhance quality. Our strategic emphasis on increasing sales from health and protection business has contributed to a 14 per cent[3] increase in new business profit in Asia, and also reflected a 2 per cent[3] growth in APE sales. Our growth in new business profit was broad-based, with 10 markets delivering double-digit percentage increases[3]. Our asset management business, Eastspring Investments, has continued to grow, with operating profit up 6 per cent[3] to £182 million.

In the US, Jackson remains focused on providing financial security to increasing numbers of individuals approaching or in retirement, broadening its product range and extending its distribution network, including new relationships announced with State Farm, Envestnet and DPL Financial Partners. In 2018, higher charges for deferred acquisition costs amortisation, largely as a result of equity market movements in the year, contributed to Jackson's operating profit being 11 per cent lower. US new business profit increased by 5 per cent, as favourable movements in interest rates and spread assumptions balanced a reduction in APE sales. Jackson's hedging programmes performed as expected in the period of equity market weakness experienced towards the end of 2018, contributing to an increased risk-based capital ratio at year-end of 458 per cent (2017: 409 per cent).

In the UK and Europe, both our life and asset management businesses performed well in 2018, with operating profit 19 per cent higher driven by a number of items that are not expected to recur at the same level including the effect from updated longevity assumptions. Our core PruFund proposition continues to perform well, with net inflows of £8.5 billion and the PruFund contribution to shareholder operating profit increasing 30 per cent to £55 million. New business profit increased by 3 per cent, broadly in line with the increase in APE sales. M&GPrudential asset management saw net outflows of £9.9 billion from external clients, including the expected redemption of a single £6.5 billion low margin institutional mandate. Overall M&GPrudential assets under management[10] were £321 billion (2017: £351 billion), reflecting net outflows at M&GPrudential asset management and the impact of the £12 billion annuity reinsurance agreement announced in March 2018.

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

A clear and proven strategy

Our clear, proven strategy is key to our long-term positive performance, and is focused on strong and growing opportunities in Asia, the US, the UK and Europe and our nascent markets in Africa.

In Asia, a large and increasingly wealthy population with low levels of insurance and asset management coverage is creating a huge and fast-growing market for our health, protection and savings products. Asia is driving global growth, with average annual GDP growth in our Asia life markets of 10.4 per cent in the decade to 2017[11], compared with just 1.9 per cent for the rest of the world[11]. Furthermore, despite potential headwinds, between 2017 and 2023 Asia is expected to deliver 39 per cent of the world's GDP growth[11]. This is creating a rapidly growing middle class in the Asia region, which is expected to double by 2030 to reach 3.5 billion people[12]. At the same time, insurance penetration in Asia is just 2.7 per cent of GDP[13], compared with 7.2 per cent in the UK[13], leaving the region vastly under-insured with an estimated mortality protection gap of US$40 trillion[14] and a health and protection gap of US$1.8 trillion[15]. Similarly, mutual fund penetration in Asia is only 12 per cent[16], compared with 96 per cent in the US[16], whilst 65 per cent of wealth in Asia is held in cash[17]. With private financial wealth in the region growing by US$5 trillion per year[17], there is considerable latent demand for our savings solutions. These structural drivers of growth are expected to persist for many years to come and create a historic opportunity for us.

We are also developing our businesses in our newer markets in Africa, which is one of the world's most underserved life markets, and where the population is forecast to grow by a billion by 2045[1]. We are now operating in five countries in Africa – Ghana, Kenya, Nigeria, Uganda and Zambia – which will increase further with the announced acquisition of a majority stake in Group Beneficial, and we are excited about the growing opportunities in this dynamic region.

We have a strong and growing opportunity in the US. About 40 million Americans are expected to reach retirement age over the next decade alone. At the same time, 72 per cent of American workers do not have access to a defined benefit retirement plan[18]. A study conducted by the Insured Retirement Institute and Jackson showed that 80 per cent of Americans think that social security will not provide enough income for retirement[19], and the same percentage are willing to pay more for guaranteed lifetime income[19]. This aligns with our retirement income products, which are designed to help customers avoid running out of money and provide them with a reliable cushion against volatile markets.

In the UK and Europe, notwithstanding the uncertainty related to the UK's intended exit from the European Union, a combination of global trends and competitive advantages is creating a powerful opportunity for M&GPrudential. Those approaching retirement have been looking for new ways to ensure a comfortable future, and since pensions freedoms were introduced in the UK in 2015 that demand has been increasing. At the same time, the total value of household cash deposits in the EU is estimated at €10 trillion[20], indicating the scale of the opportunity for asset management in the region. Private assets under management are expected nearly to double between 2017 and 2023[21]. M&GPrudential, which already has established international distribution, a clear focus on customer solutions and a broad-ranging investment capability, is transforming itself to meet this opportunity.

New and better ways to serve customers

We are continuing to improve the way we serve our customers in every part of the world in which we operate. We constantly update our products and our capabilities to ensure that we are fulfilling our purpose and maximising the effect of our strategy.

In Asia, we are continuing to develop and expand our products, distribution capabilities and footprint and to meet the evolving needs of our customers. During 2018, we broadened our product suite to include tailored propositions for the high-net-worth and corporate segments and developed new products for customers with specific needs, such as pre-existing medical conditions. Our distribution capabilities were enhanced by new digital technology and provide a seamless and differentiated customer experience from point of sale through to making a claim. At Eastspring, we also continued to roll out BlackRock's Aladdin system across our markets to improve efficiency. We broadened our reach through new partnerships with leading banks in several markets, including Thailand and the Philippines. Meanwhile, Eastspring consolidated its position as the leading retail asset manager in Asia (excluding Japan) by establishing an on-the-ground presence in China and Thailand. Early in 2019, we also renewed our successful regional strategic alliance with United Overseas Bank (UOB), one of our most successful distribution relationships in South-east Asia, until 2034 and added Vietnam and UOB's digital bank to an existing partnership presence in Singapore, Malaysia, Thailand and Indonesia.

We are also expanding our footprint in our Africa markets. In August 2018, we extended our long-term partnership with Standard Chartered Bank, which has been a huge success in Asia, to Ghana, and in November we signed a long-term exclusive partnership with Zambia National Commercial Bank Plc (Zanaco), Zambia's largest bank, to enable our market-leading products to be offered to more than a million new customers across the country.

WINNER
BRITAIN'S
MOST
ADMIRED
COMPANIES
2018

Management Today

Prudential, for the second year in a row, won the insurance category of Management Today's 'Britain's Most Admired Companies' awards in December 2018.

In the US, we have a long and durable track record of delivering financial success for our consumers. We are offering new products for fee-based advisers and have launched new versions of our fee-based variable annuities. We are changing the narrative around retirement and lifetime income, demonstrating the value proposition of our products to regulators, investors, policyholders and influential industry figures. In September, we announced our collaboration with the Envestnet Insurance Exchange, to offer our products on its platform. In October, we announced a key distribution partnership with State Farm, further strengthening our market-leading distribution footprint. Early in 2019, we partnered with DPL Financial Partners to provide our protected lifetime solutions to independent registered investment advisers (RIA), providing access to new opportunities in the independent RIA channel.

In the UK and Europe, as M&GPrudential prepares for the demerger, we have been continuing to transform what we do for our customers and how we do it. Our PruFund offering continues to impress customers with its combination of clarity, capital growth and lower volatility. We are investing to transform the experience of our fast-growing digital platform, launched in 2016, to ensure it offers a comprehensive range of solutions for customers. In our investment management business, we continue to develop our private asset capacity and now have £59 billion of private assets under management, making us one of the largest private credit investors in the world, and we are looking to expand our differentiated capabilities across geographies and asset classes. In 2018, M&GPrudential also signed a new partnership with Tata Consultancy Services (TCS), a global leader in IT, business process and digital services, to enhance service for our UK and Europe savings and retirement customers.

Throughout our businesses, we are continuing to develop our digital capabilities. In Asia, such initiatives are enabling us to provide valuable and innovative services to our customers. In August, we announced our exclusive partnership agreement with the UK-based healthcare technology and services company Babylon Health. Through the deployment of cutting-edge artificial intelligence technology, this partnership will offer customers, in up to 12 of our markets in Asia, access to a comprehensive set of digital health tools, complementing Prudential Corporation Asia's existing suite of world-class protection products and strengthening our digital future. Similarly, at Eastspring, our robo-advice platform in Taiwan, in partnership with Alkanza, helps our clients meet their savings goals. We recognise that technology continually evolves and we embrace the possibilities that lie ahead. Our sponsorship of Singapore's FinTech Festival, which in 2018 had more than 400 exhibitors from 35 countries, showcasing the very latest in digital innovation, is testament to this and presents all kinds of partnership possibilities. Indeed, our Singapore business has since partnered with three of the propositions showcased at the event.

Our leadership

In July 2018, we announced that Anne Richards was resigning as Chief Executive of M&G and from the Group's Board. I would like to thank Anne for her contribution to the Group's continued success. In October 2018, we announced that Barry Stowe had decided to retire as Chairman and Chief Executive Officer of Jackson and as an Executive Director of the Group. Barry made an exceptional contribution over his 12 years at the Group, first at our Asia business, which under his leadership grew to become the market-leading operation it is today, and in the US since 2015. Barry has been succeeded at Jackson by Michael Falcon. Formerly CEO of Asia Pacific for JP Morgan Asset Management, Michael has deep expertise and an impressive track record in the industry and is well placed to lead the next phase of our development in North America. We continue to invest in the right people at all levels across the Group.

Delivering value into the future

Our clear strategy, discipline and improving capabilities have enabled us to deliver a broad-based financial performance in 2018, based on a close focus on our core purpose of helping people to de-risk their lives and deal with their biggest financial concerns. In Asia we continue to see a strong runway for the insurance and asset management industries, and our presence, scale and distribution reach position us well to participate strongly in this growth. In the US, we continue to provide Americans with the retirement strategies they need, and we are confident that this will enable us to capture additional growth into the future. In the UK and Europe, we will continue to improve service levels and launch new offerings, and we are making good progress towards the intended demerger of M&GPrudential from the Group, which will result in two distinct businesses that are able to focus more clearly on the opportunities open to us. We have an established track record of delivering important benefits to our customers and profitable growth to our shareholders. I am confident that, post demerger as independent companies, both Prudential plc and M&GPrudential will be positioned to continue to do well in the future.

Mike Wells
Group Chief Executive

Notes

1 United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision. American population reaching retirement age over the next decade is based on 2019 population, aged 55 to 64.

2 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. See note III of the Additional unaudited financial information for definition and reconciliation to IFRS balances.

3 Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated.

4 Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.

5 Growth rate on an actual exchange rate basis.

6 For insurance operations, underlying free surplus generated represents amounts maturing from the in-force business during the period less investment in new business and excludes non-operating items. For asset management businesses it equates to post-tax operating profit for the period. Restructuring costs are presented separately from the underlying business unit amount. Further information is set out in note 10 of the EEV basis results.

7 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 estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

8 Estimated before allowing for second interim ordinary dividend.

9 See note III of the Additional unaudited financial information for definition and reconciliation to IFRS balances.

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

11 IMF. 2017 GDP at January 2019 current prices. Asia represents Prudential Corporation Asia's life business footprint.

12 Brookings Institution. Global Economy & Development Working Paper 100. February 2017. 'Asia' represents Asia Pacific.

13 Insurance penetration – Swiss Re Sigma No 3/2018. Insurance penetration calculated as premiums as a percentage of GDP. Asia penetration calculated on a weighted population basis.

14 Swiss Re Mortality Protection Gap Asia Pacific 2018. Represents Prudential Corporation Asia's life business footprint, and use per capita income of working population as the base unit to calculate the size of the gap.

15 Swiss Re Asia's health protection gap: insights for building greater resilience. October 2018. Represents China, India, Japan, Korea, Indonesia, Malaysia, Taiwan, Vietnam, the Philippines, Singapore, Hong Kong and Thailand.

16 Investment Company Institute, industry associations and Lipper.

17 BCG Global Wealth 2017. Navigating the New Client Landscape.

18 U.S. Bureau of Labor Statistics, National Compensation. Survey: Employee Benefits in the United States, March 2017. Workers defined as those employed in private industry and state and local government.

19 The Language of Retirement 2017 – study conducted on behalf of the Insured Retirement Institute and Jackson.

20 Eurostat: Household deposit data.

21 Preqin Future of Alternatives Report, October 2018.

02

Strategic report

Group at a glance

We meet the long-term savings and protection needs of a growing middle-class and ageing population. We focus on markets where the need for our products is strong and growing and we use our capabilities, footprint and scale to meet that need.

In 2018 the Group announced its intention to demerge its UK and Europe business, M&GPrudential, from Prudential plc, which will result in two separately listed companies, with different investment characteristics and opportunities. We have always been clear about the importance of creating optionality in our corporate structure, and decided to exercise one of those options in the interests of both the business and all of our stakeholders.

Our purpose

Prudential helps people de-risk their lives and deal with their biggest financial concerns.

Our strategy

Our strategy is to capture the long-term structural opportunities within our markets, operating with discipline and enhancing capabilities through innovation to deliver high-quality resilient outcomes for our customers.

We aim to do this by:

- Serving the protection and investment needs of the growing middle class in Asia;
- Providing asset accumulation and retirement income products to US retirees;
- Offering products to new customers in Africa, one of the fastest-growing regions in the world; and
- Meeting the savings and retirement needs of an ageing UK and continental European population.

We aim to generate attractive returns enabling us to provide financial security to our customers and deliver sustainable growth for our shareholders. Following rigorous review, we believe that this long-term strategy is best served through the intended demerger of M&GPrudential.

The demerger will enable both businesses to continue to deliver on our customer and stakeholder commitments, but without the requirement to compete for resources and capital internally.

£657 billion

total funds under management

26 million

customers worldwide

PRUDENTIAL

Structural growth over the last two decades has allowed our non-European business to reach the scale where it has the ability to self-fund its own long-term goals through disciplined capital allocation. Prudential plc has a diversified, but highly complementary, portfolio of businesses with access to the world's largest and fastest-growing markets.

Asia

Leading pan-regional franchise

£151bn assets under management

94% of APE sales are regular premium

£1.2bn underlying free surplus generation

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

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

United States

Premier retirement income player

US$163bn separate account assets

US$2.2bn variable annuity net inflows

£2.4bn fee income

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

Africa

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

M&GPRUDENTIAL

The formation of M&GPrudential, the joining of two well recognised brands with a strong track record, has created a leading savings and investment business, ideally positioned to target growing customer demand for financial solutions in the UK and Europe.

M&GPrudential

Long-term conviction-led investment approach

£43bn total PruFund funds under management

Operating in **29** markets

£321bn total M&GPrudential funds under management[1]

With over 6 million clients across 29 markets and £321 billion[1] in assets under management, M&GPrudential's vision is a business built for the customer which is simple, efficient, digitally enabled, capital-light, fast-growing and, above all, focused on delivery.

The combined business benefits from two strong complementary brands, a world-class investment capability, international distribution and a robust capital position.

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[1] Represents M&GPrudential asset management external funds under management and internal funds included on the M&GPrudential long-term insurance balance sheet.

Evolving to serve the future customer

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

Capturing structural opportunity

Serving customer needs

Asia

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

Our businesses page 18

United States

- Increase in retirement age population
- Large and growing retirement asset pools
- Growing demand for guaranteed income

Our businesses page 26

M&GPrudential

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

Our businesses page 32

... through enhanced capabilities

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

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

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

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

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

Group Chief Risk Officer's report of the risks facing our business and how these are managed page 52

… creating high-quality outcomes

Growth

£4,827m
Operating profit[1] +6%[2] on 2017

£3,877m
New business profit +11%[2] on 2017

£7,563m
EEV operating profit +19%[2] on 2017

Cash

£4,047m
Free surplus generation +14%[2] on 2017

£1,732m
Remittances -3%[3] on 2017

Capital

£17.2bn
Solvency II surplus +29%[3] on 2017

232%
Solvency II cover ratio +30pp on 2017

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

Notes
1 Adjusted IFRS operating profit based on longer-term investment returns.
2 Growth rates on a constant exchange rate basis.
3 Growth rates on an actual exchange rate basis.

… for our stakeholders.

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

Customers

Providing financial security and wealth creation.

Read more on pages 18 to 37

Investors

Growing dividends and share price performance enhance shareholder value.

Read more on pages 16 to 86

Employees

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

Read more on pages 78 to 80

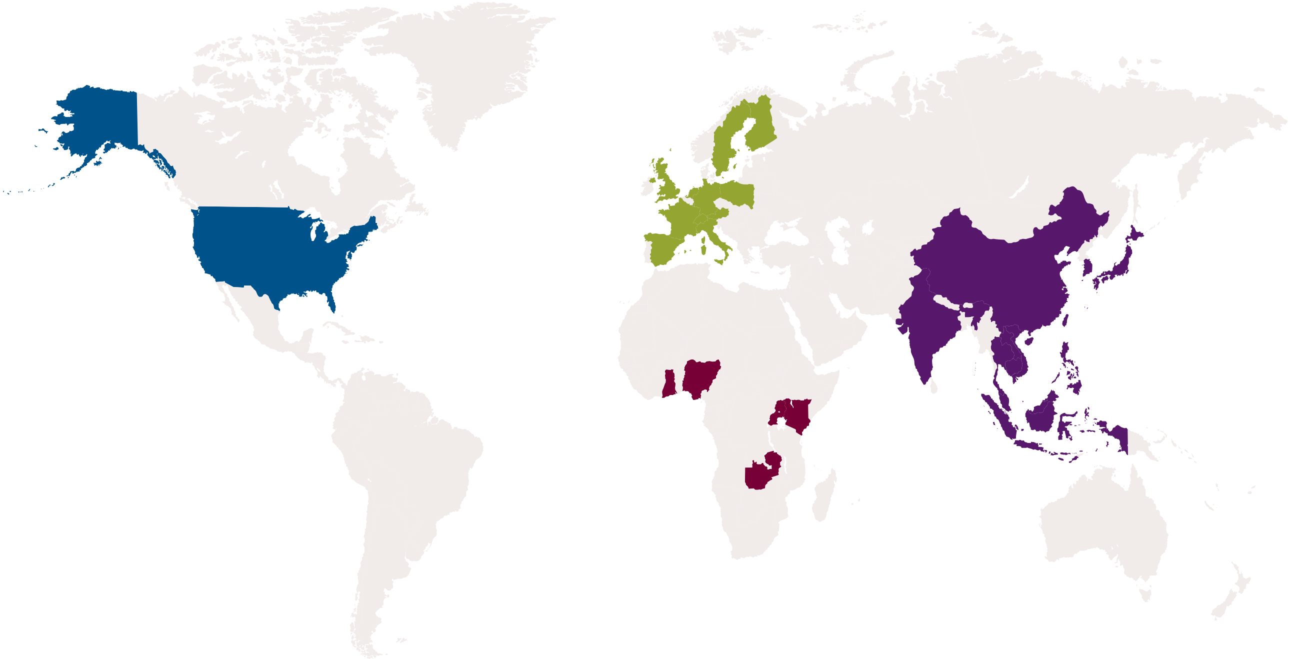
Communities

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

Read more on pages 80 to 85

Our global distribution strength

We respond to the needs of our global customers through diverse and robust distribution channels in all our markets.



Jackson

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

Largest and most productive VA wholesale distribution force in the US[1]

+700 broker-dealers' selling agreements covering +230,000 (74%) of total US advisers[2]

#1 selling variable annuity contract[3] in the independent channel since 2003

4 million customers

Prudential Corporation Asia

Pan-regional multi-channel network

+600,000 agents

Multiple established bank partnerships

Access to **+14,000** bank outlets

Eastspring Investments are present in **11** Asia markets and distribution offices in US and Europe

+15 million life customers

Prudential Africa

Establishing network with market-leading initiatives

+4,000 agents

6 exclusive bank partners

Access to over **600** bank branches

2 mobile telecommunications partners

+500,000 customers

M&GPrudential

Diversified distribution model underpinned by two complementary brands

£321 billion total assets under management[4]

Operating in **29** markets around the world

+6 million customers

+300 Prudential Financial Planning partners

Notes

[1] Independent research and Market Metrics, a Strategic Insight Business: U.S. Advisor Metrics 2018, as of 30 September 2018.

[2] The Cerulli Report Adviser Metrics 2018 and Jackson research.

[3] ©2019 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com. Total Sales by Company & by Contract 3Q YTD 2018. Jackson ranks #1 out of 725 VA contracts with reported sales in the Independent Channel in 3Q YTD 2018.

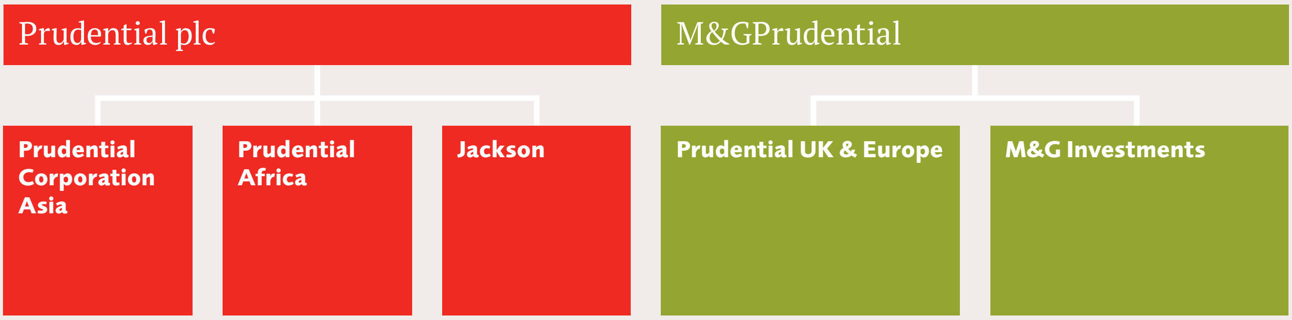
[4] Represents M&GPrudential asset management external funds under management and internal funds included on the M&GPrudential long-term insurance business balance sheet.

Creating two leading companies

We are aiming to create two separately listed companies with distinct investment prospects, capital allocation priorities and customer needs.

M&GPrudential, one of the leading savings and investments businesses in the UK and Europe, will be an independent, capital-efficient business, headquartered and premium-listed in London.

Prudential plc will continue to combine the exciting growth potential of our Asia, US and Africa businesses, as a leading international insurance and asset management group. We will also remain headquartered and premium listed in London.



Chief Executive Officer: **Mike Wells**
Headquarters: **London**
Premium listing: **London Stock Exchange**
Other listings: **Hong Kong (Primary), Singapore, New York**

Chief Executive Officer: **John Foley**
Headquarters: **London**
Premium listing (intended): **London Stock Exchange**

Frequently asked questions

What is the rationale for the demerger?
Following separation, M&GPrudential will have more control over its business strategy and capital allocation. This will enable it to play a greater role in developing the savings and retirement markets in the UK and Europe through two of the financial sector's most trusted brands, M&G and Prudential, while Prudential plc will be able to focus on the attractive returns and growth potential of its market-leading businesses in Asia and the US.

Will the businesses stay in the UK?
Both businesses will be headquartered in the UK, and premium-listed on the London Stock Exchange. We expect both businesses will meet the criteria for inclusion in the FTSE 100 index.

How are we progressing?
In preparation for the demerger, we have already completed a number of key steps, including:

- We announced that the Hong Kong Insurance Authority would be the Group-wide supervisor after the demerger of M&GPrudential;
- We raised £1.6 billion of debt in September 2018. This debt issuance contained a substitution clause, allowing us to substitute M&GPrudential for Prudential plc as the issuer;
- We established a new holding company for M&GPrudential and completed the transfer of the legal ownership of The Prudential Assurance Company Limited and M&G Group Limited to this company;
- We announced the independent Chair of M&GPrudential in October 2018; and
- We completed the transfer of the legal ownership of our Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&GPrudential's UK-regulated insurance entity) to Prudential Corporation Asia Limited.

When will it happen?
We are making good progress on the workstreams to enable the legal, operational and financial separation of the businesses and we are committed to delivery with best execution. We will provide more details on timing when it is appropriate to do so.

What will happen to your shares?
Shareholders will retain their shares in Prudential plc and, if the demerger completes, receive shares in a separately listed M&GPrudential.

Measuring our performance

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

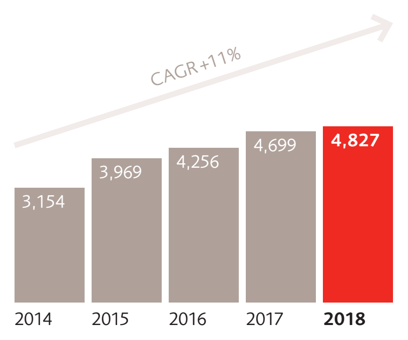
Profit, cash and capital[1]

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

Adjusted IFRS operating profit based on longer-term investment returns[2] £m

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

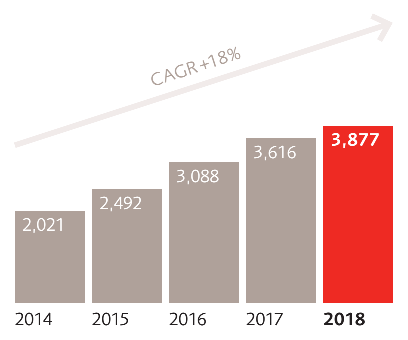
Group operating profit in 2018 is 6 per cent higher on a constant exchange rate basis (3 per cent on an actual exchange rate basis), compared with 2017. Operating profit from Asia life and asset management operations was up 14 per cent on a constant exchange rate basis (10 per cent on an actual exchange rate basis), and M&GPrudential was up 19 per cent. In the US, operating profit was down 11 per cent on a constant exchange rate basis (14 per cent on an actual exchange rate basis) reflecting higher market-related deferred acquisition costs amortisation.



EEV new business profit[3] £m

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

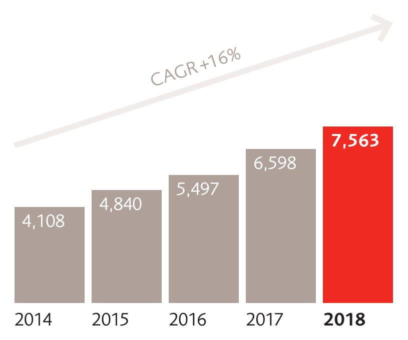
EEV new business profit in 2018 increased by 11 per cent on a constant exchange rate basis (7 per cent on an actual exchange rate basis) compared with 2017, driven by increases in health and protection business and pricing actions in Asia, higher interest rates and spread assumption changes in the US and M&GPrudential PruFund based Retirement Account sales.



EEV operating profit[3] £m

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

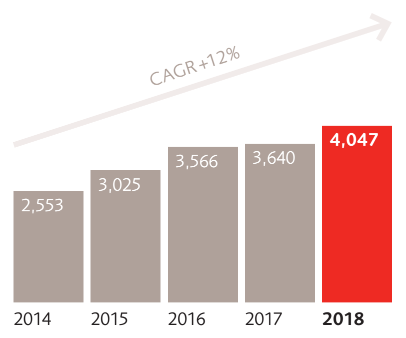
Group EEV operating profit in 2018 increased by 19 per cent on a constant exchange rate basis (15 per cent on an actual exchange rate basis), compared with 2017, driven by higher new business profit and higher contributions from the in-force business.



Group free surplus generation[4] *£m*

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

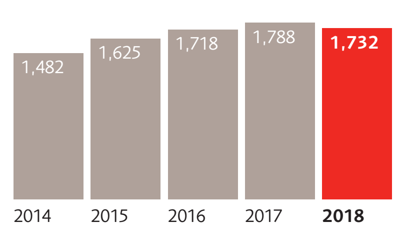
Overall, underlying free surplus generation increased by 14 per cent on a constant exchange rate basis (11 per cent on an actual exchange rate basis), reflecting good performance in each of our businesses with Asia up 14 per cent on a constant exchange rate basis (9 per cent on an actual exchange rate basis), the US up 11 per cent on a constant exchange rate basis (7 per cent on an actual exchange rate basis) and M&GPrudential up 21 per cent, including the positive impact of longevity assumption changes and an insurance recovery on annuity review costs.



Business unit remittances[5] *£m*

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

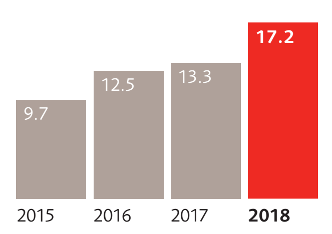
Total remittances to the Group decreased by 3 per cent in 2018, compared with 2017. Remittances from Asia, increased, demonstrating the quality and scale of its growth. Remittances from the US were £342 million. Remittances from M&GPrudential increased by 2 per cent.



Group Solvency II capital surplus[6,7] *£bn*

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

The high quality and recurring nature of our operating capital generation, beneficial effects of debt issued and disciplined approach to managing balance sheet risks are reflected in the solvency capital surplus, which increased to £17.2 billion at 31 December 2018.



Notes

1 The comparative results shown above have been prepared using an actual exchange rate (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Chief Financial Officer's report on our 2018 financial performance. CAGR is compound annual growth rate.

2 Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. See note III of Additional unaudited financial information for definition and reconciliation to IFRS balances.

3 The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of the EEV basis results. See note III of Additional unaudited financial information for definition and reconciliation to IFRS balances.

4 For insurance operations, underlying free surplus generated represents amounts maturing from the in-force business during the period less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the period. Restructuring costs are presented separately from the underlying business unit amount. Further information is set out in note 10 of the EEV basis results.

5 Cash remitted to the Group forms part of the net cash flows of the holding company. A full holding company cash flow is set out in note II (a) of the Additional unaudited IFRS financial information. This differs from the IFRS Consolidated Statement of Cash Flows which includes all cash flows relating to both policyholders' and shareholders' funds. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity.

6 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 estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

7 Estimated before allowing for second interim ordinary dividend.

Asia

2018 performance highlights

- Continued performance in key metrics: new business profit up 14 per cent[1], operating profit up 14 per cent[1] and underlying free surplus generation up 14 per cent[1]
- Developed over 160 products in 2018 and added 1.4 million new life customers[2]
- Signed an exclusive partnership with Babylon Health to provide AI-powered digital health services in up to 12 markets across Asia
- Established Eastspring's wholly foreign-owned enterprise in Shanghai and extended our asset management presence to Thailand, following the acquisition of TMB Asset Management
- Continued expansion in China, following entry into Hunan province and 10 new cities
- Retained Eastspring's 'Best Asia Fund House' accolade in the AsianInvestor Asset Management Awards
- In early 2019, we renewed and expanded our successful regional strategic bancassurance alliance with UOB

Asia

Continued progress against our strategic priorities, which align with the evolving and expanding sources of demand in Asia, leaves the business well positioned for sustained future growth.

Our business

It is 95 years since we established our first operations in Asia. Our long heritage and strong brand awareness form the foundations of our business and today our footprint spans 14 markets and encompasses 3.6 billion people. We have a top three position in eight out of our 12 insurance markets[3] and Eastspring, our asset management business, remains the largest pan-regional retail asset manager in Asia, excluding Japan. In addition, Eastspring retained the prestigious 'Best Asia Fund House' accolade in 2018, a feat that has now been achieved in three of the past four years.

We believe our commitment to customers on 'listening, understanding, delivering' is a key differentiator. To fulfil this, we adopt a multi-channel strategy with over 600,000 agents, over 300 distribution partners and an increasing online offering, enabling us to serve our customers' needs in their preferred manner. We have a proven ability to attract, develop and retain a talented and diverse workforce, employing over 13,000 people with more than 40 separate nationalities and wide-ranging industry backgrounds. This enables us to remain at the forefront of product development, create innovative services for our customers and embed digital technology to drive efficiency.

We are also able to translate these hallmarks of our business into financial success, with our strong performance in 2018 building upon our existing excellent track record. Our gross premium earned grew[4] by 9 per cent[1] to £16.5 billion, and renewal premiums[5] grew by 16 per cent[1]. This helped deliver a 14 per cent[1] increase in operating profit[6] to £2.2 billion and grow our total assets by 11 per cent[7] to £94.2 billion. We also delivered 14 per cent[1] growth in new business profit[8] to £2.6 billion and the total embedded value of the business grew 16 per cent[7] to £24.3 billion. At Eastspring, we managed funds totalling £151 billion at the end of 2018, invested in over 1,600 funds.

Market opportunity

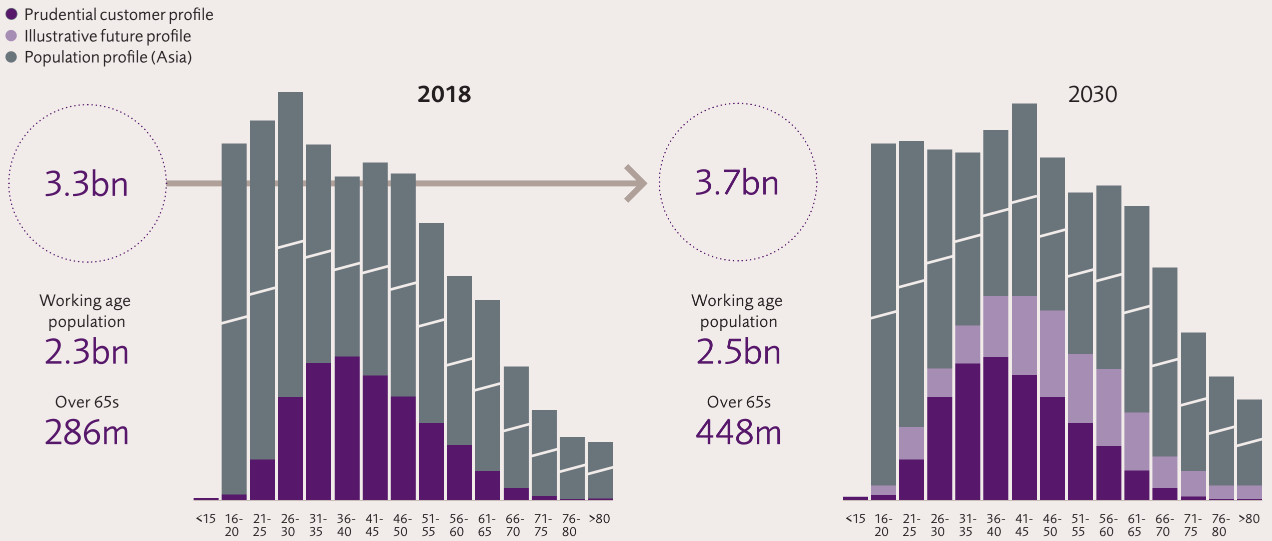
In Asia, we provide insurance and asset management solutions that enable customers of all ages to address their health, protection and savings needs. Demand for our products is underpinned by low levels of existing coverage and is further supported by economic and demographic tailwinds that look set to persist over the coming decades.

Today, consumers in Asia are both under-insured and under-saved during their working lives, which leaves them inadequately prepared for retirement. This is evident from the significant gap in life insurance penetration rates compared with developed markets. Furthermore, the limited welfare social safety net in many of our markets means that out-of-pocket healthcare spend by people in Asia is three to four times the proportion seen in the US and UK. Collectively, these dynamics resulted in an estimated health protection gap of US$1.8 trillion in 2017 across the Asia region[9].

The economic growth potential of the region is widely recognised and is expected to translate into rising levels of affluence, with 88 per cent of the next billion entrants into the middle class predicted to be based in Asia[10]. Entering the middle class is typically the trigger for individuals to protect their health and that of their families, while also seeking to manage and grow their wealth. Indeed, total annual expenditure by Asia's middle class is forecast to reach US$37 trillion in 2030[10], more than double the current amount.

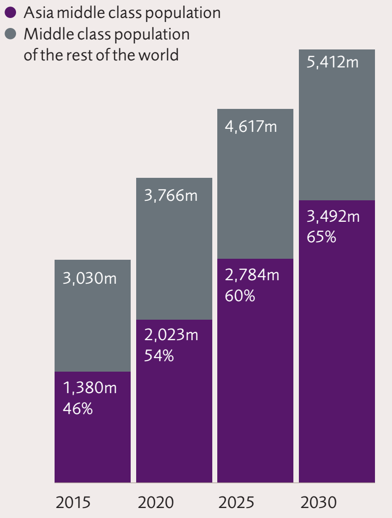
Asia's economies are also benefiting from a demographic dividend with moderating fertility rates and improving life expectancy. In youthful markets, such as Indonesia, this is creating a surge in the working age population and with that a continued source of demand for our

Prudential life customer and population by age[11,12]



Asia continued

Middle class in Asia as a proportion of world middle class[10]



products. Across Asia the working age population is forecast to grow by almost one million people per month between now and 2030 to 2.5 billion people[11]. Meanwhile, the number of those aged over 65 is projected to almost treble by 2050 to 700 million[11]. This is expected to create demand for new solutions in markets with ageing populations, such as Hong Kong and China, as individuals look to maintain their standard of living during retirement.

Whilst these trends provide an attractive backdrop, we need to remain diligent and focused in our execution as a wide range of external developments can affect our business. The escalating trade-related tensions between the US and China contributed to increased equity market volatility in the second half of 2018. The landmark election result in Malaysia heralded the first change in governing party since independence in 1957 and we have been actively discussing how we support the new leadership in their desire to provide greater insurance access to the Malaysian population. In China, there was a step forwards in easing foreign investment in the insurance sector, with caps on foreign ownership expected to be lifted by 2021. Alongside these developments, regulators across the region are seeking to reward disciplined risk-management practices by strengthening consumer protection and migrating to risk-based solvency frameworks.

We are steadfast in our conviction that the structural drivers of consumer demand in this region are of greater significance to our business than short-term market or regulatory driven events. We also recognise that the insurance industry is not immune to the pervasive impact of technology and the way this is shaping our customers' expectations and behaviours with regards to accessibility, service and overall experience. These perspectives are instrumental in guiding the decisions we take to position our business for future success.

Strategic priorities

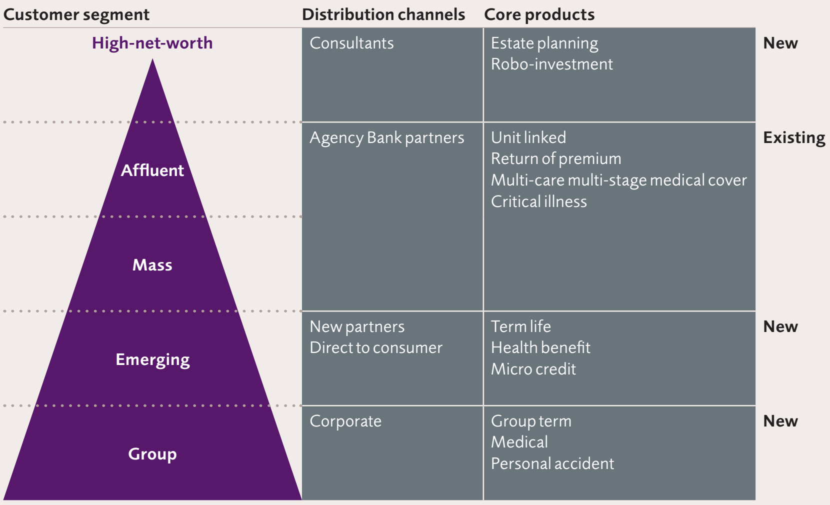
Our business achieves high risk-adjusted returns by maintaining a disciplined focus on value. Two key distinguishing features of our sales mix are the contribution from health and protection products, which collectively accounted for 70 per cent of our new business profit in 2018, and the high proportion of regular premiums, which comprised 94 per cent of APE sales. We favour this mix because it provides our shareholders with a higher and more stable return across market cycles. Our success in health and protection is underpinned by our comprehensive underwriting processes, extensive experience and technical capabilities of our in-house professionals. Meanwhile, the high proportion of regular premiums ensures we collect a steady stream of revenues across market cycles.

This focus on value is supported by four strategic priorities that we believe align with the evolving sources of demand across the region and hence will position our business for continued future growth. We seek to *enhance the core of* our existing business by improving our customers' experience. Significantly, we have extended our exclusive partnership with UOB until the end of 2034 and, due to its success to date, agreed to expand its scope to include Vietnam and UOB's digital bank. We also continued to expand and diversify our distribution reach with nine new bank partnerships across six of our markets being successfully activated during 2018, including Siam Commercial Bank in Thailand and O-Bank, the first digital bank in Taiwan. The success of these partnerships is underpinned by the quality and competitiveness of our products, the additional value-added services we offer to customers and the digital tools and training we provide to sales teams.

We simplify the process of purchasing a policy by embracing the latest technology and embedding this within proprietary tools used by our agents and bank partners. For example, over 70 per cent of all new business was submitted through e-point-of-sale technology. Our smart underwriting tool, which is now used in 59 per cent of all sales, provides dynamic underwriting that streamlines the application process, while also communicating instant underwriting decisions to customers.

We also use digital technology in servicing policies, both to improve the efficiency of our business and to enhance customer satisfaction. In Hong Kong we developed the 'Hospital to Prudential' portal to redefine the way our customers and medical professionals manage hospital claims, reducing the time required to submit a claim to just three minutes. Meanwhile, in China we have extended

Prudential Corporation Asia is well positioned to benefit from long-term structural opportunities



Customer segment	Distribution channels	Core products	
High-net-worth	Consultants	Estate planning Robo-investment	New
Affluent Mass	Agency Bank partners	Unit linked Return of premium Multi-care multi-stage medical cover Critical illness	Existing
Emerging	New partners Direct to consumer	Term life Health benefit Micro credit	New
Group	Corporate	Group term Medical Personal accident	New

our award-winning WeChat self-service platform to include 90 per cent of all policy administration actions. Similarly, in Thailand we created a new customer services touchpoint through PruConnect, which enables customers to quickly access key information such as policy information, premium certificates and nearby network hospitals.

Secondly, we want to *create 'best-in-class' health capabilities* and attained new business profit growth of 15 per cent from health and protection products in 2018. Our strategy is supported by distinctive value-added services, such as the exclusive multi-year partnership we signed with Babylon, a UK-based healthcare and technology services company. This partnership will provide personal health assessments and treatment information, powered by artificial intelligence, which will transform health provision for our customers. This will greatly enhance our customers' access to healthcare, particularly for those in remote locations, whilst empowering them to proactively manage their health in a flexible and cost-efficient manner.

Thirdly, we plan to accelerate *Eastspring* by expanding its existing investment offering and enhancing its distribution capabilities. We have continued to strengthen our in-house investment teams, which helped us launch 51 new products in 2018. In September, we also entered Thailand, the largest mutual fund market in the Association of Southeast Asian Nations (ASEAN)[13], with the acquisition of TMB Asset Management. Our on-the-ground team recently launched an Asia Pacific Property Flexible Fund that obtained inflows totalling US$91 million during the week-long initial public offering period.

Finally, we intend to expand our *presence in China* across both the insurance and asset management sectors. We recently established a new branch in Hunan and received regulatory approval to undertake preparatory work to establish a new branch in Shaanxi, our nineteenth and twentieth provinces, respectively, offering access to over 100 million new people. This geographic expansion is supported by the diligent growth in our agency force, which grew by 7 per cent in 2018 to 48,000 agents. We also formed a two-year research partnership with the Development Research Centre of the State Council focused on the development of a sustainable pension system, which is testament to our aspirations in this market and our differentiated capabilities. Another major milestone in China was the opening of Eastspring's wholly foreign-owned enterprise in Shanghai. This enables us to manage onshore investments for high-net-worth individuals and institutional investors in China, complementing our existing asset management joint venture with CITIC. Our first private fund has a Chinese equities mandate and is

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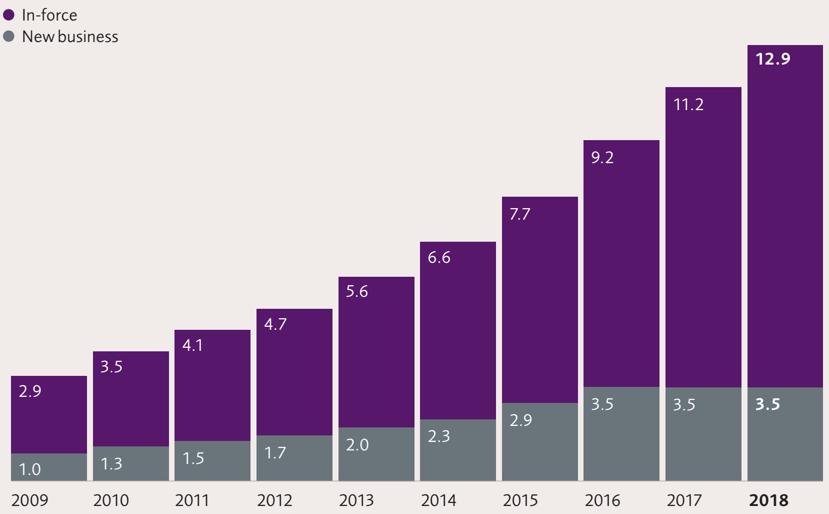
PRUconnect

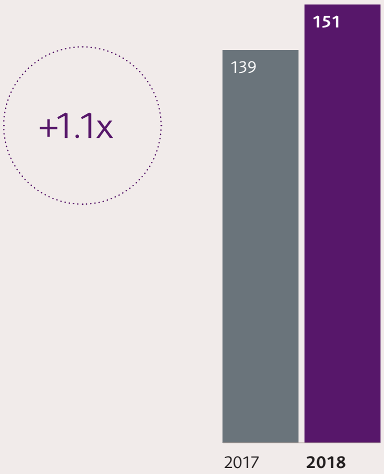
PRUconnect, one of Prudential Thailand's latest offerings, is aimed at extending online customer service via LINE, a popular instant-communication mobile application in Thailand with more than 44 million active users. Launched in January 2018, PRUconnect provides policyholders with a dedicated web portal where they can access policy information, make premium payments, download premium certificates and locate nearby network hospitals, as well as a range of other self-service options.

PRUconnect also includes a chatbot feature, which uses artificial intelligence to simulate natural conversations. Customers can submit simple enquiries to the PRUchat bot via the LINE app, and stay connected to the company for assistance anytime and anywhere.

Life weighted premium income[14,15]
£bn CER



Eastspring total funds under management[7]
£bn



Asia continued

expected to launch in April 2019, with further investment strategies planned to follow in due course.

Customers

Our strong reputation and success to date have been built on a foundation of excellent customer service. During 2018, we added a further 1.4 million new life customers[2], bringing the total to over 15 million life customers. Our strong retention ratio, which remained in excess of 90 per cent, and the consistently high proportion of repeat sales, which last year contributed over 40 per cent of APE sales, demonstrate the regard and trust our customers have in our business. These dynamics mean that we have 24 million in-force policies in total, with each of our policyholders holding 1.6 policies on average. In addition, our focus on health and protection business is reflected in a 7 per cent increase in sum-at-risk per policy, which is a leading measure of insurance coverage. Funds managed by Eastspring grew by 6 per cent to £151 billion at the end of 2018, with 10 per cent growth amongst third-party retail clients.

We maintain this advantage by constantly striving to improve the experience of our customers, with whom we have over two million interactions every month, including over 300,000 calls. Our customers typically need us most when they want to submit a claim as this can signify the death or illness of a family member. Consequently, we strive to provide a frictionless claims process at this sensitive time. To facilitate this, our new Jet claims tool, which is currently being used in Hong Kong and Indonesia, can automatically review, assess and pay a claim on the same day. We now have e-claims capability in six of our businesses and have already attained submission rates of almost 40 per cent. We also leverage technology in our more regular dealings with customers. For example, our new Virtual Assistant in Hong Kong, which builds upon the success of our askPRU chatbot that was launched in Singapore in 2017 and reduced call centre volumes by 40 per cent, already has answers to many frequently asked questions from agents and policyholders.

At Eastspring we use digital tools to help our retail clients set and achieve their savings goals. Our partnership with Alkanza has enabled us to build a robo-advisory platform in Taiwan that can suggest portfolio rebalancing if performance is off track and has the functionality to show the impact of changes in parameters, such as retirement age and contribution amount.

Products

We offer our customers a broad range of health, protection and savings solutions that are tailored to local market requirements and individual needs. Key to our ongoing success is our focus on upgrading our product suite to add innovative new features. Indeed, last year nearly half of new business profit arose from the 160 products that were developed in 2018. For example, in Hong Kong we launched a new critical illness product with extended protection for cancer, heart attacks and strokes, three common causes of death, and was instrumental in generating the 17 per cent growth in Hong Kong's new business profit. Similarly, we enhanced our protection product for mothers and unborn children in Malaysia, PRUmy child, by expanding the range of pregnancy complications included and extending the coverage period for congenital illnesses. We are also actively developing products to meet the upcoming needs of Asia's ageing populations and were amongst the first group of insurers to be granted approval to offer a tax-deferred pension product in China.

In addition, we develop products with specialist characteristics that broaden our offering and appeal. We have been proponents of products that comply with the requirements of Islamic law for many years. Indeed, we offer such products by default, and sales of our Syariah products in Indonesia grew by 17 per cent in 2018 to over £50 million, equivalent to over 20 per cent of our APE in this market. This positions us as market leaders in Indonesia's Syariah market, in addition to Malaysia's Takaful market, with market shares of approximately 30 per cent in both cases. We have also launched PRUvital cover in Singapore, a first-in-the-market protection plan for customers with four types of common pre-existing chronic medical condition that previously could act as barriers in obtaining insurance coverage.

Historically our products were targeted at the mass and affluent market segments. We are purposefully developing new products to meet the needs of other segments. In Singapore we recently launched Opus, a proposition specifically tailored for high-net-worth customers. This brings a differentiated experience for our customers and includes a dedicated service team, wealth planners and external experts covering trust and legal matters. We also launched PRUworks, our new insurance proposition for the corporate segment to target small and medium enterprises. Our PRUworks platform is an all-inclusive platform that comes with a digitally enabled HR solution for business owners and their employees, which provides access to employee benefits and services alongside additional services such as lifestyle programmes.

PRUworks

PRUworks is a digital ecosystem designed to help small and medium-sized enterprises (SMEs) grow their businesses, and attract and retain talent. A first-of-its-kind platform by an insurer in Singapore, PRUworks gives business owners and their employees easy and convenient access to insurance, employee benefits and business solutions in one seamless digital experience.

PRUworks is targeted specifically at SMEs, an under-served market in need of solutions catering to their size and budget. Wellness solutions, a core component of PRUworks, are offered as part of Prudential's collaboration with healthtech companies and include fitness monitoring, specialist doctor recommendations and health screenings. Participating SMEs can also enjoy complimentary access to the Singapore government's 'SME Health+' initiative, which includes programmes in chronic disease management, healthy eating, active living and mental wellbeing.

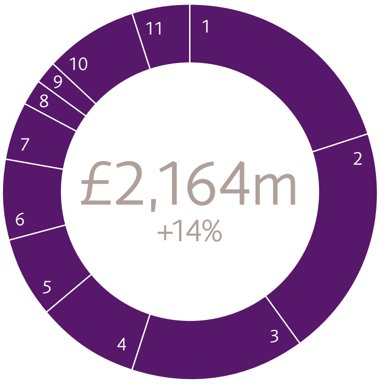
A leading pan-Asia franchise

Accelerate Asia

Compounding revenues and profits

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

Diversification



Operating profit by region
Full year 2018 %

1 **Hong Kong**	20%	**+33%**
2 **Indonesia**	20%	**+0%**
3 **Singapore**	15%	**+22%**
4 **Malaysia**	9%	**+9%**
5 **Vietnam**	7%	**+16%**
6 **China**	7%	**+20%**
7 **Thailand**	5%	**+5%**
8 **Taiwan**	2%	**+24%**
9 **Philippines**	2%	**+13%**
10 **Eastspring**	8%	**+6%**
11 **Others**	5%	**+3%**

Growth rate vs 2017 constant exchange rates

Cambodia

Life insurance	
Market ranking[3]	1st
Population	16m
Penetration[16]	0.1%

China[17]

Life insurance	
Market ranking[3]	5th
Population	1.4bn
Penetration[16]	2.7%
Average health protection gap per household[9]	US$1,724
Eastspring	
Funds under management[18]	£6.2bn

Hong Kong

Life insurance	
Market ranking[3]	3rd
Population	7m
Penetration[16]	14.6%
Average health protection gap per household[9]	US$9,156
Eastspring	
Funds under management[18]	£3.4bn

India[19]

Life insurance	
Market ranking[3]	2nd
Population	1.4bn
Penetration[16]	2.8%
Average health protection gap per household[9]	US$1,382
Eastspring	
Funds under management[18]	£17.8bn

Indonesia[20]

Life insurance	
Market ranking[3]	1st
Population	267m
Penetration[16]	1.9%
Average health protection gap per household[9]	US$1,230
Eastspring	
Funds under management[18]	£4.0bn

Japan

Eastspring	
Funds under management[18]	£5.4bn

Korea

Eastspring	
Funds under management[18]	£8.1bn

Laos

Life insurance	
Market ranking[3]	Top 3
Population	7m
Penetration[16]	0.0%

Malaysia[21]

Life insurance	
Market ranking[3]	1st
Population	32m
Penetration[16]	3.3%
Average health protection gap per household[9]	US$6,864
Eastspring	
Funds under management[18]	£8.1bn

Philippines

Life insurance	
Market ranking[3]	3rd
Population	107m
Penetration[16]	1.2%
Average health protection gap per household[9]	US$1,406

Singapore[22]

Life insurance	
Market ranking[3]	2nd
Population	6m
Penetration[16]	6.6%
Average health protection gap per household[9]	US$13,776
Eastspring	
Funds under management[18]	£80.1bn

Taiwan

Life insurance	
Market ranking[3]	13th
Population	24m
Penetration[16]	17.9%
Average health protection gap per household[9]	US$4,823
Eastspring	
Funds under management[18]	£4.9bn

Thailand

Life insurance	
Market ranking[3]	9th
Population	69m
Penetration[16]	3.6%
Average health protection gap per household[9]	US$287
Eastspring	
Funds under management[18]	£9.3bn

Vietnam

Life insurance	
Market ranking[3]	4th
Population	97m
Penetration[16]	1.3%
Average health protection gap per household[9]	US$1,251
Eastspring	
Funds under management[18]	£2.6bn

Asia continued

Distribution

Our diversified mix of tied agents and bank partners creates one of the strongest distribution networks across the region with non-traditional partnerships further broadening our reach. Our experience shows customers have an overarching preference for face-to-face advice from a trusted financial adviser while also increasingly demanding the flexibility to conduct basic research and fact-finding themselves digitally. Thus, whilst our tied agents and in-branch bank staff remain our primary distribution channels, customers are now more actively engaging with us through our online platforms.

Prudential has over 600,000 licenced tied agents across our 12 life markets in Asia. This proprietary distribution channel is a core component of our success, accounting for 84 per cent of new business profit, having grown by 14 per cent in 2018. The value provided by our tied agents makes it paramount for us to continue expanding their reach and enhancing their capabilities. We place great emphasis on the professionalism and productivity of our agency force, and facilitate this by continually providing new and upgraded tools. This creates a culture whereby our agents aspire to attain membership of the 'Million Dollar Round Table', an industry-recognised indicator of quality. We currently have over 7,000 such qualifiers, which would represent annual growth in members of approximately 20 per cent[23] and reflects our focus on the recruitment, training and productivity of our agents, the emphasis on which varies by market. In our younger markets we are typically still accelerating recruitment. For example, we added over 1,100 new agents per month in the Philippines on average during 2018, which was more than 40 per cent higher than in 2017, and helped expand our agency force to around 28,000 agents. As markets mature the emphasis starts to shift towards the other factors. We have designed an entrepreneur development programme to fast-track our successful professional agents into leaders, which in turn supports our activation of new recruits. This programme has already been launched in China, where the number of active agents grew by 12 per cent in 2018.

We pioneered the strategy of partnering with banks in Asia over 20 years ago and now have one of the largest and most successful bancassurance franchise in the region. Our strategic bank partnerships include multi-national banks, regional banks and prominent domestic banks in many key markets including China, India and Taiwan. In total we have access to over 14,000 bank outlets. Collectively, these partnerships contributed over 30 per cent of our APE sales in 2018 and associated new business profit grew by 19 per cent.

We have also started collaborating with non-traditional partners, including DirectAsia, Hiscox's online property and casualty business in Singapore, and Eureka, a data management and analytics platform based in Indonesia. These mutually beneficial partnerships will enable us to reach new customers and create unique opportunities for our existing ones.

Business outlook

We continue to see a strong runway for the insurance and asset management industries in Asia. We recently conducted a strategic assessment, which re-affirmed the strengths of our business, established the potential future size of our markets and has informed our future investment pathway.

The review demonstrated that we are well positioned in the traditional life insurance segment, with a market share of approximately 25 per cent[24]. We forecast that this market has the potential to continue growing at a double-digit rate over the coming five years, due to the underlying structural drivers of demand in the region. Our presence, scale and broad product and distribution reach position us well to participate strongly in this expected growth.

We also anticipate strong growth in the medical reimbursement segment in our current markets, which we believe will more than double in the next five years due to increasing consumer demand. We have estimated that our share of the value pool in this segment is currently 9 per cent, which gives us significant scope to expand. This ambition is reflected in our strategic priorities with recent investments, such as Babylon, transforming our offering.

Our market-leading position in retail fund management reflects our region-wide presence and strong operating credentials. This positions us well for the future growth in the market that is expected from new wealth creation and the shift we envisage from deposits to riskier investments. We believe these factors make double-digit growth viable in India, where we are market leaders, alongside other key markets such as China and Thailand, where we have taken action to strengthen our position.

Nic Nicandrou
Chief Executive
Prudential Corporation Asia

Notes

1 Growth rate on a constant exchange rate basis.
2 Excluding India.
3 Based on full year 2018 or the latest information available. Sources include formal (eg competitors results release, local regulators and insurance association) and informal (industry exchange) market share data. Ranking based on new business (APE sales, weighted full year premium or full year premium depending on availability of data).
4 IFRS gross premiums earned for Asia segment.
5 Includes renewal premiums from joint ventures. See note III of the additional unaudited financial information for reconciliation to IFRS balances.
6 Adjusted IFRS operating profit based on longer-term investment returns. See note B1 of the IFRS financial statements for reconciliation to IFRS profit.
7 Growth rate on an actual exchange rate basis.
8 New business profit on business sold in the year, calculated in accordance with EEV principles.
9 Swiss Re Institute: The health protection gap in Asia, October 2018. Average gap per household is calculated as 'total health protection gap divided by the estimated number of households hospitalised under the mentioned gap range'. Report excludes Cambodia and Laos.
10 Brookings Institution. Global Economy & Development Working Paper 100. February 2017. 'Asia' represents Asia Pacific.
11 United Nations, Department of Economics and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision.
12 Working age population: 15 to 64 years.
13 ©Copyright 2018 Strategic Insight, an Asset International Company and when referenced or sourced Morningstar Inc., Standard & Poor's Inc., and Lipper Inc. All rights reserved. The information, data, analyses and opinions contained herein (a) include confidential and proprietary information of the aforementioned companies, (b) may not be copied or redistributed for any purpose, (c) are provided solely for information purposes, and (d) are not warranted or represented to be correct, complete, accurate, or timely.
14 Weighted premium income comprises gross earned premiums at 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums.
15 Comparatives have been stated on a constant exchange rate basis. Historic results have been restated to exclude sales from the Korea and Japan life businesses, which have been disposed of. 2014 excludes intra-group reinsurance contracts between the UK and Asia with-profits businesses.
16 Market penetration: Swiss Re (Sigma) – based on insurance premiums as a percentage of GDP in 2017 (estimated).
17 Total joint venture / foreign players only.
18 FUM reported based on the country where the funds are managed.
19 IFRS gross premiums earned for Asia segment.
20 Excludes Jiwasraya.
21 Includes Takaful sales and excludes Group business.
22 Includes onshore only, excluding Eldershield and DPS.
23 Based on 100 per cent conversion of qualifiers into members.
24 Proprietary research/Bain Analysis (2018) covering the following markets: Hong Kong; Singapore; Indonesia; Malaysia; China; and India, using sales data provided by insurance regulators, insurance associations and industry expert surveys in these markets.

Driving our business	Creating value and benefiting our stakeholders
Customers In Asia, we focus our efforts on helping new and existing customers build better futures for themselves and their families, by helping to fill the savings and protection gap that exists in many markets in the region.	**15 million** life customers
Products We listen to our customers to help us understand their changing needs and tailor our design of product solutions and services.	**94%** of APE sales in regular premium **70%** of all new business submitted through e-point-of-sale technology
Distribution We are well-positioned in terms of the scale and diversity of our distribution to reach and serve our customers' needs. At the core of our distribution model is face-to-face customer interaction that delivers high-quality, needs-based advice.	**+600,000** agents Access to over **14,000** bank outlets
Investment for growth Building on our strong track record, we are building for future growth by investing in new opportunities and capabilities.	Now in **87** cities in China **9** new bank partners across **6** markets Eastspring Investments' total funds under management **£151 billion**

United States

2018 performance highlights

- New distribution relationship with State Farm
- New collaboration to offer advisory annuities on the Envestnet® Insurance Exchange
- Awarded ‘Contact Center World Class CX Certification’ and ‘Highest Customer Service for the Financial Industry’ awards by The Service Quality Measurement Group, Inc.

United States

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

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

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

To overcome these challenges, Americans need and demand retirement strategies that offer them the opportunity to grow and protect the value of their existing assets, as well as the ability to provide guaranteed income that will last throughout their extended lifetimes.

In response to this demand and the ongoing shift to fee-based solutions, Jackson has positioned itself with product innovation and distribution strategies to further enhance our market-leading VA position in the brokerage market and grow in the advisory retirement solutions market.

Customers and products

Through its distribution partners, Jackson provides products that offer Americans the retirement strategies they need, including variable, fixed and fixed index annuities. Each of these products offer a unique range of features tailored to meet the individual needs of the retiree:

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

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

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

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

Jackson has a proven track record in this market with its market-leading flagship product[1], Perspective II. Jackson's success has been built on its quick-to-market product innovation, as demonstrated by the development and launch of Elite Access, our investment-only variable annuity. Further demonstrating Jackson's flexibility and manufacturing capabilities, and in response to the trend in financial services toward fee-based solutions, Jackson has launched Perspective Advisory II and Elite Access Advisory II to serve advisers and distributors with a preference for advisory products.

In March 2018, Jackson launched MarketProtector and MarketProtector Advisory, two new fixed annuities with index-linked interest. These products provide consumers with the sought-after combination of tax-deferred investment growth, protection from market risk and the flexibility to adapt to changing needs in retirement. Both products offer an add-on living benefit that allows customers to safeguard their financial futures with income for life.

Also, in 2018, Jackson took a lead role in bringing together 24 of America's financial services organisations to launch the Alliance for Lifetime Income (Alliance). The Alliance was launched to educate Americans on the risk of outliving their income, so they can enjoy their years in retirement. The Alliance's nationwide, multi-year, integrated educational campaign is designed to raise awareness and motivate consumers and financial advisers to discuss the need for protected lifetime income in retirement, which can be achieved with the use of annuity products such as those provided by Jackson.

Distribution

Jackson distributes products in all 50 states of the US and in the District of Columbia. Operations in the state of New York are conducted through a New York subsidiary. Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, wirehouses and banks. For variable annuity sales, Jackson is the leader in the independent broker-dealer, bank and wirehouse channels[2] and fourth in regional firms[2].

United States continued

Jackson's distribution strength also sets us apart from our competitors. Our wholesaling force is the largest[3] in the variable annuity industry and is instrumental in supporting the independent advisers who help the growing pool of American retirees develop effective retirement strategies. Our wholesalers provide extensive training to thousands of advisers about the range of products and the investment strategies that are available to support their clients. Based on the latest available data, Jackson is the most productive variable annuity wholesale distribution force in the US[3].

In October 2018, Jackson announced a new distribution relationship with State Farm®. In the second half of 2019, authorised State Farm agents will begin offering a select group of Jackson's variable annuity and fixed index annuity products. While Jackson currently maintains one of the largest sales teams in the industry, this distribution relationship will add significant distribution access through State Farm's growing network of qualified producers.

In February 2019, Jackson partnered with DPL Financial Partners (DPL) to provide our protected lifetime income solutions to independent registered investment advisors (RIAs). The collaboration expands Jackson's distribution footprint and provides Jackson with access to new opportunities in the independent RIA channel.

Regulatory landscape

The industry has continued to manage through an ever-changing regulatory landscape. In 2016, the US Department of Labor (DoL) released a final version of its Fiduciary Duty Rule (Rules), which sought to eliminate conflicts of interest in investment advice, in order to protect and encourage savings and investment for working Americans. These Rules were rescinded in 2018. However, other alternative proposals, such as the US Securities and Exchange Commission's (SEC) best interest standard, remain pending.

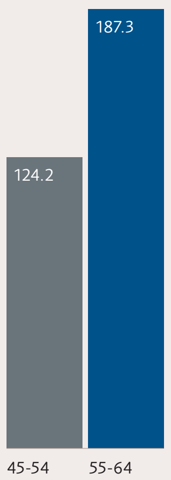
As a result of an improved regulatory outlook, rising interest rates and more aggressive product feature changes (ie withdrawal percentages) implemented by competitors, the annuity industry saw increased sales in 2018 (albeit still well below levels prior to the DoL Rules proposal). Sales in the variable annuity industry as of the third quarter of 2018 at US$75.4 billion[4] were up 4 per cent compared with the same period last year.

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

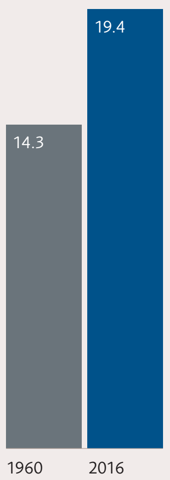
Furthermore, in late 2018, the US National Association of Insurance Commissioners (NAIC) concluded an industry consultation with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet and enhancing risk management. The NAIC is targeting a January 2020 effective date for the new framework in order to allow adequate time for the drafting and implementation of the revised regulations and instructions with a potential three-year phase-in. The NAIC also has an ongoing review of the C-1 bond factors in the required capital calculation, on which further information is expected to be provided in due course. Despite these regulatory challenges, we believe that Jackson is well positioned to manage the impact of these regulatory changes.

Retirement wave
Population by age[5]

Under-saved
Median net worth[6] (US$000)



Increased longevity
Life expectancy at 65[7]



Talking to Americans about bridging the retirement income gap

Last year, Jackson reintroduced the idea of 'protected lifetime income' into American retirement planning conversations by publishing 'The Return of Lifetime Income' in *The Wall Street Journal*, reaching millions of consumers. Recognising the need for a unified industry voice around this critical issue, Jackson also co-founded The Alliance for Lifetime Income, an innovative industry coalition to raise awareness among Americans about the financial risks and income gaps they may face in retirement and the importance of protected lifetime income solutions in helping bridge those potential gaps.

As Alliance co-chair, Jackson leads the charge to bring together 23 peer companies, non-profit groups and leading financial experts to create awareness about the role annuities can play in truly comprehensive financial plans.

The Alliance shares its mission through a breakthrough national educational campaign, including online and offline media engagement and advertising, digital and social media communication, content marketing, live events, virtual reality experiences, new financial planning tools, and much more.

Investment for growth

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

In September 2018, Jackson announced a technology integration collaboration with Envestnet® allowing Jackson to offer its complete product suite of advisory annuities on the Envestnet Insurance Exchange. The new collaboration brings together a leading provider of annuities in the US, with the leading provider of intelligent systems for wealth management and financial wellness. Jackson is working with Envestnet to make annuities easier to work with inside of a client's portfolio. Advisers will be able to create more value for their clients by holistically considering longevity risk, sequence of returns risk, market risk and mortality risk within the Envestnet wealth management platform.

The acquisition of John Hancock's group payout annuity business in late 2018 represents a reaffirmation of Jackson's growth bolt-on strategy and continuing commitment to deploy capital at attractive return levels. This transaction further diversifies Jackson's risk portfolio and revenue sources in relation to both general and separate account businesses.

With the ever-changing regulatory environment described earlier, Jackson has made and continues to consider changes to its product offerings, entered into new selling agreements with advisory providers, and is working with its distributors to support implementation of the anticipated SEC best interest standard.

United States continued

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

Michael Falcon
Chairman and Chief Executive
Jackson Holdings LLC

Notes

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2 ©2019 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com Total sales by company and channel 3Q YTD 2018. Jackson ranks #1 out of 25 companies in the Independent NASD channel, #1 out of 20 companies in the Bank channel, #1 out of 16 companies in the Wirehouse channel, and #4 out of 19 companies in the Regional Firms channel.

3 Independent research and Market Metrics, a Strategic Insight Business. US Advisor Metrics 2018, as of 30 September 2018.

4 LIMRA/Secure Retirement Institute, US Individual Annuity Participants Report 3Q YTD 2018.

5 US Census Bureau Population division 2014 estimate of population.

6 2016 Federal Reserve Board's Triennial Survey of Consumer Finances.

7 US Department of Health and Human Services, 'Health, United States, 2017.

8 New advisers defined as producers who have not sold Jackson product since 2013.

Driving our business

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

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

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

Investment for growth
Jackson continues to invest in technology and innovative products to efficiently and effectively adapt to what our customers and regulatory environment require. Jackson has recently launched an advisory version of our flagship product Perspective II, our innovative Elite Access product and our fixed index MarketProtector product to allow for penetration into untapped distribution. Jackson also announced a technology integration collaboration with Envestnet® allowing Jackson to offer its complete product suite of advisory annuities on the Envestnet Insurance Exchange.

Creating value and benefiting our stakeholders

Average of **10,000** Americans retire per day[5]

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

Leading individual annuity seller in the US[4]

Perspective II is the **#1** selling variable annuity contract[1]

Largest and most productive VA wholesale distribution force in the US[3]

New marketing alliance with State Farm adding significant distribution access through its growing network of qualified producers

Technology integration collaboration with Envestnet®

Approximately **32%** of Jackson's 2018 advisory variable annuity sales from new advisers[8]

M&GPrudential

2018 performance highlights

- Total M&GPrudential operating profit up 19 per cent to £1.6 billion, including the effect of updated longevity assumptions
- Total assets under management of £321 billion[1] including a rise in PruFund assets to £43 billion from £36 billion last year
- Major transformation programme already showing improvements in digital service for customers
- Luxembourg SICAV fund range launched with £21 billion assets under management as an investment in international growth and to minimise disruption of Brexit for customers
- Demerger preparation progressing at pace with several major milestones reached

M&GPrudential

Building a simple and efficient savings and investments business.

M&GPrudential is the UK and Europe savings and investments business of Prudential plc. It was formed in 2017 through the merger of Prudential's UK and Europe insurance operations with M&G Investments, Prudential's international asset manager.

Our business manages total assets of £321 billion[1] and serves more than six million customers worldwide. M&GPrudential offers savings and investment products for individuals who want to build and protect their life savings. We provide innovative asset management and customer solutions, supported by strategic asset allocation, an international distribution network and two strong brands.

In March 2018, the Board of Prudential plc announced its intention to demerge M&GPrudential. The Prudential Board believes the demerger will further strengthen two already strong businesses. For M&GPrudential, the demerger will enable our leadership team to focus solely on what is important to our customers, give us direct control over our own capital and enable us to pursue growth opportunities without competing for resources with other Prudential plc businesses. M&GPrudential is expected to have a premium listing on the London Stock Exchange.

We see a huge opportunity in the growing savings gap across Europe. As support from the state diminishes and employers gradually retreat from guaranteed retirement provisions, more and more people need to make their own preparations for retirement and other life goals. At the same time, many people with sizeable asset pools, who want to grow or protect their value, seem to be keeping their money in cash despite the negative real return. Across the EU there is an estimated €10 trillion[2] of cash sitting, largely idle, in bank deposits at very low interest rates.

We believe M&GPrudential is well placed to help our customers build and protect their savings because of the mix of our businesses, capabilities and people. We combine the best of fund management with compelling customer propositions in a highly collaborative culture. Our competitive advantages arise from the strength and depth of this business mix built over many years.

We have a full set of diversified investment capabilities with expertise spanning a range of fixed income, equity, multi-asset, real estate and private asset classes. We are one of the largest multi-asset managers in Europe through the £131 billion Prudential With-Profits Fund and our range of branded M&G funds, and manage £59 billion of private assets, including an international real estate portfolio. We are a UK market leader in savings solutions with our PruFund proposition, a modern way of with-profits investing. We also have one of the fastest growing advised platforms[3] in the UK, reaching £13.3 billion in assets under administration in the 24-month period since launch. We have a growing international distribution network with multi-channel breadth and depth, and two of the strongest brands in the market.

Building on these competitive advantages, M&GPrudential's priorities in 2019 will be:

— to continue to serve our customers well, by improving outcomes and service levels, and widening product choice;

— to advance our merger and transformation programme, to modernise the business so that we become a simpler, lower-cost, digital organisation; and

— to prepare M&GPrudential for demerger and its future as an independent company with its own listing on the stock market.

Understanding our markets

M&GPrudential serves the world's largest savings and investments markets, with a focus on UK and Europe. Across the region, people increasingly need help to meet their long-term financial goals as responsibility for retirement savings passes from state and employer to the individual.

Customers in our markets demand easy access to savings and investment solutions, as well as guidance and advice from trusted providers. In addition, persistently low rates of return on bank cash deposits are fuelling demand for effective solutions, whether clients are saving for retirement, building a lump sum or protecting their wealth from inflation.

In the institutional market, clients are increasingly seeking bespoke solutions from asset managers with diversified investment capabilities and global reach. The combination of M&GPrudential's expertise in private assets, which are much in demand in this sector, and our growing international network of offices means we are well placed to serve these clients.

Customers

We serve a wide range of customers: individuals saving for retirement and other life goals; retirees who want to draw down on their accumulated savings; professional intermediaries who manage the savings of their own customers; pension funds; and other institutional clients with future, long-term financial commitments.

What all our customers have in common is the desire for professional help to build and protect their savings with confidence. Our approach is to offer a broad range of products and services, in a variety of formats, through multiple distribution channels – all backed by the same in-house investment expertise and capability.

M&GPrudential continued

Our customers fall into five broad categories:

- UK retail advised customers who are saving for retirement or who want to draw down on their accumulated savings. They typically invest in our market-leading PruFund, which offers smoothed, long-term returns adjusted for different risk tolerances;
- UK retail advised and direct customers who invest for the long term through our range of M&G-branded mutual funds. This group includes about 160,000 customers who invest directly with our fund management business;
- Customers of our traditional insurance business in the UK. Numbering six million, these customers typically hold a Prudential annuity, which pays an income for life, or an insurance-wrapped savings bond;
- Wholesale clients in Europe and Asia. These include retail banks, private banks, wealth managers, independent advisers and fund platforms. We manage £38 billion on behalf of these clients' own customers; and
- Pension funds and other institutional clients, who invest on behalf of their scheme members. We have nearly 900 such relationships, including 70 per cent of the UK's largest pension schemes[4].

In 2019, we will continue to improve service levels and launch new offerings. In the UK retail market, we will broaden the choice of tax wrappers and products on our own adviser platform. In November, we made M&G's range of mutual funds available for the first time on the Prudential adviser platform and in January, we launched PruFolio, a new range of passive, active and smoothed return funds.

For customers of our traditional insurance business, our modernisation programme is already improving service levels. Deployment of new digital technology has reduced markedly the time it takes to process a redemption from a Prudential savings bond. Customers can now register for our MyPru online service in minutes.

During 2018, we transferred £21 billion of our key European fund offerings into new Luxembourg-based SICAVs, with the process expected to be completed as planned in the first quarter of 2019. This positions us well to minimise any potential disruption for our European clients stemming from the UK's withdrawal from the European Union, while also creating a more flexible and robust platform for international growth.

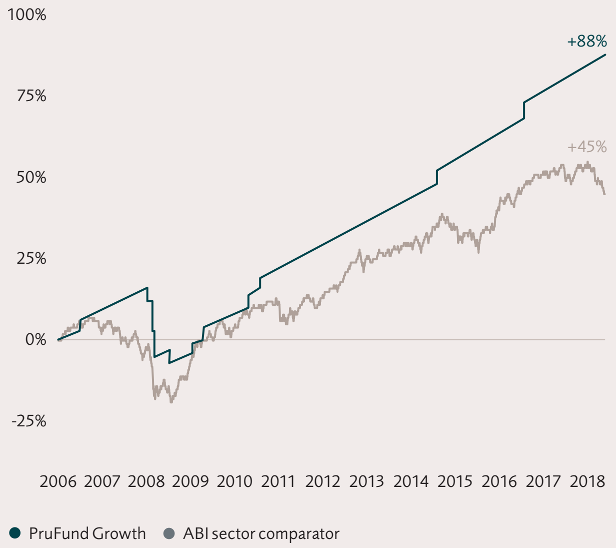
Our investment solutions

The core engine of our business is a long-standing collaboration between our fund managers and the strategic asset allocators who oversee the investment of the Prudential life funds. This symbiotic relationship enables us to diversify our investment capabilities and to innovate by developing high-quality products for all customers.

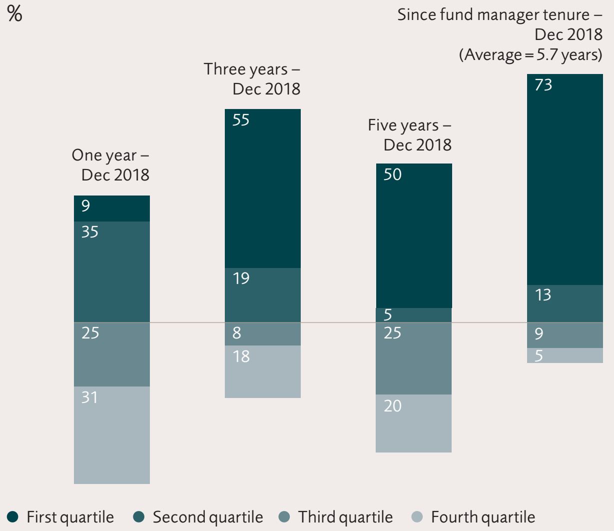
Our investment capabilities span the traditional public markets, from cash through fixed income and on to international equities. We also have a large range of private asset capabilities with £59 billion of assets under management, covering real estate, private debt, corporate loans and infrastructure investments such as broadband and solar energy.

This breadth of our investment capability underpins many of our customer offerings. It reinforces the reliability of the returns from our £131 billion With-Profits Fund, which is one of Europe's largest multi-asset portfolios for retail savers[5]. The With-Profits Fund has produced a cumulative gross return of 129.5 per cent over 10 years[6] before tax and charges compared with a 121.4 per cent return from the FTSE 100 Index over the same period, not allowing for any management fees. A key component of this performance is PruFund. Launched over 10 years ago, PruFund is a transparent and modern way of with-profits investing in the UK, which has since become the fastest-growing savings and investment proposition across the Group.

PruFund investment performance[7]



Mutual fund investment performance, net of fees, weighted by: assets under management[8]



Improving the service for our M&GPrudential customers

When Prudential UK customers want to withdraw their funds from a bond they expect the speed and simplicity they'd receive from online shopping. So the challenge was to simplify a complex, manual process and enable customers to get access to their money more quickly.

Our savings and investments business took the approach of transforming the whole customer journey – the customer experience from start to finish – rather than looking at each stage of the process individually, as they had done previously.

As a result, they've made significant improvements. The time customers have had to wait for us to send them their funds has been cut from more than two weeks to just over three days. And the online journey is now much easier to use than the old one. In fact, 33 per cent of customers making a withdrawal have already adopted it after just four months. But even vastly improved journeys are only as good as customers' experience of them and, so far, they like it and tell us it's easy to use.

Following further cross-team collaboration, the business has just launched a version for independent financial advisers (IFAs) too and the initial response has been great. One IFA told us that being able to gain access to this data 'at the touch of a button is market-leading and saves two weeks when compared to some competitors' manual processes.'

PruFund offers individuals different rates of smoothed return aligned with their tolerance for risk. In 2019, we aim to enhance advisers' access to PruFund by significantly upgrading our digital services across a range of tax wrappers. We are also exploring with European distributors, how we might make the benefits of PruFund available to savers in their markets. Today, assets under management in PruFund top £43 billion after attracting £8.5 billion of net inflows during 2018.

The With-Profits Fund has acted as an incubator for other products too. Among these are a range of investment strategies based on private asset investments – such as real estate, infrastructure assets and private debt – and marketed to clients seeking this type of exposure.

We are seeing strong demand from pension funds for our private asset products because they are seeking higher yields to manage long-term liabilities. These types of investment strategy remain comparatively resilient to fee pressure because they are not easy for passive investment managers to replicate as they involve securing real and private assets.

During 2018, we continued to expand our range of mutual funds for retail investors. These included the innovative M&G Positive Impact Fund, which widens access to impact investing for retail customers who want to invest in companies that aim to have a positive impact on society, and the M&G Sustainable Allocation Fund, a multi-asset fund incorporating environmental, social and governance factors. We also launched an investment trust, M&G Credit Income Investment Trust, which for the first time allows UK retail investors to put their money into a combined portfolio of public and private debt.

Responding to the growing institutional client demand for social and environmental investment strategies, we also launched the M&G Impact Financing Fund, which was awarded Best New Entrant (Fund) at the Sustainable and ESG Investment Awards 2018. Total assets under management at 31 December 2018 were £321 billion[1] (31 December 2017: £351 billion), reflecting inflows to PruFund products, multi-asset wholesale offerings and other institutional business, more than offset by the expected redemption of a single low-margin institutional mandate and outflows from bond and equity funds in volatile financial markets.

Distribution

At M&GPrudential, we have two outstanding complementary brands, both of which share a common philosophy of aiming to deliver excellent long-term customer outcomes.

Currently, we choose to serve our customers' needs through our many business-to-business relationships. These relationships include thousands of independent financial advisers, most of the high-street banks, wealth managers, institutional investment managers and pension funds. Two years ago, we established an adviser platform in the UK to give the market better access to PruFund. Since then, we have diversified the range of products on the platform to include M&G mutual funds. In 2018, it was among the fastest growing platforms in the UK, reaching £13.3 billion of assets under administration.

Outside the UK, we distribute our investment products with the support of our financial advisers, independent asset managers, insurers and some of the world's largest banks. From a standing start just under two decades ago, we have built an international distribution network to distribute M&G products and support clients in 29 markets, with offices most recently opened in Australia and the United States. Our new Luxembourg investment platform, as well as readying our business for Brexit, enables us to distribute our mutual funds more efficiently in Europe and beyond by offering our investment strategies in the SICAV format favoured by many of our clients.

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M&GPrudential continued

Update on business transformation and demerger

Our business modernisation programme is well advanced and already showing service benefits for customers. In January 2018, we announced a new partnership with Tata Consultancy Services to transfer, consolidate and upgrade the customer administration systems for our traditional insurance business. This involved the transfer of 2,500 people, including 650 Prudential colleagues.

Each day, we move closer to our model of a simpler, lower-cost, digital organisation. The impact on customer outcomes is already evident. Examples include: a new digital service for investment bond customers that has reduced cash withdrawal waiting times by almost 80 per cent; changes to our bereavements processes, which are saving our customers 200,000 days of their time each year; and delivery of simplified annual benefit statements for more than one million Prudential customers. M&GPrudential remains on track to deliver the announced annual shareholder cost savings of circa £145 million by 2022 for a shareholder investment of circa £250 million.

The build of our corporate infrastructure is well advanced. The M&GPrudential leadership team is in place, a new governance model has been implemented and we have built a set of unified corporate support services.

In September, we announced the appointment of an M&GPrudential Chair, Mike Evans. During the first half of 2019, Mike and I will lead the recruitment of the board for the new listed company, including the appointment of independent non-executive directors including the heads of the key committees.

John Foley
Chief Executive
M&GPrudential

Notes

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

2 Household deposit data, Eurostat 2017.

3 UK Advised Platform Market data, Platforum, Q3 2018.

4 Based on the UK's Top 50 Pension Schemes by size, S&P Money Market Directory, June 2018.

5 M&GPrudential analysis comparing our largest with-profits fund with other European mixed asset funds with data from Financial Express.

6 Performance data for Prudential with-profits fund excludes hypothecated asset pools of Optimum Bonus fund and Risk-Managed PruFunds. Returns are shown before charges.

7 ABI Mixed Investment 20 per cent – 60 per cent Shares (performance is net of charge). PruFund returns are also net of charge (0.65 per cent). Growth rate calculated across the period August 2006 to December 2018.

8 Quartile ranking based on ranking of the funds representative share class, net of fees, within their respective Investment Association (IA) or Morningstar sectors. Closed funds excluded. M&G total wholesale AUM was £69.5 billion as at 31 December 2018, representing 22 per cent of the total M&GPrudential AUM. One year figures represent £67.8 billion AUM, three year figures represent £67.5 billion AUM, five year figures represent £49.6 billion AUM, fund manager tenure figures represent £67.8 billion AUM. Performance figures in GBP, bid to bid, net income reinvested. Average fund manager tenure December 2017 = 5.7 years. Source: M&GPrudential, December 2018. IA and Morningstar Inc. combined UK and Pan-European peer groups as at end December 2018.

Driving our business	Creating value and benefiting our stakeholders
Customers Meeting the growing and fast-evolving saving and investment needs of customers across retail, institutional and direct channels.	**+6 million** customers **£321 billion** total assets under management[1] across a broad range of strategies and asset classes
Products Market-leading propositions, including PruFund and the M&G Optimal Income Fund, available in a number of saving and investment wrappers; and a range of strategies to help institutional customers meet their long-term commitments.	**£43 billion** PruFund assets under management Launch of new **M&G Impact Financing Fund**
Distribution Multi-channel distribution, based on strong relationships with institutional investors, advisers and intermediaries, and direct-to-customer franchises, including Prudential Financial Planning.	**Extensive** distribution relationships across financial advisers, high-street banks, wealth managers, institutional investment managers and pension funds **New offices** opened in Australia and US Luxembourg SICAV fund platform for international growth
Investment for growth Investing in our infrastructure to improve customer service and business efficiency and drive long-term growth.	**Transformation programme** improving customer service levels On track to deliver the announced **annual shareholder cost savings** of circa £145 million by 2022

Positive financial performance demonstrating our focus on implementing our strategy

I am pleased to report that Prudential's financial performance in 2018 reflects our strategic focus on driving growth in high-quality, recurring health and protection and fee business across our geographies, products and distribution channels.

I am encouraged that our financial performance has been accomplished at the same time as the Group has made good progress in the complex preparations for the intended demerger of M&GPrudential from Prudential plc, which we announced in March 2018. We have achieved a number of important milestones, including the reinsurance of £12 billion of UK annuity policies to Rothesay Life, the transfer of the Hong Kong insurance subsidiaries to Prudential Corporation Asia, the issuance of £1.6 billion of substitutable debt as part of the necessary rebalancing of capital across the two businesses, the establishment of a new holding company for M&GPrudential and the transfer of UK operating subsidiaries to that company.

Our financial performance was led by our Asia business which delivered double digit growth in new business profit (up 14 per cent[1]), adjusted IFRS operating profit based on longer-term investment returns ('operating profit') (up 14 per cent[1]) and underlying free surplus generation[2] (up 14 per cent[1]). This performance is both broad-based, with 10 markets achieving double-digit growth[1] in new business profit, and high-quality, with health and protection new business profit growing by 15 per cent[1]. Our Asia asset manager, Eastspring, has grown operating profit by 6 per cent amidst a challenging external environment. Our broad-based portfolio of life insurance and asset management businesses, high-quality products with distinctive value-added services and multi-channel strategy ensure that we continue to benefit from the growing customer demand in Asia for health, protection and savings solutions that we provide.

In the US, we saw growth in fee income driven by higher average account balances offset by an increase in market-related deferred acquisition costs (DAC) amortisation and an expected reduction in spread-based revenues, leading to a fall in operating profit of 11 per cent. Jackson's hedge programme performed as expected as equity markets weakened towards the end of 2018 and contributed to an increased risk-based capital ratio of 458 per cent, up from 409 per cent at year-end 2017.

M&GPrudential delivered operating profit of £1,634 million, up 19 per cent (2017: £1,378 million). This included £519 million (2017: £597 million) from our core[3] with-profits and annuity business, with the with-profits contribution up 11 per cent to £320 million, offset by lower annuities earnings following the reinsurance of £12 billion[4] of liabilities in March 2018. Other operating profits included the benefit of updated longevity assumptions and an insurance recovery on the costs of reviewing internally vesting annuity sales. M&GPrudential remains on track to deliver the announced annual shareholder cost savings of circa £145 million by 2022 for a shareholder investment of circa £250 million.

Sterling weakened over the course of 2018, compared with most of the currencies in our major international markets. However, average exchange rates remained above those in 2017, leading to a negative effect on the translation of the results from non-sterling operations. To aid comparison of underlying progress, we continue to express and comment on the performance trends in our Asia and US operations on a constant exchange rate basis.

The performance of many equity markets was subdued in 2018, and was characterised by higher levels of volatility. The S&P 500 closed the year 6 per cent lower than 2017, the FTSE 100 index was down 12 per cent and the MSCI Asia excluding Japan index down 16 per cent. However, average balances, which have the most material impact on our fee-based earnings during the year, were mostly higher, reflecting the concentration of equity market weakness in the fourth quarter. Long-term yields increased favourably in the US and our larger Asia markets, but were only slightly higher in the UK.

The key financial highlights in 2018 were as follows:

— **New business profit** was 11 per cent higher at £3,877 million (7 per cent on an actual exchange rate basis), while **APE sales** were up 1 per cent (down 2 per cent on an actual exchange rate basis). In Asia, new business profit increased 14 per cent with improved new business margins primarily reflecting product mix. Jackson's new business profit increased by 5 per cent, primarily reflecting the favourable effect of higher US interest rates. UK and Europe life new business profit grew by 3 per cent, driven by a 2 per cent increase in APE sales, supported by continued demand for products offering access to our PruFund investment proposition.

— **Asset management net outflows** of £11.5 billion reflected external net outflows of £9.9 billion (2017: net inflows of £17.3 billion) within M&GPrudential asset management, the majority of which related to the expected redemption of a single, low margin £6.5 billion institutional mandate, with the remainder reflecting the challenging market environment for equity and fixed income business. Eastspring saw external net outflows, excluding money market funds, of £1.6 billion (2017: net inflows of £3.1 billion on an actual exchange rate basis), also as a result of market conditions.

— **Operating profit** was 6 per cent higher at £4,827 million (3 per cent higher on an actual exchange rate basis). Continued business momentum helped grow Asia's operating profit by 14 per cent to £2,164 million and M&GPrudential operating profit was 19 per cent higher, reflecting a number of beneficial impacts, which are not expected to recur at the same level. In the US, operating profit decreased by 11 per cent, as a result of higher market-related DAC amortisation charges.

— **Total IFRS post-tax profit** was up 30 per cent at £3,013 million (26 per cent on an actual exchange rate basis) after a £508 million pre-tax loss following the reinsurance of £12 billion[4] of UK annuities to Rothesay Life. This increase was driven by Jackson, whose IFRS profit after tax in 2018 was £1,484 million, up from £245 million (£254 million on an actual exchange rate basis) reflecting higher interest rates and gains from Jackson's hedging instruments as equity markets fell towards the end of 2018. **Group IFRS shareholders' equity** was 7 per cent higher at £17.2 billion.

- **EEV basis operating profit,** including embedded value in-force profit, increased 19 per cent (15 per cent on an actual exchange rate basis) to £7,563 million. EEV basis shareholders' equity was up 11 per cent at £49.8 billion.
- **Underlying free surplus generation**[2], our preferred measure of cash generation, from our life and asset management businesses, increased by 14 per cent to £4,047 million (11 per cent on an actual exchange rate basis), after financing new business growth. This was driven by in-force growth of 10 per cent combined with a lower level of investment in new UK and Europe business as a result of management actions to optimise capital absorption.
- **Group shareholders' Solvency II capital surplus**[5] was estimated at £17.2 billion at 31 December 2018, equivalent to a cover ratio of 232 per cent[6] (31 December 2017: £13.3 billion, 202 per cent). The improvement in the period reflects the continuing strength of the Group's operating capital generation, and a net £1.2 billion increase in qualifying debt.
- **Full year ordinary dividend** increased by 5 per cent to 49.35 pence per share, reflecting our 2018 performance and our confidence in the future prospects of our businesses.

IFRS profit

	Actual exchange rate			Constant exchange rate	
	2018 £m	**2017** £m	**Change** %	**2017** £m	**Change** %
Operating profit before tax based on longer-term investment returns					
Asia					
Long-term business	1,982	1,799	10	1,727	15
Asset management	182	176	3	171	6
Total	2,164	1,975	10	1,898	14
US					
Long-term business	1,911	2,214	(14)	2,137	(11)
Asset management	8	10	(20)	9	(11)
Total	1,919	2,224	(14)	2,146	(11)
UK and Europe					
Long-term business	1,138	861	32	861	32
General insurance commission	19	17	12	17	12
Total insurance operations	1,157	878	32	878	32
Asset management	477	500	(5)	500	(5)
Total	1,634	1,378	19	1,378	19
Other income and expenditure	(725)	(775)	6	(769)	6
Total operating profit based on longer-term investment returns before tax and restructuring costs	4,992	4,802	4	4,653	7
Restructuring costs	(165)	(103)	(60)	(103)	(60)
Total operating profit based on longer-term investment returns before tax	4,827	4,699	3	4,550	6
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	(558)	(1,563)	64	(1,514)	63
Amortisation of acquisition accounting adjustments	(46)	(63)	27	(61)	25
(Loss) gain on disposal of businesses and corporate transactions	(588)	223	n/a	218	n/a
Profit before tax	3,635	3,296	10	3,193	14
Tax charge attributable to shareholders' returns	(622)	(906)	31	(876)	29
Profit for the year	3,013	2,390	26	2,317	30

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	2018 pence	**2017** pence	**Change** %	**2017** pence	**Change** %
Basic earnings per share based on operating profit after tax	156.6	145.2	8	140.4	12
Basic earnings per share based on total profit after tax	116.9	93.1	26	90.0	30

Adjusted IFRS operating profit based on longer-term investment returns (operating profit)

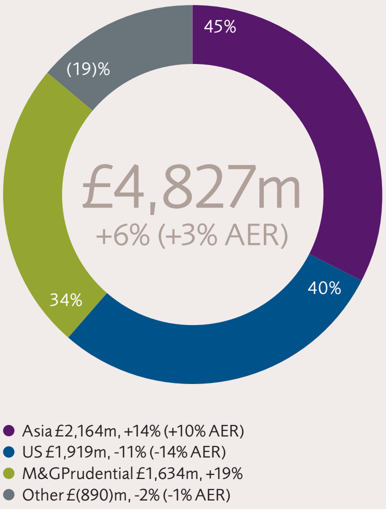
2018 total operating profit increased by 6 per cent (3 per cent on an actual exchange rate basis) to £4,827 million.

Asia total operating profit of £2,164 million was 14 per cent higher than the previous year (10 per cent on an actual exchange rate basis). Operating profit from life insurance operations increased 15 per cent to £1,982 million (10 per cent on an actual exchange rate basis), reflecting the continued growth of our in-force book of recurring premium business, with renewal insurance premiums[7] reaching £12,856 million (2017: £11,087 million). Insurance margin was up 15 per cent, driven by our continued focus on health and protection business, now contributing to 70 per cent of Asia life insurance revenues[8] (2017: 68 per cent). At a market level, growth was led by Hong Kong up 33 per cent, Singapore 22 per cent and China 20 per cent respectively. Eastspring's operating profit increased by 6 per cent (up 3 per cent on an actual exchange rate basis) to £182 million reflecting 4 per cent revenue growth which, combined with positive operating leverage, resulted in an improvement in the cost-income ratio[7] to 55 per cent (2017: 56 per cent on an actual exchange rate basis).

US total operating profit at £1,919 million decreased by 11 per cent (14 per cent on an actual exchange rate basis). Higher fee income was more than offset by higher market-related DAC amortisation and lower spread-based income. Although equity markets declined in the fourth quarter, average separate account balances were above the prior year, given positive net inflows which supported higher levels of fee income. The higher market-related DAC amortisation arises mainly from £194 million acceleration of amortisation compared with £83 million favourable deceleration in 2017 (on a constant exchange rate basis), leading to an adverse year-on-year movement of £277 million. Excluding the acceleration and deceleration in 2018 and 2017, operating profit in 2018 would have been 2 per cent higher than 2017 on a constant exchange rate basis. The variability in DAC from year-on-year is dependent on separate account return and its interaction with the mean reversion formula applied by Jackson when determining the amortisation charge for the year. In the current year the dominant factors driving this calculation have been the equity market falls in 2018 (whereas 2017 saw equity market rises). Spread-based income decreased 20 per cent (22 per cent on an actual exchange rate basis), as anticipated, reflecting the impact of lower yields on our fixed annuity portfolio and a reduced contribution from asset duration swaps. While we expect these effects to continue to compress spread margins, the continued upwards movements in US reinvestment yields may help to reduce the speed of the decline.

UK and Europe total operating profit was 19 per cent higher at £1,634 million. Life insurance operating profit increased by 32 per cent to £1,138 million (2017: £861 million). Within this total, the contribution from our core[3] with-profits and in-force annuity business was £519 million (2017: £597 million), including an increased transfer to shareholders from the with-profits funds of £320 million (2017: £288 million) and within this, a 30 per cent increase in the contribution from PruFund business of £55 million. Earnings from our core[3] annuities business were lower, reflecting the reinsurance of £12 billion of annuity liabilities to Rothesay Life in March 2018. The balance of the life insurance result reflects the contribution from other elements which are not expected to recur at the same level. This includes the favourable impact of longevity assumption changes, contributing £441 million (2017: £204 million) relating to changes to annuitant mortality assumptions reflecting recent mortality trends, which have shown a slowdown in life expectancy improvements in recent periods, and the adoption of the Continuous Mortality Investigation (CMI) 2016 model (2017: adoption of 2015 model). The result also includes a £166 million insurance recovery, related to the costs of reviewing internally vesting annuities sold without advice after July 2008. Profits from management actions of £58 million were broadly offset by a provision of £55 million for the cost of equalising guaranteed minimum pension benefits on products sold by the UK insurance business, following a High Court ruling in October which applied across the UK life insurance industry.

Operating profit by business
% vs 2017



Asset management operating profit decreased 5 per cent to £477 million, largely reflecting a normalisation of performance fees to £15 million, compared with a particularly high contribution of £53 million in the prior year. Excluding the contribution of performance fees, operating profit was 3 per cent higher. This reflects both the higher average level of funds managed by M&G (up from £275.9 billion in 2017 to £276.6 billion in 2018) and a higher revenue margin[9] of 40 basis points (2017: 37 basis points). Operating profit is after charges of £27 million incurred in preparing the business for the UK's proposed exit from the European Union, including the migration of fund assets to our Luxembourg-domiciled SICAV platform. The cost-income ratio[7] of 59 per cent remains broadly in line with the prior year (2017: 58 per cent).

Life insurance profit drivers

We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each period these increase as we write new business and collect regular premiums from existing customers and decrease as we pay claims and policies mature. These policyholder liabilities contribute, for example, to our ability to earn fees on the unit-linked element and indicates the scale of the insurance element, another key source of profitability for the Group.

Shareholder-backed policyholder liabilities and net liability flows[10]

	2018 £m				2017 £m			
	Actual exchange rate				Actual exchange rate			
	At 1 January	Net liability flows[11]	Market and other movements	At 31 December	At 1 January	Net liability flows[11]	Market and other movements	At 31 December
Asia	37,402	3,251	(56)	40,597	32,851	2,301	2,250	37,402
US	180,724	(213)	5,089	185,600	177,626	3,137	(39)	180,724
UK and Europe	56,367	(2,774)	(12,833)	40,760	56,158	(2,721)	2,930	56,367
Total Group	274,493	264	(7,800)	266,957	266,635	2,717	5,141	274,493

Focusing on business supported by shareholder capital, which generates the majority of the life profit, in 2018 net flows into our businesses were overall positive at £0.3 billion driven by our Asian operations. In the US, net outflows were £0.2 billion with positive separate account net inflows of £1.1 billion being more than offset by general account net outflows of £1.3 billion, as a result of higher surrenders as the portfolio develops. In the UK and Europe, the net outflows principally reflect the run-off of the in-force annuity portfolio following our effective withdrawal from selling new annuity business. Market and other movements have reduced shareholder-back liabilities by £7.8 billion. This includes the removal of £10.9 billion[4] of UK annuity liabilities, representing the portion of the £12 billion[4] reinsured liabilities that will be subject to a Part VII transfer to Rothesay Life, following their reclassification as held for sale, offset by additions of £4.1 billion in Jackson as a result of the agreement in November 2018 to reinsure a portfolio of business from John Hancock. The remaining £1.0 billion primarily reflects the effects of negative investment markets offset by currency effects as sterling weakened over the period. In total, business flows and market movements have decreased shareholder-backed policyholder liabilities from £274.5 billion to £267.0 billion.

Policyholder liabilities and net liability flows in with-profits business[10,12]

	2018 £m				2017 £m			
	Actual exchange rate				Actual exchange rate			
	At 1 January	Net liability flows[11]	Market and other movements	At 31 December	At 1 January	Net liability flows[11]	Market and other movements	At 31 December
Asia	36,437	5,165	564	42,166	29,933	4,574	1,930	36,437
UK and Europe	124,699	3,209	(3,779)	124,129	113,146	3,457	8,096	124,699
Total Group	161,136	8,374	(3,215)	166,295	143,079	8,031	10,026	161,136

Policyholder liabilities in our with-profits business have increased by 3 per cent to £166.3 billion reflecting the popularity of our participating funds in Asia and PruFund in the UK, as consumers seek protection from some of the short-term ups and downs of direct stock market investments by using an established smoothing process. Across our Asia and UK and Europe operations, net liability flows increased to £8.4 billion. As returns from these funds are smoothed and shared with customers, the emergence of shareholder profit is more gradual. This business, nevertheless, remains an important source of future shareholder value.

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

	Actual exchange rate						Constant exchange rate		
	2018			2017			2017		
	Operating profit £m	Average liability £m	Margin bps	Operating profit £m	Average liability £m	Margin bps	Operating profit £m	Average liability £m	Margin bps
Spread income	899	85,850	105	1,122	88,908	126	1,090	87,553	124
Fee income	2,711	175,443	155	2,609	166,839	156	2,518	162,267	155
With-profits	391	147,318	27	347	136,474	25	345	136,496	25
Insurance margin	2,480			2,302			2,223		
Margin on revenues	2,254			2,287			2,210		
Expenses:									
Acquisition costs*	(2,319)	6,802	(34)%	(2,443)	6,958	(35)%	(2,364)	6,767	(35)%
Administration expenses	(2,413)	265,597	(91)	(2,305)	261,114	(88)	(2,231)	255,313	(87)
DAC adjustments	216			505			490		
Expected return on shareholder assets	242			234			228		
	4,461			4,658			4,509		
Other items†	570			216			216		
Long-term business adjusted IFRS operating profit based on longer-term investment returns	5,031			4,874			4,725		

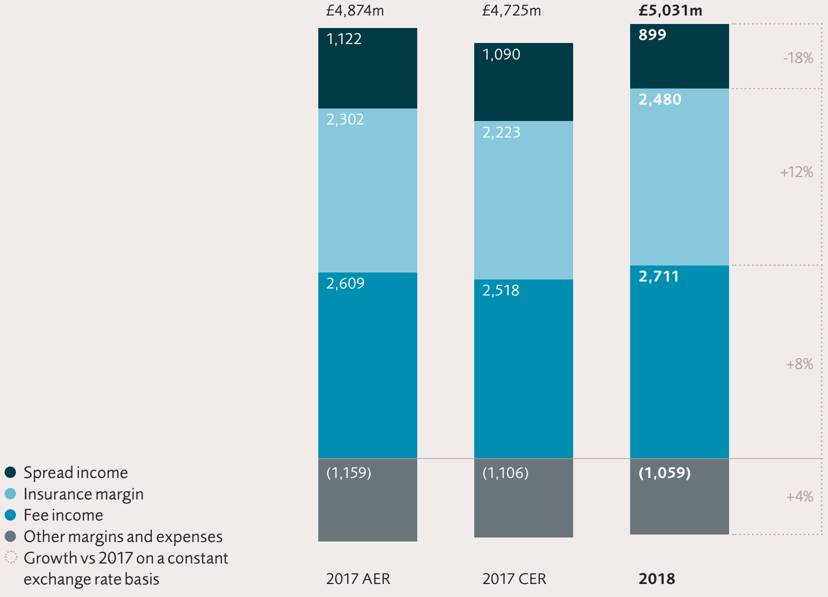
* The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. The acquisition costs include only those relating to shareholder-backed business.

† Other items includes share of related tax charges from joint ventures and associate and other items considered non-core to the UK and Europe business, see note I(a) of the Additional unaudited financial information.

We continue to maintain our preference for high-quality sources of income such as insurance margin from life and health and protection business, and fee income. We favour insurance margin because it is relatively insensitive to the equity and interest rate cycle and prefer fee income to spread income because it is more capital-efficient. In line with this approach, on a constant exchange rate basis, insurance margin has increased by 12 per cent (up 8 per cent on an actual exchange rate basis) and fee income by 8 per cent (up 4 per cent on an actual exchange rate basis), while as anticipated, spread income decreased by 18 per cent (down 20 per cent on an actual exchange rate basis). Administration expenses increased to £2,413 million (2017: £2,231 million) as the business continues to expand in Asia, alongside higher asset-based commissions within the US business, which are treated as an administrative expense in this analysis.

Analysis of long-term insurance business operating profit by driver

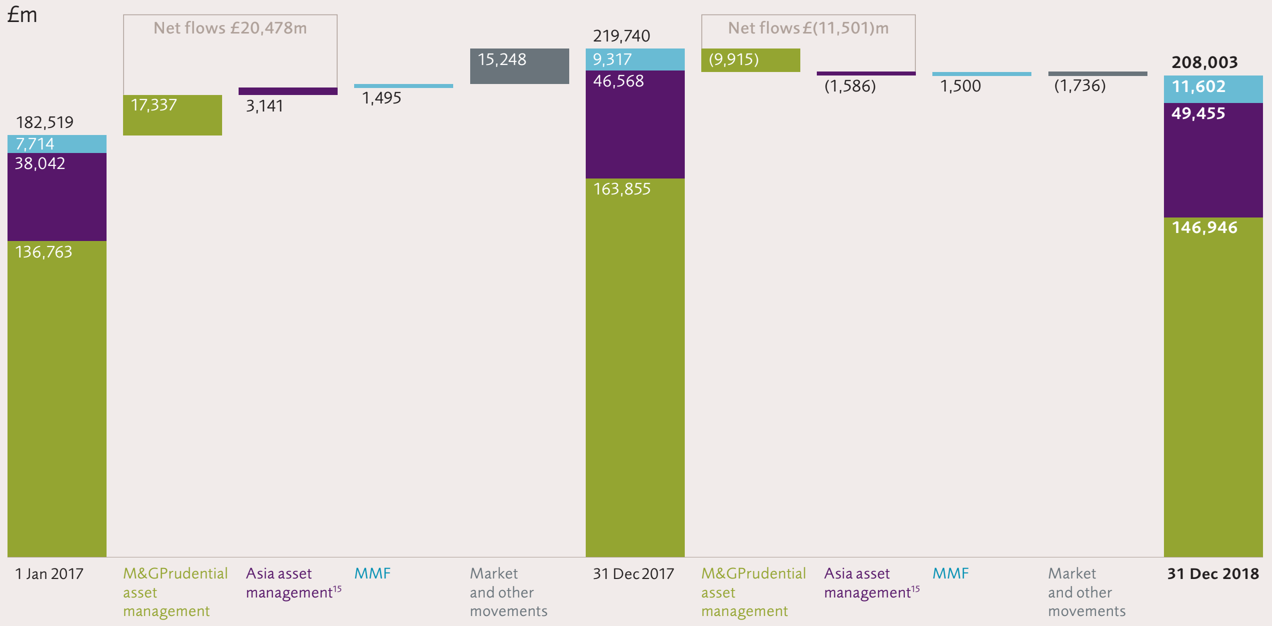
£m (% vs 2017)



Asset management profit drivers

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

Asset management external net flows and external funds under management[13,14]



M&GPrudential's external asset management net outflows were £9.9 billion (2017: net inflows of £17.3 billion) driven by the expected redemption of a single £6.5 billion low-margin institutional mandate, and net outflows from wholesale and direct clients from bond and equity classes in volatile financial markets. This was partially offset by inflows into multi-asset wholesale offerings and other institutional business products, including public debt and illiquid credit strategies. Internal life insurance assets under management were £174.3 billion (2017: £186.8 billion) benefiting from PruFund net flows of £8.5 billion, offset by the effect of the £12 billion[4] annuities reinsurance and lower equity market levels. As a result, total M&GPrudential assets under management[16] reduced to £321.2 billion (2017: £350.7 billion).

Eastspring's external assets under management, excluding money market funds, increased by 6 per cent (on an actual exchange rate basis) to £49.5 billion, reflecting the acquisition of TMB Asset Management, which added £9 billion, offset by client outflows and adverse market movements. Higher internal assets under management, driven by inflows into the life business and money market funds, lifted Eastspring's total assets under management to £151.3 billion.

Other income and expenditure and restructuring costs

Other income and expenditure consists of interest payable on core structural borrowings, corporate expenditure and other income. These items, together with restructuring costs, increased 2 per cent to a net charge of £890 million (2017: £872 million). This reflects higher restructuring costs of £165 million (2017: £103 million), partly offset by a lower interest expense. Restructuring costs include investment spend of £99 million in relation to M&GPrudential merger and transformation bringing the cumulative cost to £143 million, on an IFRS basis, since the project began. Other restructuring costs relate to efficiency and change programmes across the Group, for example the rationalisation of US locations in 2018.

IFRS basis non-operating items

Non-operating items consist of short-term fluctuations in investment returns on shareholder-backed business of negative £558 million (2017: negative £1,514 million), the results attaching to disposal of businesses of negative £588 million (2017: positive £218 million), and the amortisation of acquisition accounting adjustments of negative £46 million (2017: negative £61 million) arising mainly from the REALIC business acquired by Jackson in 2012. The loss related to the disposal of businesses relates primarily to the £508 million pre-tax loss following the reinsurance of £12 billion[4] UK annuities to Rothesay Life in March 2018.

Short-term fluctuations in investment returns on shareholder-backed business are discussed further below.

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

Operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns.

In 2018, the total short-term fluctuations in investment returns on shareholder-backed business were negative £558 million (2017: negative £1,563 million on an actual exchange rate basis) and comprised negative £512 million (2017: negative £1 million on an actual exchange rate basis) for Asia, negative £100 million (2017: negative £1,568 million on an actual exchange rate basis) in the US, positive £34 million (2017: negative £14 million on an actual exchange rate basis) in the UK and Europe and positive £20 million (2017: positive £20 million on an actual exchange rate basis) in other operations.

Rising interest rates in many territories in Asia led to unrealised bond losses in the period. In the US, lower equity market levels, alongside higher interest rate levels, as expected, resulted in gains on equity hedge instruments which are designed to protect Jackson's capital position, balanced by higher technical reserve requirements.

IFRS basis effective tax rates

In 2018, the effective tax rate on operating profit was 16 per cent (2017: 21 per cent), reflecting the reduction in the US federal tax rate from 35 per cent in 2017 to 21 per cent in 2018.

The 2018 effective tax rate on the total IFRS profit was 17 per cent (2017: 14 per cent after excluding the one-off impact of the re-measurement of US deferred tax balances, following the enactment in December 2017 of tax reform in the US). The increase in the 2018 effective tax rate reflects non-tax deductible investment losses in Asia operations.

The main driver of the Group's effective tax rate is the relative mix of the profits between jurisdictions with higher tax rates (such as Indonesia and Malaysia), jurisdictions with lower tax rates (such as Hong Kong and Singapore), and jurisdictions with rates in between (such as the UK and the US).

Total tax contribution

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with £2,839 million remitted to tax authorities in 2018. This was similar to the equivalent amount of £2,903 million remitted in 2017.

Tax strategy

In May 2018, the Group published its updated tax strategy which, in addition to complying with the mandatory UK (Finance Act 2016) requirements, also included a number of additional disclosures, including a breakdown of revenues, profits and taxes for all jurisdictions where more than £5 million tax was paid. This disclosure was included as a way of demonstrating that our tax footprint (ie where we pay taxes) is consistent with our business footprint. An updated version of the tax strategy, including 2018 data, will be available on the Group's website before 31 May 2019.

New business performance

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

	Actual exchange rate						Constant exchange rate			
	2018 £m		2017 £m		Change %		2017 £m		Change %	
	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit
Asia	3,744	2,604	3,805	2,368	(2)	10	3,671	2,282	2	14
US	1,542	921	1,662	906	(7)	2	1,605	874	(4)	5
UK and Europe	1,516	352	1,491	342	2	3	1,491	342	2	3
Total Group	6,802	3,877	6,958	3,616	(2)	7	6,767	3,498	1	11

Life insurance new business profit was up 11 per cent (7 per cent on an actual exchange rate basis) to £3,877 million, and **life insurance new business APE sales** increased by 1 per cent (decreased by 2 per cent on an actual exchange rate basis) to £6,802 million, including an increase of 4 per cent during the second half of 2018 compared with the second half of 2017, led by 8 per cent growth in Asia.

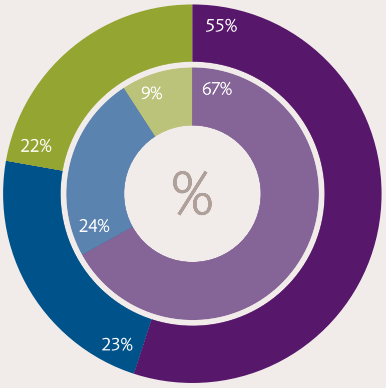
In **Asia**, new business profit was 14 per cent higher at £2,604 million (10 per cent on an actual exchange rate basis), benefiting from pricing actions and our strategic focus on health and protection sales. This growth was also supported by increasing sales momentum, with APE growth of 8 per cent during the second half of 2018 compared with the second half of 2017.

Our focus on quality is undiminished, with regular premium contracts accounting for 94 per cent of APE sales as well as the mix of health and protection products increasing to 28 per cent of APE sales. Overall, new business profit from health and protection products was 15 per cent higher and contributed 70 per cent of the total in Asia. This favourable mix provides a high level of recurring income and an earnings profile that is significantly less correlated to investment markets.

The performance remains broad-based, with 10 markets delivering double-digit percentage growth in new business profit. In Hong Kong, new business profit increased by 17 per cent, driven largely by our ongoing focus on increasing health and protection sales, particularly those with more comprehensive coverage. Hong Kong APE sales increased by 3 per cent overall, with higher sales levels from Mainland China visitors to Hong Kong driving positive momentum over the course of the year, culminating in APE sales growth of 18 per cent in the discrete fourth quarter. In China, new business profit increased by 14 per cent, reflecting positive product mix effects, and APE sales growth of 27 per cent in the fourth quarter. In Singapore, new business profit increased by 15 per cent on higher APE sales (up 5 per cent), driven by our agency and bancassurance channels, pricing actions and favourable product mix shifts. Growth in new business profit in Thailand (up 75 per cent), Vietnam (up 29 per cent) and Malaysia (up 13 per cent) reflects our value focus and favourable shifts in product mix.

New business performance

£m (% vs 2017)



Split of APE new business sales £6,802m, +1% (-2% AER)

- ● Asia £3,744m, +2% (-2% AER)
- ● US £1,542m, -4% (-7% AER)
- ● M&GPrudential £1,516m, +2%

Split of new business profit £3,877m, +11% (+7% AER)

- ● Asia £2,604m, +14% (+10% AER)
- ● US £921m, +5% (+2% AER)
- ● M&GPrudential £352m, +3%

Our Indonesia business continues to experience challenging conditions which, compounded by the adverse impact of higher yields, drove new business profit lower by 23 per cent. Despite these headwinds, we are investing in the business to strengthen our distribution capabilities, upgrading our systems and refreshing our product propositions to meet customer needs.

In the **US**, new business profit increased by 5 per cent to £921 million (up 2 per cent on an actual exchange rate basis) as a 4 per cent reduction in new APE sales was more than balanced by the favourable effect of higher interest rates and spread assumption changes compared with the prior period.

In our **UK and Europe life business**, new business profit increased to £352 million, up 3 per cent supported by 2 per cent growth in APE sales. New sales continue to be driven by the popular PruFund proposition with APE sales up 3 per cent. Reflecting this performance, total PruFund assets under management of £43 billion as at 31 December 2018 were 20 per cent higher than at the start of the year, driven by positive net flows of £8.5 billion.

Free surplus generation[2]

	Actual exchange rate			Constant exchange rate	
	2018 £m	**2017** £m	**Change** %	**2017** £m	**Change** %
Free surplus generation					
Asia	**1,659**	1,562	6	1,493	11
US	**1,644**	1,582	4	1,527	8
UK and Europe	**1,684**	1,486	13	1,486	13
Underlying free surplus generated from in-force life business and asset management before restructuring costs	**4,987**	4,630	8	4,506	11
Restructuring costs	**(125)**	(77)	(62)	(77)	(62)
Underlying free surplus generated from in-force life business and asset management	**4,862**	4,553	7	4,429	10
Investment in new business	**(815)**	(913)	11	(886)	8
Underlying free surplus generated	**4,047**	3,640	11	3,543	14
Market related movements, timing differences and other non-operating movements	**(1,282)**	(1,012)			
Profit attaching to corporate transactions	**283**	172			
Net cash remitted by business units	**(1,732)**	(1,788)			
Total movement in free surplus	**1,316**	1,012			
Free surplus at end of year	**8,894**	7,578			

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

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

In 2018, underlying free surplus generation from our life insurance and asset management business, before investment in new business, increased by 10 per cent to £4,862 million (increased by 7 per cent on an actual exchange rate basis), reflecting increased contributions from all our businesses. In Asia, growth in the in-force life portfolio, combined with post-tax asset management profit from Eastspring, contributed to free surplus generation of £1,659 million, up 11 per cent. In the US, in-force free surplus generation increased by 8 per cent reflecting higher in-force values. In the UK and Europe, in-force free surplus generation increased by 13 per cent to £1,684 million, including the positive impact of longevity assumption changes, and the £138 million post-tax insurance recovery for the costs of the UK review of past non-advised annuity sales practices and related potential redress. In 2017 free surplus was reduced by an increase in the related provision of £187 million to cover such costs.

Although new business profit increased by 11 per cent, the amount of free surplus invested in writing new life business in the period was lower at £815 million (2017: £886 million) primarily reflecting lower sales in the US and measures taken to optimise capital absorption in the UK and Europe.

After funding cash remittances from the business units to the Group, recognition of the profit attaching to the disposal of businesses, and other movements, which includes market movements, the closing value of free surplus in our life and asset management operations was £8.9 billion at 31 December 2018.

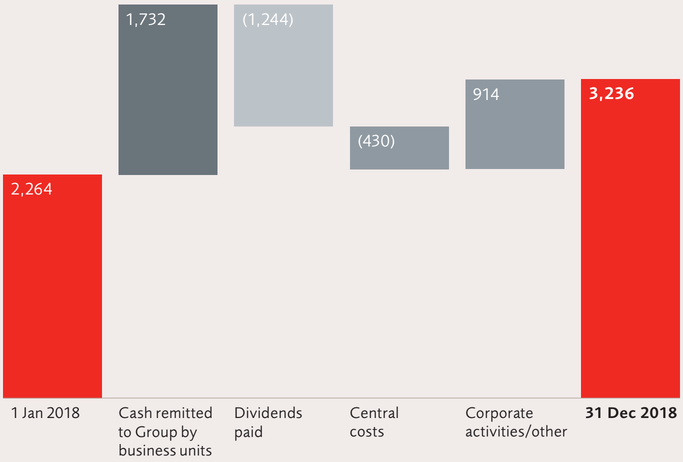
We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business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

Business unit remittance[17]

	Actual exchange rate	
	2018 £m	**2017** £m
Net cash remitted by business units:		
Asia	699	645
US	342	475
UK and Europe	654	643
Other UK (including Prudential Capital)	37	25
Net cash remitted by business units	1,732	1,788
Holding company cash at 31 December	3,236	2,264

Movement in central cash[17]

£m



● 2017 second interim dividend and 2018 first interim dividend

Cash remitted to the Group by business units in 2018 amounted to £1,732 million, driven by higher remittances from Asia, demonstrating the quality and scale of its growth. Jackson made remittances of £342 million, although lower than the prior period. The remittance from M&GPrudential of £654 million was 2 per cent higher than the combined remittance in 2017, with an increase in the with-profits transfer from £215 million in 2017 to £233 million in 2018.

Cash remitted to the Group in 2018 was used to meet central costs of £430 million (2017: £470 million) and pay the 2017 second interim and 2018 first interim dividends. As well as these movements were corporate activities and other cash flows of positive £914 million (2017: negative £521 million), primarily driven by net debt issuance of £1.2 billion within the year. This led to holding company cash increasing from £2,264 million to £3,236 million over 2018.

Post-tax profit – EEV

	Actual exchange rate			Constant exchange rate	
	2018 £m	**2017** £m	**Change** %	**2017** £m	**Change** %
Post-tax operating profit based on longer-term investment returns					
Asia					
Long-term business	4,387	3,705	18	3,562	23
Asset management	159	155	3	150	6
Total	4,546	3,860	18	3,712	22
US					
Long-term business	2,115	2,143	(1)	2,069	2
Asset management	3	7	(57)	7	(57)
Total	2,118	2,150	(1)	2,076	2
UK and Europe					
Long-term business	1,374	1,015	35	1,015	35
General insurance commission	15	13	15	13	15
Total insurance operations	1,389	1,028	35	1,028	35
Asset management	392	403	(3)	403	(3)
Total	1,781	1,431	24	1,431	24
Other income and expenditure	(726)	(746)	3	(740)	2
Post-tax operating profit based on longer-term investment returns before restructuring costs	7,719	6,695	15	6,479	19
Restructuring costs	(156)	(97)	(61)	(97)	(61)
Post-tax operating profit based on longer-term investment returns	7,563	6,598	15	6,382	19
Non-operating items:					
Short-term fluctuations in investment returns	(3,219)	2,111	n/a	2,057	n/a
Effect of changes in economic assumptions	146	(102)	n/a	(91)	n/a
Mark to market value on core structural borrowings	549	(326)	n/a	(326)	n/a
Impact of US tax reform	–	390	n/a	376	n/a
(Loss) gain on disposal of businesses and corporate transactions	(451)	80	n/a	77	n/a
Post-tax profit for the year	4,588	8,751	(48)	8,475	(46)

Earnings per share – EEV

	Actual exchange rate			Constant exchange rate	
	2018 pence	**2017** pence	**Change** %	**2017** pence	**Change** %
Basic earnings per share based on post-tax operating profit	293.6	257.0	14	248.6	18
Basic earnings per share based on post-tax total profit	178.1	340.9	(48)	330.2	(46)

EEV operating profit

On an EEV basis, Group post-tax operating profit based on longer-term investment return increased by 19 per cent (up 15 per cent on an actual exchange rate basis) to £7,563 million in 2018.

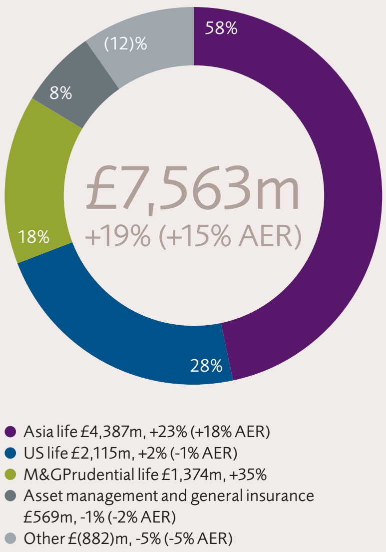
EEV operating profit includes new business profit from the Group's life business, which increased by 11 per cent (up 7 per cent on an actual exchange rate basis) to £3,877 million. It also includes in-force life business profit of £3,999 million, which was 27 per cent higher than prior year (up 23 per cent on an actual exchange rate basis), primarily reflecting the growth in our in-force business and higher interest rates. This is most evident in the profit from the unwind of the in-force business, which was 22 per cent higher at £2,573 million. Experience and assumption changes were positive at £1,426 million (2017: £1,044 million), reflecting the continuing performance of our in-force policies.

In **Asia**, EEV life operating profit was up 23 per cent to £4,387 million, driven by 14 per cent growth in new business profit and 39 per cent growth in in-force profit, reflecting the growth of the in-force business and positive assumption changes and experience variances, as a result of the high quality of the existing portfolio.

Jackson's EEV life operating profit was up 2 per cent to £2,115 million. This reflects a 5 per cent increase in new business profit to £921 million and higher expected returns from the in-force business due to prior period growth and higher interest rates, partially offset by a reduced level of favourable assumption changes and experience variances.

In the **UK and Europe**, EEV life operating profit increased by 35 per cent to £1,374 million (2017: £1,015 million). This was as a result of a 3 per cent increase in new business profit, and higher in-force profit which included a £330 million benefit from revisions to longevity assumptions and a £138 million insurance recovery related to the costs of reviewing past annuity sales after 1 July 2008, for which a provision of £187 million had been charged in the prior period.

EEV operating profit by business
% vs 2017



EEV non-operating items

Negative short-term fluctuations of £3,219 million primarily reflect lower than expected returns on equities and other investments held by the Group's US separate accounts and by the with-profits and unit-linked funds businesses in Asia and the UK. These negative effects have been partly offset by gains on equity derivatives held by the US business to manage market exposures arising from the guarantees provided on its annuity products.

Offsetting short-term fluctuations is a £146 million benefit from economic assumption changes, principally reflecting the impact of higher interest rates on the projected future fund growth rates for certain businesses written in Hong Kong and Singapore and the variable annuity business in the US. These projected higher growth rates increase fund values for policyholders and hence profitability for shareholders.

The loss attaching to corporate transactions of £451 million primarily relates to the reinsurance of the shareholder annuity portfolio to Rothesay Life. A more detailed explanation of this and other corporate transactions occurring in the period are set out in note 17 of the EEV financial statements.

Capital position, financing and liquidity

Capital position

Analysis of movement in Group shareholder Solvency II surplus[18]

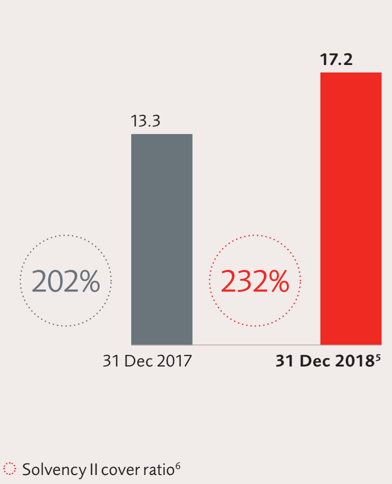
	2018 £bn	**2017** £bn
Solvency II surplus at 1 January	13.3	12.5
Operating experience	4.2	3.6
Non-operating experience (including market movements)	(1.2)	(0.6)
M&GPrudential transactions (see below)	0.4	–
Other capital movements:		
Net subordinated debt issuance (redemption)	1.2	(0.2)
Foreign currency translation impacts	0.5	(0.7)
Dividends paid	(1.2)	(1.2)
Model changes	–	(0.1)
Estimated Solvency II surplus at 31 December	17.2	13.3

The high quality and recurring nature of our operating capital generation and our disciplined approach to managing balance sheet risk has resulted in an increase in the Group's shareholders' Solvency II capital surplus[5] which is estimated at £17.2 billion at 31 December 2018 (equivalent to a solvency ratio of 232 per cent[6]), compared with £13.3 billion (202 per cent) at 31 December 2017. The increase in surplus was driven by operating capital formation of £4.2 billion and a £1.2 billion net increase in subordinated debt, offset by dividends to shareholders of £1.2 billion.

Local statutory capital

All of our subsidiaries continue to hold appropriate capital levels on a local regulatory basis. In the UK and Europe, at 31 December 2018 The Prudential Assurance Company Limited and its subsidiaries had an estimated Solvency II shareholder surplus[19] of £3.7 billion (equivalent to a cover ratio of 172 per cent), reflecting the impact from the reinsurance of £12 billion of annuity liabilities and the transfer of the Group's Hong Kong insurance subsidiaries. The UK with-profits surplus[20] is estimated at £5.5 billion (equivalent to a cover ratio of 231 per cent). In the US, operational capital formation and the strong performance of our hedging programme as equity markets weakened during the fourth quarter of 2018 more than offset remittances to Group and a 35 percentage point ratio impact from the incorporation of tax reform into the statutory capital requirement, resulting in a risk-based capital ratio of 458 per cent (2017: 409 per cent).

Solvency II surplus[18]
£bn



Debt portfolio

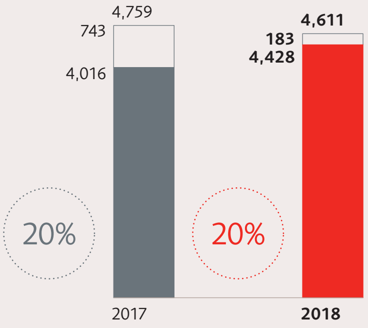
The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK and Europe annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified and 98 per cent of our UK and Europe portfolio and 96 per cent of our US portfolio are investment grade[21]. During 2018, default losses were minimal and reported impairments across the UK and US portfolios were £4 million (2017: £2 million).

Financing and liquidity

The Group had central cash resources of £3.2 billion at 31 December 2018 (31 December 2017: £2.3 billion). Total core structural borrowings increased by £1.4 billion, from £6.3 billion to £7.7 billion, mainly as a result of the capital rebalancing process related to the intended demerger of M&GPrudential. This involved the redemption of US$550 million (equivalent to £432 million at 31 December 2018) 7.75 per cent tier 1 perpetual subordinated debt in December 2018 being more than offset by the issue of US$500 million (£374 million at 31 December 2018) 6.5 per cent tier 2 substitutable subordinated notes, £500 million 6.25 per cent tier 2 substitutable subordinated notes and £750 million 5.625 per cent tier 2 substitutable subordinated notes in October 2018.

In addition to its net core structural borrowings of shareholder-financed businesses set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 31 December 2018, we had issued commercial paper under this programme totalling US$599 million, to finance non-core borrowings.

Net core structural borrowings
£m (EEV basis)



● IFRS basis of value of net core structural borrowings
○ Mark to market value
◌ Gearing ratio*

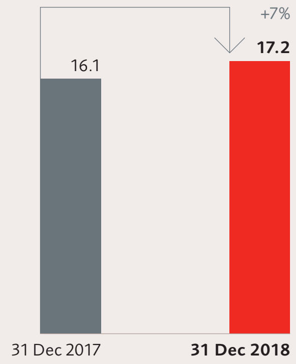
* Net core structural borrowings as proportion of IFRS shareholders' funds plus net debt, as set out in note III of the Additional unaudited financial information.

Prudential's holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities provided by 19 major international banks, expiring in 2023. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2018. The medium-term note programme, the US shelf programme (platform for issuance of SEC registered public bonds in the US market), the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company, and are intended to maintain a flexible funding capacity.

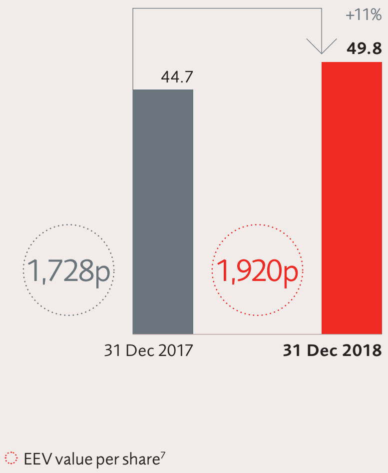
Shareholders' funds

	IFRS		EEV	
	2018 £m	**2017** £m	**2018** £m	**2017** £m
Profit after tax for the year[22]	3,010	2,389	4,585	8,750
Exchange movements, net of related tax	348	(409)	1,706	(2,045)
Cumulative exchange gain of Korea life business recycled to profit and loss account	–	(61)	–	–
Unrealised gains and losses on Jackson fixed income securities classified as available for sale[23]	(1,083)	486	–	–
Dividends	(1,244)	(1,159)	(1,244)	(1,159)
Mark to market value movements on Jackson assets backing surplus and required capital	–	–	(95)	40
Other	131	175	132	144
Net increase in shareholders' funds	1,162	1,421	5,084	5,730
Shareholders' funds at 1 January	16,087	14,666	44,698	38,968
Shareholders' funds at 31 December	17,249	16,087	49,782	44,698
Shareholders' value per share[7]	665p	622p	1,920p	1,728p
Return on shareholders' funds[7]	25%	25%	17%	17%

IFRS shareholders' funds
£bn



EEV shareholders' funds
£bn



Group IFRS shareholders' funds at 31 December 2018 increased by 7 per cent to £17.2 billion (31 December 2017: £16.1 billion on an actual exchange rate basis), driven by the strength of the operating result, offset by dividend payments of £1,244 million. During the period, UK sterling has weakened relative to the US dollar and various Asian currencies. With approximately 51 per cent of the Group's IFRS net assets (74 per cent of the Group's EEV net assets) denominated in non-sterling currencies, this generated a positive exchange rate movement on the net assets in the period. In addition, the increase in US long-term interest rates between the start and the end of the reporting period produced unrealised losses on fixed income securities held by Jackson accounted through other comprehensive income.

The Group's EEV basis shareholders' funds also increased by 11 per cent to £49.8 billion (31 December 2017: £44.7 billion on an actual exchange rate basis), On a per share basis the Group's embedded value at 31 December 2018 equated to 1,920 pence, up from 1,728 pence at 31 December 2017.

Corporate transactions

Intention to demerge the Group's UK and Europe businesses and reinsurance of £12.0 billion[4] UK annuity portfolio

The Group is making good progress on its previously announced intention to demerge its UK and Europe businesses from Prudential plc, resulting in two separately listed companies. The Group has transferred legal ownership of The Prudential Assurance Company Limited (PAC) and M&G Group Limited to the new holding company for M&GPrudential and completed the transfer of the legal ownership of its Hong Kong insurance subsidiaries from PAC to Prudential Corporation Asia Limited in December 2018.

In March 2018, M&GPrudential reinsured £12.0 billion (as at 31 December 2017) of its shareholder-backed annuity portfolio to Rothesay Life. Under the terms of the agreement, this is expected to be followed by a Part VII transfer of most of the portfolio by 30 June 2019. The reinsurance agreement became effective on 14 March 2018 and resulted in an IFRS basis pre-tax loss of £508 million.

The above transactions reduced the Group's EEV by £376 million which primarily reflects the loss of profits on the portion of the annuity liabilities reinsured and increased the Group's shareholder Solvency II capital position by £0.4 billion.

Prior to the demerger, the Group expects to rebalance its debt capital across Prudential and M&GPrudential. This will include the ultimate holding company of M&GPrudential becoming an issuer of new debt, including debt substituted from Prudential, and Prudential redeeming some of its existing debt. Following these actions, the overall absolute quantum of debt across Prudential and M&GPrudential is currently expected to increase, by an amount which is not considered to be material in the context of the Group's total outstanding debt as at 30 June 2018, before any substitutable debt had been issued, of £7.6 billion (comprising the Group's core structural borrowings of £6.4 billion and shareholder borrowings from short-term fixed income securities programme of £1.2 billion).

At the time of the demerger, Prudential expects M&GPrudential to be holding around £3.5 billion of subordinated debt. This expectation is subject to the M&GPrudential capital risk appetite being approved by the Board of the ultimate holding company of M&GPrudential, once fully constituted to include independent non-executive directors, and reflects the current operating environment and economic conditions, material changes in which may lead to a different outcome.

Entrance into Thailand mutual fund market

In July 2018, Eastspring reached an agreement to acquire initially 65 per cent of TMB Asset Management Co., Ltd. (TMBAM), a leading asset management company in Thailand, from the TMB Bank Public Company Limited (TMB). Thailand is the largest fund management market within the Association of Southeast Asian Nations (ASEAN) with total assets under management of £115 billion at 31 December 2018[24]. Eastspring has an option to increase its ownership to 100 per cent in the future. As part of this acquisition, Eastspring has also entered into a distribution agreement with TMB to provide best-in-class investment solutions to their customers. The acquisition of TMBAM, with £9 billion of assets under management as at 31 December 2018, reinforces Prudential's commitment to the Thai market.

Acquisition of John Hancock's group payout annuity business

In November 2018, Jackson announced an agreement with John Hancock Life Insurance Company to reinsure 100 per cent of John Hancock's group payout annuity business, effective from 1 October 2018.

In total, the transaction involves Jackson indemnity reinsuring approximately US$5.5 billion of reserves, representing an increase in Jackson's general account liabilities of approximately 10 per cent. John Hancock will continue to be responsible for the administration of the business.

Renewal and expansion of regional strategic bancassurance alliance with UOB

In January 2019, Prudential and UOB renewed their regional bancassurance alliance until 2034, extending the scope to include a fifth market, Vietnam, alongside our existing footprint across Singapore, Malaysia, Thailand and Indonesia.

Under the terms of the renewal, Prudential's life insurance products will be distributed through UOB's extensive network of more than 400 branches in five markets, providing access to over four million UOB customers. In addition, Prudential will use its digital capabilities to deliver protection-focused propositions to aid UOB's digital bank expansion and customer acquisition aspirations. An initial fee of £662 million will be paid under the agreement which will be funded through internal resources. This amount will be paid in three instalments. £230 million was paid in February 2019 with £331 million to be paid in January 2020 and £101 million to be paid in January 2021.

Acquisition of majority stake in Group Beneficial

Prudential plc is acquiring a majority stake in Group Beneficial (Beneficial), one of the leading life insurers in Cameroon, Côte d'Ivoire and Togo. Beneficial provides savings and protection products to over 300,000 customers through 41 branches and more than 2,000 agents. The acquisition will significantly add to Prudential's growing scale in Africa, and is subject to various conditions and regulatory approvals.

Dividend

The Board has decided to increase the full-year ordinary dividend by 5 per cent to 49.35 pence per share, reflecting our 2018 financial performance and our confidence in the future prospects of the Group. In line with this, the Directors have approved a second interim ordinary dividend of 33.68 pence per share (2017: 32.5 pence per share).

The Group's dividend policy remains unchanged. The Board will maintain focus on delivering a growing ordinary dividend. In line with this policy, Prudential aims to grow the ordinary dividend by 5 per cent per annum. The potential for additional distributions will continue to be determined after taking into account the Group's financial flexibility across a broad range of financial metrics and an assessment of opportunities to generate attractive returns by investing in specific areas of the business[25].

Mark FitzPatrick
Chief Financial Officer

Notes

[1] Increase stated on a constant exchange rate basis.

[2] For insurance operations, underlying free surplus generated represents amounts maturing from the in-force business during the period less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the period. Restructuring costs are presented separately from the underlying business unit amount. Further information is set out in note 10 of the EEV basis results.

[3] Core refers to the underlying profit of the UK and Europe insurance business, excluding the effect of, for example, management actions to improve solvency and material assumption changes. Details of these are set out in note I(d) of the Additional unaudited financial information.

[4] Relates to IFRS shareholder annuity liabilities, valued as at 31 December 2017.

[5] 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 estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

[6] Estimated before allowing for second interim ordinary dividend.

[7] See note III of the Additional unaudited financial information for definition and reconciliation to IFRS balances.

[8] Asia insurance revenues include spread income, fee income, with-profits, insurance margin and expected return on shareholder assets.

[9] Margin represents operating income before performance-related fees as a proportion of the related funds under management, for further information see note I(c) of the additional unaudited financial information.

[10] Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures and associates in Asia.

[11] Defined as movements in policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

[12] Includes unallocated surplus of with-profits business.

[13] Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.

[14] For our asset management business, the level of funds managed on behalf of third parties, which are not therefore recorded on the balance sheet, is a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing between those which are external to the Group and those held by the insurance business and included on the Group balance sheet. This is analysed in note II(b) of the Additional unaudited financial information.

[15] Net inflows exclude Asia Money Market Fund (MMF) inflows of £1,500 million (2017: £1,495 million). External funds under management exclude Asia MMF balances of £11,602 million (2017: £9,317 million).

[16] Represents M&GPrudential asset management external funds under management and internal funds included on the M&GPrudential long-term insurance business balance sheet.

[17] Net cash remitted by business units are included in the Holding company cash flow, which is disclosed in detail in note II(a) of the Additional unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.

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

[19] 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 estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

[20] The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

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

[22] Excluding profit for the year attributable to non-controlling interests.

[23] Net of related charges to deferred acquisition costs and tax.

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[25] Refer to note 11 on the parent company financial statements for further detail on the distributable profits of Prudential plc.

Enabling business growth and change through risk management

Our Group Risk Framework and risk appetite have allowed us to control our risk exposure successfully throughout the year. Our governance, processes and controls enable us to deal with uncertainty effectively, which is critical to the achievement of our strategy of helping our customers achieve their long-term financial goals.

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

1. Introduction

Group structure

In August 2017 the Group announced its intention to combine M&G and its UK and Europe life business to form M&GPrudential, allowing the scale and capabilities in these businesses to be leveraged more effectively. In March 2018, the intention to demerge M&GPrudential from the rest of the Group was announced, with the aim of focusing on meeting customers' rapidly evolving needs and to deliver enhanced long-term value to investors as two separate businesses.

The merger activity ongoing at M&GPrudential and its planned separation from the rest of the Group requires significant and complex changes and these have been progressing apace throughout 2018. The Group Risk function is embedded within key work streams and a clear view exists of the objectives, risks and dependencies involved in order to execute this change agenda. A mature and well-embedded risk framework is in place and, during this period of transition, the Group Risk function has a defined role in providing oversight, support and risk management, as well as providing objective challenge to ensure the Group remains within its risk appetite. During 2018 these activities have been in the form of risk opinions, guidance and assurance on critical transformation and demerger activity, as well as assessments of the financial risks to the execution of the demerger under various stress scenarios. A key objective is that post demerger there are two strong, standalone risk functions in M&GPrudential and Prudential plc, with operational separation planning for the risk functions remaining on track.

Societal developments

Focus in western economies continues to shift from the goods and services which businesses deliver to customers towards the way in which such business is conducted and how this impacts on the wider society. Stakeholder and regulatory expectations of the Group's environmental, social and governance (ESG) activities are also increasing. In undertaking its business, the Group actively considers the ESG implications of its activities. Recent regulatory developments such as the EU General Data Protection Regulation (GDPR) have underlined that personal data must be held securely and its use must be transparent to the data owner. Risks around the security and use of personal data are actively managed by the Group, and the recent regulatory changes in data protection in the US and Europe have been incorporated into the principles against which the business requirements are defined.

The world economy

The beginning of 2018 saw strong and broad economic growth following the significant US tax reforms enacted toward the end of 2017. As the year progressed the global economic backdrop evolved and a divergence in growth between the US and the rest of the world was observed. Rising US policy rates, tightening financial conditions and increasing trade tensions raised concerns and impacted emerging markets in particular. In the fourth quarter, fears of a more pronounced global economic slowdown also impacted the US as reductions in monetary stimulus continued, contributing to a sharp shift in risk sentiment. At the start of 2019, the outlook for the global economy remains uncertain and while growth remains positive, it has become more fragile and risks are weighted towards the downside. Political tensions in Europe, including uncertainty surrounding the nature of the UK's exit from the EU and its future trading relationship, geopolitical developments and the potential increase of international trade tensions between the US and China pose risks to global growth and the economic environment.

Financial markets

Financial markets faced a number of headwinds in 2018 and asset valuations suffered broadly amid the re-emergence of market volatility. Global markets, and emerging markets in particular, faced broad pressure throughout the year. US markets, however, proved resilient until the fourth quarter when fears of an economic slowdown triggered a sharp sell-off in equities. In parallel, credit spreads also widened as the position of the credit cycle became a key concern for market participants. Across the world, interest rates movements were mixed over the year, although there has been a notable broad flattening of the yield curve in the US, impacted by changes in growth and inflation data, risk sentiment and increased concerns of a possible recession. Financial markets remain particularly vulnerable to further abrupt changes in sentiment, and in particular if the risks to the global economy noted above were to materialise.

Political landscape

Events in the past year continue to indicate that the world is in a period of global geopolitical transition and increasing uncertainty. Popular discontent remains one of the driving factors of political change, and the liberal norms and the role of multilateral rules-based institutions that underpin global order, such as the United Nations (UN), the North Atlantic Treaty Organisation (NATO) and the World Trade Organisation (WTO), appear to be evolving. Across the Group's key geographies, we have increasingly seen national protectionism in trade and economic policies. The UK's exit from the EU and the nature of the future relationship remains a key political uncertainty. As a global organisation, we develop plans to mitigate business risks arising from this shift and engage with national bodies where we can in order to ensure our policyholders are not adversely impacted. It is clear, however, that the full long-term impacts of these changes remain to be seen.

Regulations

Prudential operates in highly regulated markets across the globe, and the nature and focus of regulation and laws remains fluid. A number of national and international regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business, systemic risks and macro-prudential policy. Such developments will continue to be monitored at a national and global level and form part of Prudential's engagement with government policy teams and regulators. The Group announced in August 2018 that the Hong Kong Insurance Authority would be the Group-wide supervisor after the demerger of M&GPrudential, and constructive engagement on the future Group-wide regulatory framework, led by the Group Chief Risk Officer, will continue in 2019.

2. Key internal, regulatory, economic and (geo)political events over the past 12 months

Q1 2018

🔴 In March 2018 the intention to demerge M&GPrudential from the rest of the Group is announced. £12 billion of annuity liabilities in UK and Europe business are reinsured to Rothesay Life Plc. A Part VII transfer of most of the portfolio is expected to be completed by 30 June 2019.

🔴 Eastspring becomes the third Prudential signatory, after M&G and PPM South Africa (PPMSA), to the UN Principles for Responsible Investment in February 2018.

🟢 President Xi Jinping enters a second term in office in China after election by the National People's Congress in March 2018.

🟢 A coalition government is formed in Italy between the centre right League and anti-establishment Five Star Movement, after general elections in March 2018.

⚫ The US administration proposes initial trade tariff measures (with additional proposals announced over H1 2018), raising trade tensions with its key G7 partners and China.

⚫ US equity markets decline rapidly, triggering a global sell-off, with the Dow Jones Industrial Average falling by circa 3,000 points in just two weeks. US markets rebound over the second and third quarters.

Q2

🔵 The General Data Protection Regulation (GDPR) goes live in the EU on 25 May 2018, increasing the rights of individuals over the use of their personal information by companies.

🔵 The US Department of Labor's (DoL's) fiduciary rule is effectively ended after a decision in the US courts in March 2018. The deadline for the DoL to appeal lapses in June. Other proposals, such as the US Securities and Exchanges Commission's best interest standard, remain in progress.

🟢 US President Trump and North Korean Chairman Kim Jong Un meet in Singapore on 12 June 2018 for a historic summit, where denuclearisation of the Korean peninsula is discussed.

🟢 The opposition Pakatan Harapan coalition win power in Malaysia following general elections held in May 2018.

⚫ The 22nd round of talks on the Regional Comprehensive Economic Partnership (RCEP) are held in Singapore between 28 April and 8 May 2018, the goal being to create the world's largest economic bloc. Negotiations continue into 2019.

⚫ The Indonesia President approves regulations on 'grandfathering' foreign ownership of insurance companies.

Q3

🔴 In August the Group announces that the Hong Kong Insurance Authority will become the Group-wide supervisor for Prudential plc after the demerger of M&GPrudential, and constructive engagement on the future regulatory relationship begins.

🔵 In July the International Association of Insurance Supervisors (IAIS) releases consultation documents for both the Common Framework for the Supervision of Insurers (ComFrame) and Insurance Capital Standard (ICS) v2.0. The Group submits ICS field results to the PRA in August 2018.

⚫ In September, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) request from major banks and insurers, details of preparations and actions being undertaken to manage transition from London Inter-Bank Offered Rate (LIBOR) to alternative interest rate benchmarks.

⚫ The Bank of England raises rates for the second time since the 2008 financial crisis to 0.75 per cent in August, while highlighting significant Brexit-driven uncertainties to the economy.

⚫ The US imposes tariffs on Chinese exports worth US$50 billion in July, prompting Beijing to respond in kind. Despite a temporary truce agreed at the G20 summit on 1 December 2017, trade tensions between the two nations remains high.

⚫ Emerging market equities decline rapidly in August as tightening financial conditions impact economies with external funding vulnerabilities.

Q4

🔴 In November, Jackson announces the acquisition of the group payout annuity business of John Hancock Life Insurance Company, a closed book of circa 200,000 in-force certificates representing IFRS reserves of approximately US$5.5bn.

🔴 PPM America (PPMA) becomes the fourth Prudential signatory to the UN Principles for Responsible Investment in October 2018.

🔵 The IAIS launches a consultation for the Holistic Framework (HF) in November, which aims to assess and mitigate systemic risk in the insurance sector and is intended to replace the current Global Systemically Important Insurer (G-SII) measures, with the aim of adoption in November 2019.

🔵 In November the International Accounting Standards Board (IASB) tentatively delays the effective date of IFRS 17 by one year to periods beginning on or after 1 January 2022. The introduction of further amendments to this new standard will be considered.

🟢 Democrats win control of the House of Representatives in the November US midterm elections, while the Republicans retain control of the Senate. As bipartisan disputes increase, the US government partially shuts down between late December 2018 and January 2019.

🟢 In December, the UK Parliament rejects the negotiated agreement on the UK's withdrawal from the EU. Uncertainty on the nature of the UK's exit from the EU persists as the UK government seeks to renegotiate the agreement in early 2019.

⚫ The reduction in global accommodative monetary policy continues, with the European Central Bank (ECB) confirming that net asset purchases would cease at the end of 2018, and the US Federal reserve raises rates for the fourth time in 2018 in December.

⚫ China reports a large manufacturing decline in December, prompting concerns of a global growth slowdown. Additional stimulus measures from the People's Bank of China are enacted.

⚫ Fears of tightening financial conditions and a global economic slowdown trigger a sharp sell-off in US equity markets, which had remained resilient through the first three quarters of 2018, while global equities fall further. The S&P500 ends 2018 with an annual decline of circa 6 per cent. In early 2019 risk sentiment improves, contributing to a broad rally in equity markets.

Key
🔴 Prudential
🔵 Regulatory
🟢 (Geo)political
⚫ Markets/economies

3. Managing the risks in implementing our strategy

This section provides an overview of the Group's strategy, the significant risks arising from the delivery of this strategy and the risk management focus for the following 12 months. The risks outlined below, which are not exhaustive, are discussed in more detail in sections 5 and 6.

Our strategy	*Significant risks arising from the delivery of the strategy*	*Risk management focus for the next 12 months*
Asia Serving the protection and investment needs of the growing middle class in Asia	Persistency risk	Implementation of business initiatives to manage persistency risk, including review of distribution channels and incentive structures. Ongoing experience monitoring.
	Morbidity risk	Implementation of business initiatives to manage morbidity risk, including product repricing where required. Ongoing experience monitoring.
	Regulatory risk, including foreign ownership	Proactive engagement with national governments and regulators.
United States Providing asset accumulation and retirement income products to US baby boomers	Financial risks	Maintaining, and enhancing where necessary, appropriate risk limits, hedging strategies and Group oversight that are in place.
	Policyholder behaviour risk	Continued monitoring of policyholder behaviour experience and review of assumptions.
Africa	The Group will continue to increase its risk management focus on Prudential Africa as the business there grows in materiality.	
UK and Europe Meeting the savings and retirement needs of an ageing UK and continental European population	M&GPrudential merger and transformation risk	Managing the merger and transformation risks to the delivery of strategic, financial and operational objectives.
	Longevity risk	Continued oversight and experience analysis.
	Customer risk	Ongoing monitoring of embedded customer outcome indicators. Managing the customer risk implications from: merger and transformation activity; new product propositions and new regulatory requirements.
Group-wide We aim to generate attractive returns enabling us to provide financial security to our customers and deliver sustainable growth for our shareholders. Following rigorous review, we believe that this long-term strategy is best served through the demerger of M&GPrudential.	Transformation risks around key change programmes	Managing the inter-connected execution risks from this transformation activity under the Group's transformation risk framework, as well as providing other risk management support and review. Ensuring both M&GPrudential and Prudential plc will have in place two strong standalone risk functions after demerger.
	Group-wide regulatory risks	Engagement with regulators and industry groups on macro-prudential and systemic risk-related regulatory initiatives, international capital standards, and other initiatives with Group-wide impacts. Engagement with the Hong Kong Insurance Authority on the Group-wide supervisory framework that will apply to the Group after the demerger of M&GPrudential.
	Information security and data privacy risks	Continuing the implementation of the Group's information security risk management strategy and defence plan. Ensuring full compliance with applicable privacy laws across the Group.

4. Risk governance

a. System of governance

Appropriately managed risks allow Prudential to take business opportunities and enable the growth of its business. Effective risk management is therefore fundamental in the execution of the Group's business strategy. Prudential's approach to risk management must be both well embedded and rigorous, and, as the economic and political environment in which we operate changes, it should also be sufficiently broad and dynamic to respond to these changes.

Prudential has in place a system of governance that promotes and embeds a clear ownership of risk, processes that link risk management to business objectives, a proactive Board and senior management providing oversight of risks, mechanisms and methodologies to review, discuss and communicate risks, and risk policies and standards to ensure risks are identified, measured, managed, monitored and reported.

How 'risk' is defined

Prudential defines 'risk' as the uncertainty that is faced in implementing the Group's strategies and achieving its objectives successfully, and includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Group. Accordingly, material risks will be retained selectively when it is considered that there is value in doing so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking.

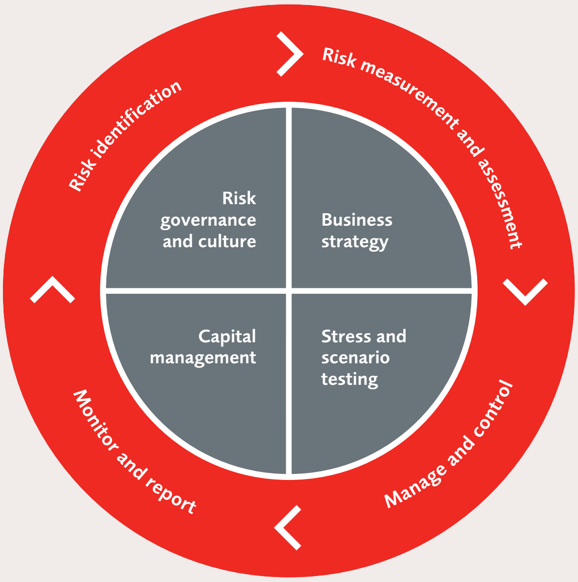
How risk is managed

Risk management is embedded across the Group through the Group Risk Framework, which details Prudential's risk governance, risk management processes and risk appetite. The Framework has been developed to monitor the risks to our business and is owned by the Board. The aggregate Group exposure to its key risk drivers is monitored and managed by the Group Risk function which is responsible for reviewing, assessing, providing oversight and reporting on the Group's risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

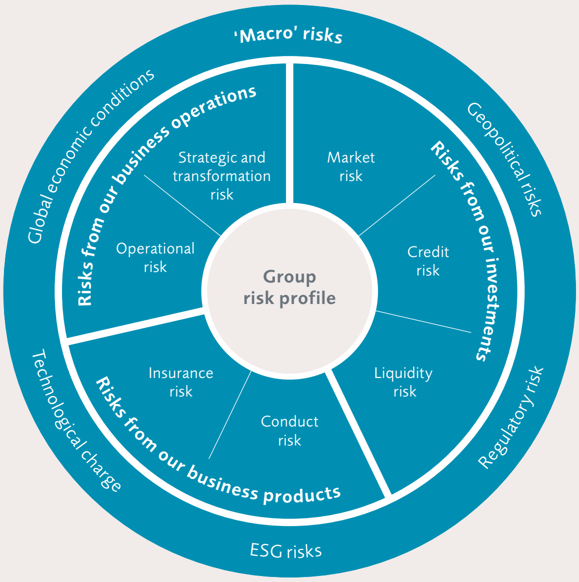
In 2018, the Group continued to update its policies and processes around new product approvals, management of critical third-party arrangements and oversight of model risks. A transformation risk framework is being applied directly to manage programme delivery risks. Prudential manages key ESG issues through a multi-disciplinary approach with first-line functional ownership for ESG topics.

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

Risk management



Identified major risk categories



b. Group Risk Framework

i. Risk governance and culture

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

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

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

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

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

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

The Group Risk Committee also has a key role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

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

ii. The risk management cycle

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

Risk identification

Group-wide risk identification takes place throughout the year as the Group's businesses undertake a comprehensive bottom-up process to identify, assess and document its risks. This concludes with an annual top-down identification of the Group's key risks, which considers those risks that have the greatest potential to impact the Group's operating results and financial condition and is used to inform risk reporting to the risk committees and the Board for the year.

Our risk identification process also includes the Group's Own Risk and Solvency Assessment (ORSA), as required under Solvency II, and horizon-scanning performed as part of our emerging risk management process.

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

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

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

Risk measurement and assessment

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

Risk management and control

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

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

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

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

Risk monitoring and reporting

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

iii. Risk appetite, limits and triggers

The extent to which Prudential is willing to take risk in the pursuit of its business strategy and objective to create shareholder value is defined by a number of qualitative and quantitative expressions of risk appetite, operationalised through measures such as limits, triggers and indicators. The Group Risk function is responsible for reviewing the scope and operation of these risk appetite measures at least annually to determine that they remain relevant. The Board approves all changes made to the Group's aggregate risk appetite, and has delegated authority to the Group Risk Committee to approve changes to the system of limits, triggers and indicators.

Group risk appetite is set with reference to economic and regulatory capital, liquidity and earnings volatility which is aimed at ensuring that an appropriate level of aggregate risk is taken. Appetite is also defined for the Group's financial and non-financial risks. Further detail is included in sections 5 and 6, as well as covering risks to shareholders, including those from participating and third-party business. Group limits operate within these expressions of risk appetite to constrain material risks, while triggers and indicators provide further constraint and defined points for escalation.

Capital requirements:
Limits on capital requirements aim to ensure that the Group meets its internal economic capital requirements, achieves its desired target rating to meet its business objectives, and ensures that supervisory intervention is not required. The two measures used at the Group level are Solvency II capital requirements and internal economic capital (ECap) requirements. In addition, capital requirements are monitored on local statutory bases.

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

Risk management

Risk identification
Risk identification covers Group-wide:

- Top down risk identification
- Bottom up risk identification
- Emerging risk identification.

Risk measurement and assessment
Risks are assessed in terms of materiality.

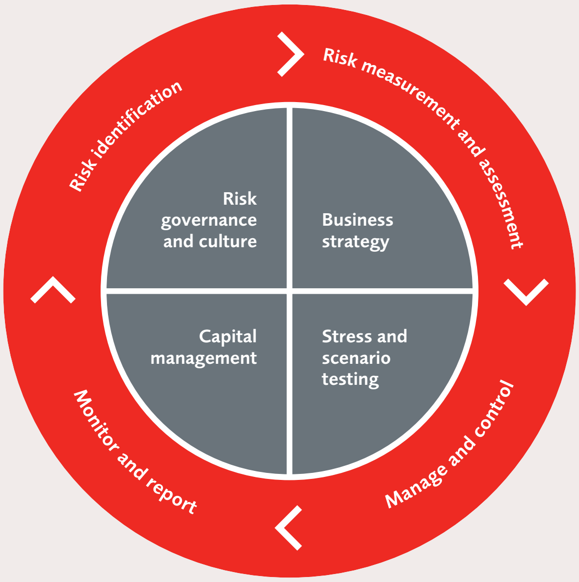
Material risks which are modelled are included in appropriately validated regulatory and economic capital models.

Manage and control
Risk appetite and limits allow for the controlled growth of our business, in line with business strategy and plan.

Processes that support the oversight and control of risks include:

- The Own Risk and Solvency Assessment (ORSA)
- Group approved limits and early warning triggers
- Large risk approval process
- Global counterparty limit framework
- Financial incidents procedures.

Monitor and report
Escalation requirements in the event of a breach are clearly defined. Risk reporting provides regular updates to the Group's Board and risk committees on exposures against Board-approved risk appetite statements and limits. Reporting also covers the Group's key risks.



Risk governance and culture
Risk governance comprises the Board, organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies. Risk culture is a subset of broader organisational culture, and shapes the organisation-wide values used to prioritise risk management behaviours.

Business strategy
Business strategy and the business plan provide direction on future growth and inform the level of limits on solvency, liquidity and earnings and for our key risks. The Group Risk function provide input and opinion on key aspects of business strategy.

Capital management
Capital adequacy is monitored to ensure that internal and regulatory capital requirements are met, and that solvency buffers are appropriate, over the business planning horizon and under stress.

Stress and scenario testing
Stress and scenario testing is performed to assess the robustness of capital adequacy and liquidity, and the appropriateness of risk limits. Recovery planning assesses the effectiveness of the Group's recovery measures and the appropriateness of activation points.

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

Earnings volatility:
The objectives of the Group's appetite and aggregate risk limits on earnings volatility seek to ensure that variability is consistent with the expectations of stakeholders; that the Group has adequate earnings (and cash flows) to service debt and expected dividends and to withstand unexpected shocks; and that earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies. The volatility of earnings is measured and monitored on operating profit and EEV operating profit bases, although IFRS and EEV total profits are also considered.

5. Summary risks

Broadly, the risks assumed across the Group can be categorised as those which arise as a result of our business operations, our investments and those arising from the nature of our products. Prudential is also exposed to those broad risks which apply because of the global environment in which it operates. These risks, where they materialise, may have a financial impact on the Group, and could also impact on the performance of its products or the services it provides to our customers and distributors, which gives rise to potential risks to its brand and reputation and have conduct risk implications. These risks are summarised below. The materiality of these risks, whether material at the level of the Group or its business units, is also indicated. The Group's disclosures covering risk factors can be found at the end of this document.

'Macro' risks

Some of the risks that the Group is exposed to are necessarily broad given the external influences which may impact on the business. These risks include:

Global economic conditions
Changes in global economic conditions can impact Prudential directly; for example, by leading to poor investment returns and fund performance, and increasing the cost of promises (guarantees) that have been made to our customers. Changes in economic conditions can also have an indirect impact on the Group; for example, leading to a decrease in the propensity for people to save and buy Prudential's products, as well as changing prevailing political attitudes towards regulation. This is a risk which is considered material at the level of the Group.

Geopolitical risk
The geopolitical environment may have direct or indirect impacts on the Group, and has seen varying levels of volatility in recent years as seen by political developments in the UK, the US and the Eurozone. Uncertainty in these regions, combined with continuing conflict in the Middle East and elevated tensions in East Asia and the Korean peninsula underline that geopolitical risks have potentially global and wide-ranging impacts; for example, through increased regulatory and operational risks, and changes to the economic environment.

Regulatory risk
Prudential operates under the ever-evolving requirements set out by diverse regulatory, legal and tax regimes. The increasing shift towards macro-prudential regulation and the number of regulatory changes under way across Asia (in particular focusing on consumer protection) are key areas of focus, while both Jackson and M&GPrudential operate in highly regulated markets. Regulatory reforms can have a material impact on Prudential's businesses. The proposed demerger of M&GPrudential will result in a change in Prudential's Group-wide supervisor to the Hong Kong Insurance Authority. The Group is, led by the Group Chief Risk Officer, proactively engaging with the supervisor-elect on the supervisory framework that will apply to the Group after the demerger.

Technological change
The emergence of advanced technologies such as artificial intelligence and blockchain is providing an impetus for companies to rethink their existing operating models and how they interact with their customers. Technological change is considered from both an external and internal view. The external view considers the rise of new technologies and how this may impact on the insurance industry and Prudential's competitiveness within it, while the internal view considers the risks associated with the Group's internal developments in meeting digital change challenges and opportunities. Prudential is embracing the opportunities from new technologies, and any risks which arise from them are closely monitored.

ESG risks
As a Group, responding effectively to those material risks with ESG implications is crucial in maintaining Prudential's brand and reputation, and in turn its financial performance and its long-term strategy. Further information on the Group's approach to governance on ESG issues and the relevant Group-wide policies for managing these are included in the Corporate responsibility review on pages 71 to 74.

Risks from our investments

Market risk

Is the potential for reduced value of Prudential's investments resulting from the volatility of asset prices, driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices.

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

The UK business' market risk exposure arises from the valuation of the shareholder's proportion of the with-profits fund's future profits, which depends on equity, property and bond values.

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

Credit risk

Is the potential for reduced value of Prudential's investments driven by the market's perceptions for potential for defaults of investment and other counterparties.

The Group's asset portfolio also gives rise to invested credit risk. The assets backing the UK and Jackson annuity businesses means credit risk is considered a material risk for these business units in particular.

Liquidity risk

Is the risk of not having sufficient liquid assets to meet obligations as they fall due, and we look at this under both normal and stressed conditions. This is a risk which is considered material at the level of the Group.

Risks from our products

Insurance risks

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

The insurance risks that the business is exposed to by virtue of its products include **longevity risk** (policyholders living longer than expected); **mortality risk** (higher number of policyholders with life protection dying than expected); **morbidity risk** (more policyholders with health protection becoming ill than expected) and **persistency risk** (more customers lapsing their policies than expected, and a type of policyholder behaviour risk). The medical insurance business in Asia is also exposed to **medical inflation risk** (the increasing cost of medical treatments being higher than expected).

The pricing of Prudential's products requires it to make a number of assumptions, and deviations from these may impact its reported profitability and capital position. Across its business units, some insurance risks are more material than others.

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

For M&GPrudential the most material insurance risk is longevity risk, arising from its legacy annuity business.

The Jackson business is most exposed to policyholder behaviour risk, including persistency, which impacts the profitability of the variable annuity business and is influenced by market performance and the value of policy guarantees.

Conduct risk

The design and distribution of Prudential's products is crucial in ensuring that the Group's commitment to meeting customers' needs and expectations are met, and are factors which the Group considers as part of its overall conduct of business.

Risks from our business operations

Strategic and transformation risks

A number of significant change programmes are currently running to effect both the Group's strategy and to comply with emerging regulatory changes. The breadth of these activities, and the consequences, including the reputational impact, to the Group should they fail to meet their objectives, mean that these risks are material at the level of the Group.

Operational risks

A combination of the complexity of the Group, its activities and the extent of transformation in progress creates a challenging operating environment.

Operational risk is the risk of loss or unintended gain from inadequate or failed processes, personnel, systems and external events, and can arise through business transformation; introducing new products; new technologies; and entering into new markets and geographies. Implementing the business strategy and processes for ensuring regulatory compliance (including those relating to the conduct of its business) requires interconnected change initiatives across the Group, the pace of which introduces further complexity. The Group's outsourcing and third party relationships introduce their own distinct risks. Such operational risks, if they materialise, could result in financial loss and/or reputational damage. Operational risk is considered to be material at the level of the Group.

Business disruption risks may impact on Prudential's ability to meet its key objectives and protect its brand and reputation. The Group's business resilience is a core part of a well-embedded business continuity management programme.

Information security and data privacy risks are significant considerations for Prudential and the cyber security threat continues to evolve globally in sophistication and potential significance This includes the continually evolving risk of malicious attack on its systems, network disruption as well as risks relating to data security, integrity, privacy and misuse. The scale of the Group's IT infrastructure and network, stakeholder expectations and high profile cyber security and data misuse incidents across industries means that these risks continue to be considered material at the level of the Group.

6. Further risk information

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

6.1 'Macro' risks

a. Global regulatory and political risks

Regulatory and political risks may impact on Prudential's business or the way in which it is conducted. This covers a broad range of risks including changes in government policy and legislation, capital control measures, new regulations at either national or international level, and specific regulator interventions or actions. Following the announcement in August 2018 that the Hong Kong Insurance Authority would become Prudential's Group-wide supervisor after the demerger of M&GPrudential, constructive engagement with the supervisor-elect began in 2018 and will continue into 2019. In particular, Prudential continues to engage with the supervisor on its proposed Group-wide supervision framework which will apply to the Group after the demerger.

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

Efforts to curb systemic risk and promote financial stability are also underway. At the international level, the Financial Stability Board (FSB) continues to develop recommendations for the asset management and insurance sectors, including on-going assessment of systemic risk measures. The International Association of Insurance Supervisors (IAIS) has continued its focus on the following two key developments.

Prudential's designation as a G-SII was last reaffirmed on 21 November 2016. The FSB, in conjunction with the IAIS, did not publish a new list of G-SIIs in 2017 and did not engage in G-SII identification for 2018 following IAIS' launch of the consultation on the Holistic Framework (HF) on 14 November 2018, which aims to assess and mitigate systemic risk in the insurance sector and is intended to replace the current G-SII measures. The IAIS intends to implement the HF in 2020 and it is proposed that G-SII identification be suspended from that year. In the interim, the relevant group-wide supervisors have committed to continue applying existing enhanced G-SII supervisory policy measures with some supervisory discretion, which includes a requirement to submit enhanced risk management plans. In November 2022, the FSB will review the need to either discontinue or re-establish an annual identification of G-SIIs in consultation with the IAIS and national authorities. The Higher Loss Absorbency (HLA) standard (a proposed additional capital measure for G-SII designated firms, planned to apply from 2022) is not part of the proposed HF. However, the HF proposes more supervisory powers of intervention for mitigating systemic risk, including temporary financial reinforcement measures such as capital add-ons and suspension of dividends.

The IAIS is also developing the ICS as part of ComFrame – the Common Framework for the supervision of Internationally Active Insurance Groups (IAIGs). The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. ComFrame will more generally establish a set of common principles and standards designed to assist supervisors in addressing risks that arise from insurance groups with operations in multiple jurisdictions. The ComFrame proposals, including ICS, could result in enhanced capital and regulatory measures for IAIGs, for which Prudential satisfies the criteria.

In certain jurisdictions in which Prudential operates there are also a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way Prudential is supervised, including the US Dodd-Frank Wall Street Reform and Consumer Protection Act, addressing Financial Conduct Authority (FCA) reviews and ongoing engagement with the Prudential Regulation Authority (PRA). Decisions taken by regulators, including those related to solvency requirements, corporate or governance structures, capital allocation and risk management may have an impact on our business.

There has, in recent years, been regulatory focus in the UK on insurance products and market practices which may have adversely impacted customers, including the FCA's Legacy Review and Thematic Review of Annuity Sales Practices. The management of customer risk remains a key focus of management in the UK business. Merger and transformation activity at M&GPrudential, new product propositions and new regulatory requirements may also have customer risk implications which are monitored.

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17 which will introduce fundamental changes to the IFRS-based reporting of insurance entities that prepare accounts according to IFRS from 2021. In November 2018, the IASB tentatively agreed to delay the effective date of IFRS 17 by one year to periods beginning on or after 1 January 2022 and is considering introducing further amendments to this new standard. IFRS 17 is expected to, among other things, include altering the timing of IFRS profit recognition, and the implementation of the standard is likely to require changes to the Group's IT, actuarial and finance systems. The Group is reviewing the complex requirements of this standard and considering its potential impact.

In March 2018, the UK and EU agreed the terms of a transition agreement for the UK's exit from the bloc, which will last from the termination of the UK's membership of the EU (at 11.00pm GMT 29 March 2019) until 31 December 2020 (although a legally binding text is yet to be agreed). The outcome of negotiations on the final terms of the UK's relationship with the EU remains highly uncertain. In particular, depending on the nature of the UK's exit from the EU, the following effects may be seen. The UK and EU may experience a downturn in economic activity, which is expected to be more pronounced for the UK, particularly in the event of a disorderly exit by the UK from the EU. Market volatility and illiquidity may increase in the period leading up to, and following, the UK's withdrawal, and property values (including the liquidity of property funds, where redemption restrictions may be applied) and interest rates may be impacted. In particular, downgrades in sovereign and corporate debt ratings may occur. In a severe scenario where the UK's sovereign rating is downgraded by more than one notch, this may also impact on the credit ratings of UK companies, including M&GPrudential's UK business. The legal and regulatory regime in which the Group (and, in particular, M&GPrudential) operates, may also be affected (including the future applicability of the Solvency II regime in the UK), the extent of which remains uncertain. There is also a risk of operational disruption to the business, in particular to M&GPrudential.

The Group's diversification by geography, currency, product and distribution should reduce some of the potential impact of the UK's exit. M&GPrudential, due to the geographical location of both its businesses and its customers, has the most potential to be affected. As a result of the uncertainty on the nature of the arrangements that will be put in place between the UK and the EU, M&GPrudential has completed the implementation of a range of plans including transfers of business to EU jurisdictions, balance sheet and with-profits fund hedging protection and operational measures (including customer communications) that are designed to mitigate the potential adverse impacts to the Group's UK business. In addition, the business has sought to ensure, through various risk mitigation actions, that it is appropriately prepared for the potential operational and financial impacts of a no-deal withdrawal.

In the US, various initiatives are underway to introduce fiduciary obligations for distributors of investment products, which may reshape the distribution of retirement products. Jackson has introduced fee-based variable annuity products in response to the potential introduction of such rules, and we anticipate that the business's strong relationships with distributors, history of product innovation and efficient operations should further mitigate any impacts.

In late 2018, the US NAIC concluded an industry consultation with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet and enhancing risk management. The NAIC is targeting a January 2020 effective date for the new framework, which will have an impact on Jackson's business. Jackson continues to assess and test the changes. The NAIC also has an on-going review of the C-1 bond factors in the required capital calculation, on which further information is expected to be provided in due course. The Group's preparations to manage the impact of these reforms will continue.

In the EU, the European Commission began a review in late 2016 of some aspects of the Solvency II legislative package, which is expected to continue until 2021 and includes a review of the Long Term Guarantee measures.

On 27 July 2017, the UK FCA announced that it will no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR after 2021. The discontinuation of LIBOR in its current form and its replacement with the Sterling Overnight Index Average benchmark (SONIA) in the UK (and other alternative benchmark rates in other countries) could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to, or which reference LIBOR, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

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

Risk management and mitigation of regulatory and political risk at Prudential includes the following:

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

b. ESG risks including climate change

The business environment in which Prudential operates is continually changing, and responding effectively to those material risks with ESG implications is crucial in maintaining Prudential's brand and reputation, and in turn its financial performance and its long-term strategy. The Group maintains active engagement with its key stakeholders, including investors, customers, employees, governments, policymakers and regulators in its key markets, as well as with international institutions – all of whom have expectations, which the Group must balance, as it responds to ESG-related matters.

Climate change is a key ESG theme which continues to move up the agenda of many regulators, governments, non-governmental organisations and investors. An overview of the various regulatory, supervisory and investor-driven initiatives related to climate change currently in progress; how the Group manages climate change risks and opportunities; and the Group's participation in industry initiatives in this area is outlined in the Corporate responsibility review on page 74. There has been increased regulatory and supervisory focus on sustainable finance and responsible investment. The Group recognises this and the ESG Executive Committee seeks, as one of its aims, to ensure a consistent approach in managing ESG considerations in its business activities, including investment activities.

The Group's operational risk framework explicitly incorporates ESG as a component of its social and environmental responsibility, brand management and external communications. This is further strengthened by factoring considerations for reputational impacts when the materiality of operational risks are assessed. Policies and procedures to support how the Group operates in relation to certain ESG issues are covered in the Group Governance Manual. Prudential manages key ESG issues though a multi-disciplinary approach with first line functional ownership for ESG topics. Further information on the Group's approach to governance on ESG issues and the relevant Group-wide policies for managing these are included in the Corporate responsibility review on page 74.

6.2 Risks from our investments

a. Market risk

The main drivers of market risk in the Group are:

- Investment risk, which arises on our holdings of equity and property investments, the prices of which can change depending on market conditions;
- Interest rate risk, which is driven by the valuation of Prudential's assets (particularly the bonds that it invests in) and liabilities, which are dependent on market interest rates and exposes it to the risk of those moving in a way that is detrimental; and
- Foreign exchange risk, through translation of its profits and assets and liabilities denominated in various currencies, given the geographical diversity of the business.

The main investment risk exposure arises from the portion of the profits from the UK and Hong Kong with-profits funds which the shareholders are entitled to receive; the value of the future fees from the fee-earning products in the Asia business; and from the asset returns backing Jackson's variable annuities business. Further detail is provided below.

The Group's interest rate risk is driven by the need to match the duration of its assets and liabilities in the UK and Europe insurance business and the fixed annuity business in Jackson. Interest rate risk also arises from the guarantees of some non unit-linked investment products in Asia; and the cost of guarantees in Jackson's fixed index and variable annuity business. Further detail is provided below.

The Group has appetite for market risk where it arises from profit-generating insurance activities to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

The Group's market risks are managed and mitigated by the following:

- Our market risk policy;
- Risk appetite statements, limits and triggers;
- Our asset and liability management programmes;
- Hedging derivatives, including equity options and futures, interest rate swaps and swaptions and currency forwards;
- The monitoring and oversight of market risks through the regular reporting of management information; and
- Regular deep dive assessments.

Equity and property investment risk
(Audited)

In the UK and Europe business, the main investment risk arises from the assets held in the with-profits funds through the shareholders' proportion of the funds' declared bonuses and policyholder net investment gains (future transfers). This investment risk is driven mainly by equities in the funds and some hedging to protect against a reduction in the value of these future transfers is performed outside the funds. The UK with-profits funds' Solvency II own funds, estimated at £9.7 billion as at 31 December 2018, helps to protect against market fluctuations and is protected partially against falls in equity markets through an active hedging programme within the fund.

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

In Jackson, investment risk arises from the assets backing customer policies. Equity risk is driven by the variable annuity business, where the assets are invested in both equities and bonds and the main risk to the shareholder comes from providing the guaranteed benefits offered. The exposure to this is primarily controlled by using a derivative hedging programme, as well as through the use of reinsurance to pass on the risk to third-party reinsurers.

While accepting the equity exposure that arises on future fees, the Group has limited appetite for exposures to equity price movements to remain unhedged or for volatility within policyholder guarantees after taking into account any natural offsets and buffers within the business.

Interest rate risk
(Audited)

Some products that Prudential offer are sensitive to movements in interest rates. As part of the Group's ongoing management of this risk, a number of mitigating actions to the in-force business have been taken, as well as repricing and restructuring new business offerings in response to recent relatively low interest rates. Nevertheless, some sensitivity to interest rate movements is still retained.

The Group's appetite for interest rate risk is limited to where assets and liabilities can be tightly matched and where liquid assets or derivatives exist to cover interest rate exposures.

In the UK and Europe insurance business, interest rate risk arises from the need to match the cash flows of its annuity obligations with those from its investments. The risk is managed by matching asset and liability durations as well as continually assessing the need for use of any derivatives. Under Solvency II rules, interest rate risk also results from the requirement to include a balance sheet risk margin. The with-profits business is also exposed to interest rate risk through some product guarantees. Such risk is largely borne by the with-profits fund itself although shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk.

In Asia, our exposure to interest rate risk arises from the guarantees of some non-unit-linked investment products, including the Hong Kong with-profits business. This exposure exists because of the potential for asset and liability mismatch which, although it is small and managed appropriately, cannot be eliminated.

Jackson is affected by interest rate movements to its fixed annuity book where the assets are primarily invested in bonds and shareholder exposure comes from the mismatch between these assets and the guaranteed rates that are offered to policyholders. Interest rate risk results from the cost of guarantees in the variable annuity and fixed index annuity business, which may increase when interest rates fall. The level of sales of variable annuity products with guaranteed living benefits is actively monitored, and the risk limits we have in place help to ensure comfort with the level of interest rate and market risks incurred as a result. Derivatives are also used to provide some protection.

Foreign exchange risk *(Audited)*

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

In cases where a surplus arises in an overseas operation which is to be used to support Group capital, or where a significant cash payment is due from an overseas subsidiary to the Group, this currency exposure may be hedged where it is believed to be favourable economically to do so. Further, the Group generally does not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside the countries in which it operates, but it does have some appetite for this on fee income and on non-sterling investments within the with-profits fund. Where foreign exchange risk arises outside appetite, currency swaps and other derivatives are used to manage the exposure.

b. Credit risk

Prudential invests in bonds that provide a regular, fixed amount of interest income (fixed income assets) in order to match the payments needed to policyholders. It also enters into reinsurance and derivative contracts with third parties to mitigate various types of risk, as well as holding cash deposits at certain banks. As a result, it is exposed to credit risk and counterparty risk across its business.

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

The Group has some appetite to take credit risk where it arises from profit-generating insurance activities, to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

A number of risk management tools are used to manage and mitigate this credit risk, including the following:

— A credit risk policy and dealing and controls policy;

— Risk appetite statements and limits that have been defined on issuers, and counterparties;

— Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions;

— The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews;

— Regular assessments; and

— Close monitoring or restrictions on investments that may be of concern.

Debt and loan portfolio *(Audited)*

Prudential's UK and Europe business is exposed to credit risk on fixed income assets in the shareholder-backed portfolio. At 31 December 2018, this portfolio contained fixed income assets worth £21.6 billion. M&GPrudential's debt portfolio reduced by £12.1 billion following the transfer of fixed income assets to Rothesay Life as part of the reinsurance agreement announced in March 2018. Credit risk arising from a further £64.3 billion of fixed income assets is borne largely by the with-profits fund, to which the shareholder is not exposed directly although under extreme circumstances shareholder support may be required if the fund is unable to meet payments as they fall due.

Credit risk also arises from the debt portfolio in the Asia business, the value of which was £45.8 billion at 31 December 2018. The majority (68 per cent) of the portfolio is in unit-linked and with-profits funds and so exposure of the shareholder to this component is minimal. The remaining 32 per cent of the debt portfolio is held to back the shareholder business.

In the general account of the Jackson business £41.6 billion of fixed income assets are held to support shareholder liabilities including those from our fixed annuities, fixed index annuities and life insurance products. Jackson's general account portfolio increased by circa £4 billion due to the John Hancock acquisition.

The shareholder-owned debt and loan portfolio of the Group's other operations was £2.0 billion as at 31 December 2018.

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

Group sovereign debt

(Audited)

Prudential also invests in bonds issued by national governments. This sovereign debt represented 18 per cent or £14.4 billion of the shareholder debt portfolio as at 31 December 2018 (31 December 2017: 19 per cent or £16.5 billion). 3 per cent of this was rated AAA and 87 per cent was considered investment grade (31 December 2017: 90 per cent investment grade).

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

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2018 are given in note C3.2(f) of the Group's IFRS financial statements.

Bank debt exposure and counterparty credit risk

(Audited)

Prudential's exposure to banks is a key part of its core investment business, as well as being important for the hedging and other activities undertaken to manage its various financial risks. Given the importance of its relationship with its banks, exposure to the sector is considered a material risk for the Group.

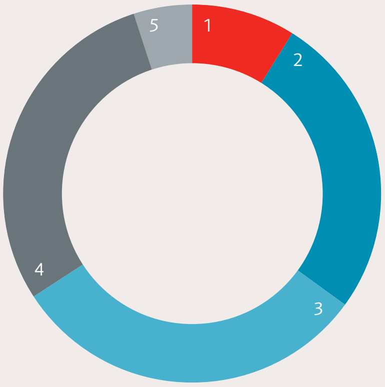
The exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 31 December 2018 are given in note C3.2(f) of the Group's IFRS financial statements.

The exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, Prudential reduces its exposure, buys credit protection or uses additional collateral arrangements to manage its levels of counterparty credit risk.

At 31 December 2018, shareholder exposures by rating[1] and sector[2] are shown below:

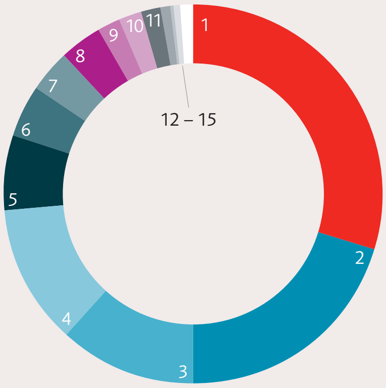
- 95 per cent of the shareholder portfolio is investment grade rated. In particular, 66 per cent of the portfolio is rated A- and above (or equivalent); and
- The Group's shareholder portfolio is well diversified: no individual sector makes up more than 15 per cent of the total portfolio (excluding the financial and sovereign sectors).

Shareholder exposure by rating[1]



1	AAA	9%
2	AA	26%
3	A	31%
4	BBB	29%
5	BB or below, or non-rated assets	5%

Shareholder exposure by sector[2]



1	Financial	29.73%
2	Government	20.41%
3	Consumer, non-cyclical	11.79%
4	Utilities	11.79%
5	Industrial	6.48%
6	Energy	4.52%
7	Communications	3.57%
8	Consumer, cyclical	3.56%
9	Basic materials	1.98%
10	Real estate	1.90%
11	Technology	1.74%
12	Mortgage securities	0.67%
13	Diversified	0.44%
14	Asset-backed securities	0.39%
15	Other	1.03%

c. Liquidity risk

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

Prudential has no appetite for liquidity risk, ie for any business to have insufficient resources to cover its outgoing cash flows, or for the Group as a whole to not meet cash flow requirements from its debt obligations under any plausible scenario.

The Group has significant internal sources of liquidity, which are sufficient to meet all of our expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. The Group has a total of £2.6 billion of undrawn committed facilities that can be made use of, expiring in 2023. Access to further liquidity is available through the debt capital markets and an extensive commercial paper programme in place, and Prudential has maintained a consistent presence as an issuer in the market for the past decade.

A number of risk management tools are used to manage and mitigate this liquidity risk, including the following:

- The Group's liquidity risk policy;
- Risk appetite statements, limits and triggers;
- Regular assessment at Group and business units of LCRs which are calculated under both base case and stressed scenarios and are reported to committees and the Board;
- The Group's Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of liquidity risks and the adequacy of available liquidity resources under normal and stressed conditions;

- Regular stress testing;
- Our contingency plans and identified sources of liquidity;
- The Group's ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The Group's access to external committed credit facilities.

6.3 Risks from our products

a. Insurance risk

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

The Group has appetite for retaining insurance risks in order to create shareholder value in the areas where it believes it has expertise and controls to manage the risk and can support such risk with its capital and solvency position.

The principal drivers of the Group's insurance risk vary across its business units. At M&GPrudential, this is predominantly longevity risk. Across Asia, where a significant volume of health protection business is written, the most significant insurance risks are morbidity risk, persistency risk, and medical inflation risk. In Jackson, policyholder behaviour risk is particularly material, especially in the take up of options and guarantees on variable annuity business.

The Group manages longevity risk in various ways. Longevity reinsurance is a key tool in managing this risk. In March 2018, the Group's longevity risk exposure was significantly reduced by reinsuring £12 billion in UK annuity liabilities to Rothesay Life, pursuant to a Part VII transfer of the majority of these liabilities expected to be completed by 30 June 2019. Although Prudential has withdrawn from selling new UK annuity business, given its significant annuity portfolio the assumptions it makes about future rates of improvement in mortality rates remain key to the measurement of its insurance liabilities and to its assessment of any reinsurance transactions. Prudential continues to conduct research into longevity risk using both experience from its annuity portfolio and industry data. Although the general consensus in recent years is that people are living longer, the rate of increase has slowed in recent years, and there is considerable volatility in year-on-year longevity experience, which is why it needs expert judgement in setting its longevity basis.

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

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

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

Prudential's insurance risks are managed and mitigated using the following:

- The Group's insurance and underwriting risk policies;
- The risk appetite statements, limits and triggers;
- Using longevity, morbidity and persistency assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- Using reinsurance to mitigate longevity and morbidity risks;
- Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;
- Maintaining the quality of sales processes and using initiatives to increase customer retention in order to mitigate persistency risk;
- Using product repricing and other claims management initiatives in order to mitigate medical expense inflation risk; and
- Regular deep dive assessments.

6.4 Risks from our business operations

a. Strategic and transformation risks

A number of significant change programmes are currently running in order to implement the Group's strategy and the need to comply with emerging regulatory changes. These include, but are not limited to, the discontinuation of LIBOR and implementation of new international accounting standards – see section 6.1a. above for further information. This has resulted in a significant portfolio of change initiatives which increases the transformation risks for the Group, and is likely to further increase in the future. In particular the demerger of M&GPrudential from the rest of the Group has resulted in a substantial transformation programme which needs to be delivered alongside, and in conjunction with other material change programmes. The scale and the complexity of this portfolio of transformation programmes could impact business operations, weaken the control environment, impact customers, and has the potential for reputational damage if these programmes fail to deliver their objectives. Implementing further strategic initiatives may amplify these risks.

Other significant change initiatives are occurring across the Group that increase the likelihood and potential impact of risks associated with:

- Complex dependencies between multiple programmes spanning different businesses;
- The organisational ability to absorb change being exceeded while maintaining a stable and robust control environment ;
- Unrealised business objectives/ benefits; and
- Failures in programme and/or project design, execution or transition into business as usual.

b. Non-financial risks

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

Operational risks

Prudential defines operational risk as the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel or systems, or from external events. This includes employee error, model error, system failures, fraud or some other event which disrupts business processes or has a detrimental impact to customers. Processes are established for activities across the scope of our business, including operational activity, regulatory compliance, and those supporting environmental, social and governance (ESG) activities more broadly, any of which can expose us to operational risks. A large volume of complex transactions are processed by the Group across a number of diverse products, and are subject to a high number of varying legal, regulatory and tax regimes. Prudential has no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement or monitor appropriate controls to manage operational risks.

The Group's outsourcing and third-party relationships require distinct oversight and risk management processes. A number of important third-party relationships exist which provide the distribution and processing of Prudential's products, both as market counterparties and as outsourcing partners. M&GPrudential outsources several operations, including a significant part of its back office, customer facing functions and a number of IT functions. In Asia, the Group continues to expand its strategic partnerships and renew bancassurance arrangements. These third-party arrangements support Prudential in providing a high level and cost-effective service to our customers, but they also make us reliant on the operational performance of our outsourcing partners.

The Group's requirements for the management of material outsourcing arrangements, which are in accordance with relevant applicable regulations, are included through its well-established Group-wide third-party supply policy. Third-party management is also included in embedded in the Group-wide framework and risk management for operational risk (see further, below). Third-party management forms part of the Group's Operational Risk categorisations and a defined qualitative risk appetite statement, limits and triggers are in place.

The performance of the Group's core business activities places reliance on the IT infrastructure that supports day-to-day transaction processing and administration. The IT environment must also be secure and an increasing cyber risk threat needs to be addressed as the Group's digital footprint increases and the sophistication of cyber threats continue to evolve – see separate information security risk sub-section below. The risk that Prudential's IT infrastructure does not meet these requirements is a key area of focus for the Group, particularly the risk that legacy infrastructure supporting core activities/processes affects business continuity or impacts on business growth.

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

Group-wide framework and risk management for operational risk

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

- Application of a risk and control assessment (RCA) process, where operational risk exposures are identified and assessed as part of a periodical cycle. The RCA process considers a range of internal and external factors, including an assessment of the control environment, to determine the business's most significant risk exposures on a prospective basis;
- An internal incident management process, which identifies, quantifies and monitors remediation conducted through root cause analysis and application of action plans for risk events that have occurred across the business;
- A scenario analysis process for the quantification of extreme, yet plausible manifestations of key operational risks across the business on a forward-looking basis. This is carried out at least annually and supports external and internal capital requirements as well as informing risk oversight activity across the business; and
- An operational risk appetite framework that articulates the level of operational risk exposure the business is willing to tolerate, covering all operational risk categories, and sets out escalation processes for breaches of appetite.

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

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

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

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

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

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

Business resilience

Business resilience is at the core of the Group's well embedded Business Continuity Management (BCM) programme, with BCM being one of a number of activities undertaken by the Group Security function that protect our key stakeholders.

Prudential operates a BCM programme and framework that is linked with its business activities, which considers key areas including business impact analyses, risk assessments, incident management plans, disaster recovery plans, and the exercising and execution of these plans. The programme is designed to achieve a business continuity capability that meets evolving business needs and is appropriate to the size, complexity and nature of the Group's operations, with ongoing proactive maintenance and improvements to resilience against the disruption of the Group's ability to meet its key objectives and protect its brand and reputation. The BCM programme is supported by Group-wide governance policies and procedures and is based on industry standards that meet legal and regulatory obligations.

Business disruption risks are monitored by the Group Security function, with key operational effectiveness metrics and updates on specific activities being reported to the Group Risk Committee where required and discussed by cross-functional working groups.

Information security risk and data privacy

Information security risk remains an area of heightened focus after a number of recent high-profile attacks and data losses across industries. Criminal capability in this area is maturing and industrialising, with an increased level of understanding of complex financial transactions which increases the risks to the financial services industry. The threat landscape is continuously evolving, and the systemic risk of sophisticated but untargeted attacks is rising, particularly during times of heightened geopolitical tensions.

Recent developments in data protection worldwide (such as GDPR that came into force in May 2018) increases the financial and reputational implications for Prudential of a breach of its (or third-party suppliers') IT systems. As well as data protection, increasingly stakeholder expectations are that companies and organisations use personal information transparently and appropriately. Given this, both information security and data privacy are key risks for the Group. As well as preventative risk management, it is fundamental that robust critical recovery systems are in place in the event of a successful attack on the Group's infrastructure, breach of information security or failure of its systems to retain its customer relationships and trusted reputation.

In 2018, the organisational structure and governance model for cyber security management was revised with the appointment of a Group Chief Information Security Officer, and a repositioning of the function to allow increased focus on execution. This organisational change will increase the Group's efficiency and agility in responding to cyber security related incidents, and will facilitate increased collaboration between business units and leverages their respective strengths in delivering the Group-wide Information Security Programme.

The objectives of the programme include achieving consistency in the execution of security disciplines across the Group and improving visibility across the Group's businesses; deployment of automation to detect and address threats; and achieving security by design by aligning subject matter expertise to the Group's digital and business initiatives to embed security controls across platforms and ecosystems.

The Board receives periodic updates on information security risk management throughout the year. Group functions work with the business units to address risks locally within the national and regional context of each business following the strategic direction of the Group-wide information security function.

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

The Group's longer-term prospects

The Group's strategy is based around meeting the long-term savings and protection needs of its customers and hence creating value for both customers and shareholders over a time frame that can be many years. As described on pages 12 to 13, the Group's business model supports this strategy by constantly evolving our products to meet changing customers' needs, building out and diversifying distribution capabilities and relationships to reach new customers and investing in technology to better empower and serve the salesforce and customers. Examples of the actions undertaken during 2018 are set out on pages 18 to 37. These activities are underpinned by ongoing risk management, implemented via the Group Risk Framework and risk appetite limits described on pages 55 to 58. The Group's management of wider environmental, social and governance issues that could pose a risk in the future to the Group is set out in the Corporate responsibility review on pages 71 to 72. This collective focus supports the sustainability of our business over the longer term.

The Directors regularly consider strategic matters that may affect the longer-term prospects of the Group. In the current year this included the impact of the proposed demerger of M&GPrudential, announced in March 2018. Further, the Group as a whole and each of its life assurance operations are subject to extensive regulation and supervision, which are designed primarily to reinforce the Group's management of its long-term solvency, liquidity and viability to ensure that it can continue to meet obligations to policyholders. Further details on the current capital strength of the Group are provided on pages 48 to 50.

Period of viability assessment

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

The Directors performed the assessment by reference to the three-year period to December 2021. Three years is considered an appropriate period as it represents the period covered by the detailed business plan that is prepared annually on a rolling three-year basis. In approving the business plan, the Directors review the Group's projected performance with regards to profitability, cash generation and capital position, together with the parent company's liquidity over this three-year period. This projection involves setting a number of economic and other assumptions that are inherently volatile over a much longer reporting period. Such assumptions include foreign exchange rates, interest rates, economic growth rates and the impact on the business environment arising from events such as the exit of the United Kingdom from the European Union or changes in regulation.

The intended demerger of M&GPrudential from the Group, if approved by shareholders, is expected to occur within the period covered by the viability statement. The Directors have therefore considered the ability of the Group to continue in its current form (ie the scenario in which the demerger does not proceed) for the three-year period ending 31 December 2021 as well as the viability of the Group if the demerger proceeds as planned.

Assessment of risks over the period

The Group's business plan implements the Group's strategic objectives through the business model and activities discussed on pages 10 to 13. This year's business planning process considered the results of the current Group over the planning period as well as those of the Group post demerger. As noted above, underpinning the projections in the business plan are a number of economic and other assumptions. Assessment of the risks to achieving the projected performance therefore remains an integral part of the planning process. The Group's approach to risk management and a summary of the key risks facing the Group are set out on pages 52 to 69.

For the purposes of assessing the Group's viability, the Directors considered those risks where the impact of possible adverse external developments could be of such speed and severity to present a shock to the Group's financial position. The risks considered, from those detailed on pages 58 to 59, are: market risk, credit risk, liquidity risk and regulatory risk. In addition the Directors considered the operational and financial risks arising from the UK's intended departure from the European Union in a number of possible scenarios, including those which assume no withdrawal agreement is enacted.

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

The scenarios tested showed that the Group with or without the demerger would be able to maintain viability, over the three-year period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios.

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

Conclusion on viability

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year plan period to December 2021.

James Turner
Group Chief Risk Officer

Notes
1 Based on hierarchy of Standard & Poor's, Moody's and Fitch, where available and if unavailable, other rating agencies or internal ratings have been used.
2 Source of segmentation: Bloomberg Sector, Bloomberg Group and Merrill Lynch. Anything that cannot be identified from the three sources noted is classified as other. Excludes debt securities from other operations.

A long-term view

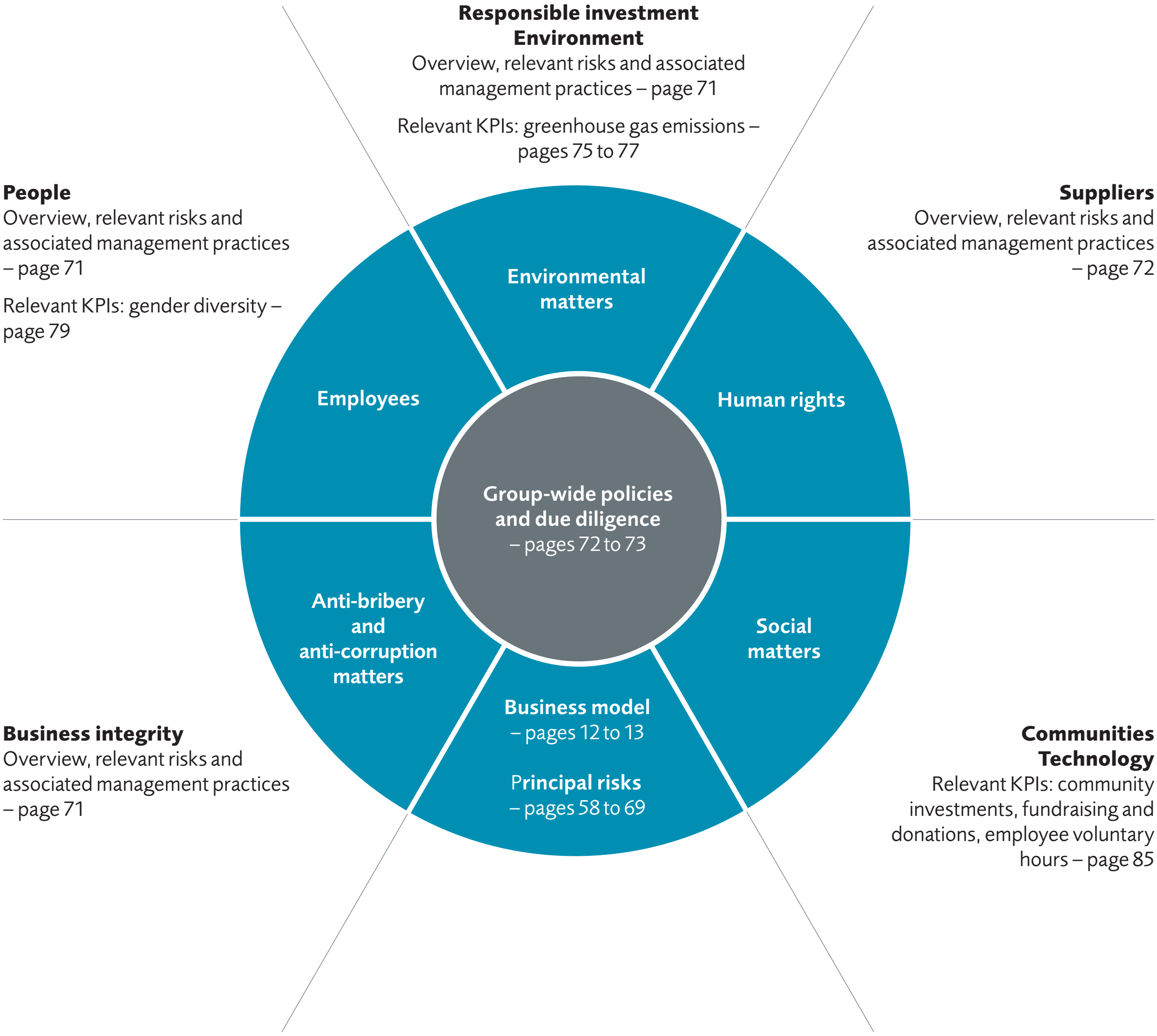
We want to create a positive legacy from all our business activities. We aim to provide value to our customers through the products we deliver and to our shareholders through our positive financial performance. At the same time we recognise the importance of providing benefits to all our stakeholders, whether through our community investment programmes, our environmental impact, our engagement and talent development with our colleagues or our approach to responsible investment.

Non-financial information statement

As a global provider of savings and protection products, stewardship is core to what we do. We recognise that to help our customers look to the future with confidence, we need to take a long-term view on a wide range of issues that affect our business and the communities in which we operate. To do this, we maintain a proactive dialogue with our stakeholders – customers, investors, employees, communities, regulators and governments – to ensure that we are managing these issues sustainably and delivering long-term value. Further information on our engagement with our stakeholders will be provided in our upcoming 2018 ESG report, which will be published in May 2019.

This Strategic report complies with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

The diagram below provides a guide to the sections of this Strategic report that fulfil these requirements:



Responsible investment
Environment
Overview, relevant risks and associated management practices – page 71

Relevant KPIs: greenhouse gas emissions – pages 75 to 77

People
Overview, relevant risks and associated management practices – page 71

Relevant KPIs: gender diversity – page 79

Suppliers
Overview, relevant risks and associated management practices – page 72

Business integrity
Overview, relevant risks and associated management practices – page 71

Communities
Technology
Relevant KPIs: community investments, fundraising and donations, employee voluntary hours – page 85

This corporate responsibility review provides an overview of our activities and progress in 2018 across a range of areas in which we have helped to provide benefits to stakeholders throughout the markets in which we operate. It also includes an overview of our Environmental, social and governance (ESG) activities.

For us, ESG means:

- **What we do** – the products we offer, our customer service, our human capital and our investment management; and
- **How we do it** – understanding our customers and providing suitable solutions that meet their needs, building long-term profitable relationships, investing in our people and making responsible investments, to generate sustainable long-term returns in line with our risk appetite, to meet our customers' needs.

Our ESG approach underpins the delivery of our strategy, generating sustainable earnings and resilient capital growth, enabling us to deliver on our promises to our customers.

More detailed information on our corporate responsibility and ESG activities is available online at www.prudential.co.uk/corporate-responsibility and in our 2018 ESG report, which will be published in May 2019.

How we govern ESG

We established an ESG Executive Committee (ESG ExCo) in 2018 to lead on how we identify, manage and report on material ESG risks. Our ESG sponsor, Jonathan Oliver (Group Executive Committee member), was nominated as Chair and is supported by senior leaders from Group operations, across financial reporting, investor relations, risk, compliance, operations, investment and human resources. There is representation from our business units, provided by the Chief Investment Officers of our asset management businesses (PPM America (PPMA) and Eastspring), M&G's Head of Corporate Finance and Stewardship and Jackson's General Counsel. The ESG ExCo meets quarterly and reports to the Board at least twice each year, with additional ad hoc reporting provided as necessary. Our ESG ExCo is focused on the holistic assessment of ESG matters material to the Group, raising matters for Board decision-making and implementing resulting decisions, supporting the sustainable delivery of the Group's strategy.

Managing our material ESG issues – summary

Responsible investment

As a life insurer, asset owner and manager, we are long-term stewards of our customers' assets and we recognise the importance of ESG matters. We also recognise our responsibility to our customers, society and the environment to effectively integrate associated considerations into investment decisions and fiduciary and stewardship duties, helping to finance a more sustainable economy.

Environment

We recognise the risks and opportunities posed by climate change and our impact on the environment, and as such we strive to play our part in reducing both our direct and indirect impacts where possible. Our approach includes not only understanding our impact on the environment, through measuring and improving the environmental performance of our global operations, but also developing our understanding of the environment's potential impact on our business.

People

We foster a diverse and inclusive organisation that develops and protects our people's interests, wellbeing and health. Developing talent and valuing diversity is key to how we operate and deliver outstanding results for our customers, shareholders and communities.

Data protection and cyber security

New technologies present new risks, from privacy to cyber security, and we are vigilant in working to identify these and to manage old and new risks in ways that are proportionate to and commensurate with the threats our business faces. At the same time, we are making significant investments in technology as we continue to upgrade our digital capabilities to provide a more seamless customer experience.

Communities

Our business purpose, the interests of our stakeholders and our drive to ensure economic and social progress for the long term are central to our community investment strategy. This strategy has four principal themes: social inclusion, financial education and life skills, disaster preparedness and employee engagement, and we continued to be active in all these areas during 2018.

We maintain long-term relationships with our charity partners, providing support through both funding and skills-based volunteering led by our employees.

Business integrity

We embed responsible and ethical behaviour across our organisation. From how we conduct ourselves, shape and monitor our culture and meet our responsibility to prevent bribery and corruption, through to transparency in our tax practices, our contribution to the global economy and our leadership role in our industry, we are a responsible, ethical business.

Our governance framework, setting out the principles by which we conduct our business and ourselves, is built on our Group Code of Business Conduct and our Group Governance Manual. We contribute to financial stability and sustainability in all of the markets in which we operate. The responsible and sustainable management of our tax affairs helps us to maintain constructive relations with our stakeholders and play a positive role in the economy. We take a long-term perspective and balance our responsibility to support our business strategy with our responsibility to the communities in which we operate, which need sustainable tax revenues.

We have a global footprint and maintain business relationships with a range of parties, such as agents and intermediaries, who act on our behalf. As such, financial crime is a key risk and we are committed to fighting it through the maintenance and implementation of policies and procedures on anti-money laundering, counter-terrorist financing, anti-bribery and corruption and anti-fraud, and through our commitment to industry-wide efforts. We operate a Group-wide whistle-blowing programme, which is able to receive reports from a variety of channels and is supported by an independent third party that captures and comprehensively records matters raised.

Customers

Our relationships with our customers are long-term and are central to our ability to continue creating sustainable value. We provide fair, transparent, inclusive and accessible products to best serve our customers' needs and to support them in de-risking their lives. We are constantly looking for new ways to innovate and provide the highest level of service.

We take our commitment to our customers seriously when training our personnel, who deliver service consistent with our values. Where customers have cause to complain to us, we have documented procedures in place to manage complaints received through multiple touchpoints, in a timely, robust and professional manner.

In Asia, the health protection gap remains large and continues to expand. In line with our commitment to help close this gap and protect our customers' health, we have continued our efforts to create best-in-class health capabilities by offering more comprehensive and flexible coverage and a wider range of value-added services. Increasing access to financial protection is a significant socio-economic issue and we seek to provide the right products through appropriate means to improve access for new and existing customers. We also strive to communicate information about our products in a fair and transparent way. In the US, Jackson continues to be a leader in shifting perspectives and simplifying the language around financial products.

Suppliers

Managing ESG risks when sourcing goods and services, and throughout the lifecycle of our third-party relationships, is vital to our position as an ethical and responsible business. We take this position seriously and seek to both maximise value and minimise risk throughout our interactions with our supply chain.

We work with a range of partners that support our business units with our IT network and systems, specialist professional and advisory services, facilities management, contractors and the agents that form our distribution network. Our Group Code of Business Conduct outlines the values and standards that we require of each of our suppliers. We act with integrity to ensure that modern slavery, human trafficking, child labour or any other issue that subjugates human rights is eradicated from our supply chain.

Our business units are responsible for managing third-party supply arrangements and able to adopt further policies as they require, to meet localised operating conditions. Business units conduct due diligence before engaging with and ultimately selecting a new supplier. During this process, our employees are trained to ensure that the contractual arrangements reflect the requirements of those policies. We perform regular due diligence, review meetings and audits, where required, and our policies and procedures are supported by regular employee training exercises. Our 'Speak Out' whistleblowing service enables employees to raise any concerns they may have in relation to our third-party relationships, and our contractors and third-party suppliers are also able to use this service.

ESG policy framework – Group Governance Manual

The Group Governance Manual (GGM) establishes standards for managing key material ESG issues across the Group, setting out the policies and procedures to support how we operate. The GGM is used to ensure that we comply with relevant statutory and regulatory requirements. Our Group-wide policies relating to our identified material issues include:

Material ESG issues	*Our Group-wide policies**
Business integrity	— *Code of Business Conduct Policy* details our required standards to be used across the Group and covers our employees and individuals or organisations acting on our behalf. It is governed by five standards: protection from financial crime, avoiding conflicts of interest, managing information, communicating as a group and providing equality for our people. — *Anti-Bribery and Corruption Policy* covers our values for reputation, ethical behaviour and reliability. As an organisation we are focused on financial practices that align to those values and we prohibit corruption or bribery within our working practices. — *Anti-Money Laundering and Counter Terrorist Financing Policy* outlines how we prohibit money laundering or terrorist financing in our working practices, setting out how we establish parameters to prevent this taking place across the organisation. — *Sanctions Policy* details the commitment we have to comply with sanctions laws and regulations by screening, prohibiting or restricting business activity, and following up through investigation. — *Security Policy* outlines our commitment to ensuring security aligns to industry recommended practice for managing our regulatory and legal obligations. This includes how we manage incidents under the 'Speak Out' programme, our whistle-blowing process. — *Tax Risk Policy* includes our processes to manage tax-related risk, by identifying, measuring, controlling and reporting on issues considered an operational, reputational or regulatory risk. — *Political Donations Policy* outlines our position, that as an organisation we do not donate to political parties.
Customers	— *Customer Commitments Policy* covers our five key commitments to our customers and how we assess, manage and report on these: 1 Treat customers fairly, openly and honestly; 2 Provide and promote a range of products and services that meet customer needs, are easy to understand and that deliver real value; 3 Maintain the confidentiality of our customer information (except where the law requires disclosure); 4 Provide and promote high standards of customer service and monitor these standards rigorously; and 5 Ensure that our complaints processes provide an effective and fair means of arbitration between the Group's businesses and customers.

Material ESG issues	*Our Group-wide policies**
Environment	— *Environment Policy* outlines our approach to understand and manage the direct environmental impact of the Group. This covers our measurement, monitoring, review and reporting of issues associated with our environmental performance.
Responsible investment	— Owing to the distinct investment risks faced by our asset management and ownership businesses, with each investing in different markets and asset classes, each business manages ESG-related matters through the pursuit of business-specific responsible investment policies. This is overlain by our Group-wide Responsible Investment Framework, aligned to our Group-wide Code of Conduct and underpinned by our Group Responsible Investment Standards.
Suppliers	— *Third-Party Supply Policy* – an updated Third-Party Supply Policy was approved by the Group Risk Committee in July 2018. It covers how we manage and oversee our third-party arrangements, through due diligence/selection criteria, contractual requirements, the ongoing monitoring of such relationships and reporting and escalation. Additionally, our policy considers the requirements of the UK Modern Slavery Act and the principles of the UN's Universal Declaration of Human Rights.
Technology	— *Privacy Policy* governs the protection of data. The policy became operational in 2018 and complies with the General Data Protection Regulation.
People	— *Diversity and Inclusion Policy* sets out how we foster an inclusive workforce and ensure all our employees are treated fairly and feel valued, and together have the diversity in skill sets and backgrounds that enriches the organisation. Our policy considers a range of diversity aspects of our employees, including gender, age, ethnicity, disability, sexual orientation and background. Further information on the diversity of our Board, our policy in respect of this, how this is implemented and the associated results in 2018 can be found in our Governance statement on pages 109 to 114. — *Employee Relations Policy* outlines the way we engage our employees and motivate them to achieve success for the Group: promoting positive relationships with employees, representative organisations and trade unions, and maintaining a positive reputation for the treatment of employees. — *Performance and Learning Policy* sets out the importance of our people and frames how we invest in their development to deliver against our strategy and the future success of the organisation. This includes our Performance Management Framework. — *Remuneration Policy* outlines our effective approach to appropriately rewarding our employees in a way that aligns incentives to business objectives and enables the recruitment, retention and incentivisation of high-calibre employees in line with our risk appetite and Group Reward Principles. — *Talent Policy* demonstrates how we attract and select the best people for roles that will ensure high performance in the short term and improve the longer-term succession and talent pipeline. It sets out our fair and effective approach to pursuing this. — *Health and Safety Policy* covers our employees, business partners, customers and others that may be affected by our operations. This details our health and safety core principles, our commitments and the measuring and reporting on our health and safety performance.
Communities	— *Community Investment Policy* covers how we are committed to working with the communities we operate in as active and supportive members. This also outlines our strategy for investing in the community and how we make investments and report against them.

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

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

Due diligence on ESG-related policies

Our GGM forms part of the Group Risk Framework, which details how business units should put in place sufficient processes that identify, evaluate and manage risks, incorporating key ESG issues. Due diligence is conducted by the business units to ensure that the policies are complied with and we require evidence to demonstrate this.

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

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

Further information on ESG issues

Responsible investment

As a life insurer, asset owner and manager, we are long term stewards of our customers' assets and we recognise the importance of ESG matters. We also recognise our responsibility to our customers, society and the environment to effectively integrate associated considerations into investment decisions and fiduciary and stewardship duties, helping to finance a more sustainable economy. We believe that our investment activities should help our customers both today and over the long term. We take our commitment to ESG and responsible investment seriously, which is why our asset management business units, M&G Investments, PPMA, PPMSA and Eastspring Investments, are signatories to the Principles for Responsible Investment. Similarly, as a life insurer we remain committed to servicing our customers' evolving needs, providing product solutions that support their financial resilience and enable them to face the future with confidence.

Assessing the implications of evolving expectations of the Group in financing a sustainable and low-carbon economy

Over 2018 there have been a number of regulatory, supervisory and investor-driven sustainable finance and climate-related financial risk initiatives. From a supervisory perspective, the International Association of Insurance Supervisors and the Prudential Regulation Authority (PRA) have made clear that they expect insurers to assess and consider the risks from climate change, with the PRA releasing a consultation on a draft supervisory statement. We engaged with the PRA on the topic during 2018 and continue to focus on developing our practices in this area, with the implications for us as a Group being considered by our Board. Climate risk is under similar scrutiny from the Financial Conduct Authority, which issued a draft discussion paper on the topic, and the Securities and Futures Commission in Hong Kong launched its Strategic Framework for Green Finance. In addition to assessing the implications for the Group of evolving regulatory and supervisory expectations, we continued to monitor the changing legislative landscape, including developments set out in the European Commission's (EC) Action Plan for Financing Sustainable Growth. Our approach to meeting these evolving expectations of financial institutions is twofold: to consider the need for enhancing our ESG integration and disclosure practices and to continue to increase our industry participation and collaboration towards positive change. Further detail on the progress we have made in responsible investing in 2018, through engagement with investees and the assets in which we invest with regard to financing sustainable growth, will be provided in our forthcoming 2018 ESG report.

Strengthening our governance of responsible investment

Following on from the establishment of our Group Responsible Investment Advisory Committee (GRIAC) and Group Responsible Investment Framework in 2017, our governance of responsible investment activities has continued to be strengthened during 2018 by our businesses. Each asset management business now has a clearly designated responsible investment committee. The GRIAC links these independent business unit committees, serving as a forum for sharing best practice innovations across the Group. It also enables our Group-wide Responsible Investment Standards to be adopted in a consistent manner across our business units, while still affording them the flexibility to manage investments in a way that balances the needs of their clients and the local regulatory environments in which they operate.

In 2018 our Group Responsible Investment Standards, which underpin our Group Responsible Investment Framework and Principles, were in the road-testing phase with our businesses, which focused on developing internal monitoring and reporting capabilities to support the implementation of the Standards. Prudential Corporation Asia, for example, has implemented a new investment portfolio and risk management system as part of the ongoing enhancement of its approach to ESG integration. This provides its regional and local investment offices with increased transparency of how ESG factors are being incorporated into its investment decisions, manager selection and manager reporting process, in line with its commitment to responsible investing. Eastspring has also embraced technology solutions in 2018, with Group Digital working in partnership with the investment teams to develop tools that utilise artificial intelligence and learning to facilitate faster and scalable ESG screening of investee companies. During 2018, M&G signed up to using the new MSCI Carbon Portfolio Analytics tool, enabling portfolio managers to monitor a portfolio's carbon emissions, carbon intensity and fossil fuel reserves and to support the better management of carbon risks.

Industry participation and collaboration on climate change

We have long believed in the benefits that collaboration and collective action can bring on important issues. Active consideration of ESG factors is integral to our stewardship responsibilities. For this reason, we as a Group and our businesses remain active participants in industry initiatives on sustainable finance on climate change. M&G continues to participate in the Climate Action 100+ initiative and remains a member of the Institutional Investors Group on Climate Change. During 2018, Eastspring participated in roundtables organised by its local regulator, the Monetary Authority of Singapore (MAS), to help raise awareness of climate risk in the region and promote the integration of ESG frameworks in investment strategies. Similarly, Prudential Singapore has engaged with its local regulators (the Life Insurance Association Singapore and MAS) to discuss its approach to climate change risk as an Asian asset owner.

Prudential remains an active member of the ClimateWise initiative, a global network of leading insurance industry organisations, and an investor signatory to the Carbon Disclosure Project. In 2018, we again participated in the Asset Owner Disclosure Project, a survey managed by ShareAction to assess the insurance sector's response to addressing climate risk, where we ranked 30th out of 80 in the Global Climate Insurance Index (an assessment of the 80 largest insurance companies globally) (2017: 31st). In 2018, M&G collaborated on enhancing industry climate-related disclosure practices and signed up to a pilot initiative sponsored by the United Nations Environment Programme to work on climate-change scenario modelling for portfolios across different asset classes. This is a central part of the Task Force on Climate-related Financial Disclosures (TCFD) framework, and the key output will be an industry climate scenario modelling tool. Further information in relation to the Group's support for the Financial Stability Board's (FSB) TCFD is provided below in the section on 'Managing climate risks and opportunities and the FSB's TCFD' below.

Evolving our ESG-focused investment product offering

We continued to add to our ESG-focused investment product offering over 2018, in light of increasing interest and demand from customers. M&GPrudential launched two new retail funds in 2018, the M&G Positive Impact Fund and the M&G Sustainable Multi Asset Fund, both employing a structured approach to ESG integration and both investing in companies that are aligned with the United Nations Sustainable Development Goals.

The Positive Impact Fund seeks to invest in companies that have a positive impact on society through addressing the world's major social and/or environmental challenges, while providing attractive financial returns. Sustainability and impact considerations are fundamental in the stock selection process. The M&G Impact team undertakes a 'triple I' approach to identifying impactful investments, analysing the investment case, intentionality and impact of a company to assess its suitability for the fund. The fund won Best New Entrant (Fund) at the 2018 Investment Week Sustainable and ESG Investment Awards.

Managing climate risks and opportunities and the FSB's TCFD

As a life insurer, asset owner, asset manager and occupier of over 400 properties worldwide, we recognise both the risks and opportunities posed by climate change on our businesses, and our Group's impact on the environment. Our approach includes not only understanding our impact on the environment, through measuring and improving the environmental performance of our global operations, but also developing our understanding of the environment's potential impact on our business. With respect to the impact that climate change poses to our businesses, we are cognisant that the risks and opportunities may manifest in a number of different ways. We outline further detail on the specific climate-related risks within the Group Chief Risk Officer's report on page 61.

We as a Group welcomed, and are a signatory to, the FSB's TCFD Recommendations, which were released in 2017. Our governance structures, which provide oversight in this important area, were enhanced in 2018 through the establishment of our ESG ExCo, which will oversee the Group's processes to assess the climate related risks and opportunities facing our businesses, which are currently under development, and the identification and delivery of supporting implementation activities, with the view to enhancing our climate-related financial risk management practices. Over the next year the Group will take action to enhance the Group's climate-related financial risk management practices and disclosure.

Our strategy needs to be tailored to the local US, Asian, European and African countries in which we operate. Climate change is a material challenge for the global economy and, in conjunction with other global trends, may impact each part of the world differently. The physical risks will be as difficult to determine as the risks resulting from transitioning to a low-carbon economy. Accompanying those risks are inherent investment opportunities that we will continue to explore, including the emergence of infrastructure investments as a new asset class. We are keen to position our organisation in order to best place us to respond to and manage material climate risks and capitalise on the opportunities from the economy's transition. Demonstrating our approach and performance transparently to our external stakeholders has always been central to our vision, mission and values.

As an organisation with a long history, we invest for the long term. Integrating non-financial decision-making with our current financial systems is a key part of taking that long-term view and is a continuing priority for the Group.

Further information on our approach to responsible investment, including progress made by our businesses during 2018 in enhancing ESG integration, investing for positive change and collaborating and participating in industry initiatives, will be found in our forthcoming 2018 ESG report.

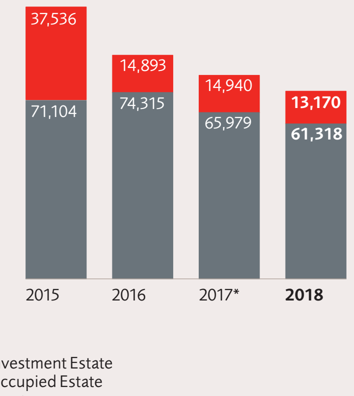
Environment

Managing our direct environmental impact

Cognisant of our direct environmental impacts as an occupier of over 400 properties worldwide, we strive to play our part in reducing our operational impacts where possible. In 2016, we established a global environmental targets framework and roadmap to drive progress across a range of environmental aspects and impacts for our operational property portfolio worldwide. This framework aligns to our regional footprints covering Asia, the UK and Europe and the US, reflecting the maturity of environmental management practices in these markets and the autonomy given to our business units in managing their operations.

We recognise the importance of our own internal environmental targets and decarbonisation goals in reducing our direct footprint. In 2018, global energy use across our occupied estate was 127,098 MWh (2017: 129,324 MWh), a decrease of 2 per cent. Our absolute Scope 1 and Scope 2 (market based) Greenhouse Gas (GHG) emissions decreased by 7 per cent to 61,318 tCO_2e (2017: 65,979 tCO_2e restated) across our occupied estate. When normalised against net lettable floor area, our Scope 1 and 2 emissions fell by 13 per cent to 99 kg CO_2e/m^2 influenced by several factors such as decarbonisation of the UK/European grid (cleaner electricity generation), outsourcing our UK data centres and a 7 per cent increase in occupied floor area.

Prudential Group Scope 1 and 2 GHG emissions
tCO_2e



*2017 figures restated as revised data became available from suppliers

Prudential Group Scope 1 and 2 GHG Emissions

We achieved a ranking of B in the 2018 CDP Climate Change disclosure benchmark, and in ClimateWise, the insurance sector climate initiative managed by the Cambridge Institute for Sustainability Leadership, we improved our score, achieving 78 per cent (2017: 72 per cent). Our performance in ClimateWise against six core principles is independently audited by PwC.

As a Group, we signed up to RE100 in 2018 to achieve 100 per cent renewable electricity by 2025 across our occupied and managed investment estates. 30 per cent of our global electricity consumption is procured from 100 per cent certified renewable sources (solar PV and on-shore wind). Our Group Scope 2 (market based) emissions are independently assured by Deloitte. Looking ahead, we will develop roadmaps in 2019 for the demerged businesses to set out strategies to achieve this target, on a country-by-country basis.

As our business becomes increasingly global, we recognise the importance of understanding the impact of air travel on our overall corporate carbon footprint. We have collated air travel data internally across all three regions for the first time. We have elected to disclose Scope 3 GHG emissions data from air travel for the UK and Europe business unit. This amounted to 21,622 tCO_2e, representing a 50 per cent increase over preliminary estimates (2017: 14,413 tCO_2e). The scope of this data now includes air travel from our sites in the UK, Japan, Kenya, Poland and Zambia, which are controlled by the UK and Europe business unit.

Our combined reported and unreported carbon footprint from air travel is a significant contribution to our overall emissions. Therefore, as part of a holistic approach to the management of our climate impacts, we will focus management effort on reducing the need for travel through the deployment of digitally enabled office working practices and offsetting emissions from unavoidable flights as final mitigation. Plans will be developed in 2019 to establish a CO_2 offsetting programme for air travel emissions.

As part of our ongoing environmental management system (ISO 14001:2015) in the UK, we achieved zero nonconformities in 2018, and focused on improving recycling rates and minimising single use vending cups and plastics, as well as completing the roll out of advanced energy analytics software across our largest UK properties following a successful trial.

In the US, Jackson completed a further three Energy Star assessments in addition to the two completed in 2017. The US Environmental Protection Agency Energy Star scheme is a certification programme and performance benchmark identifying the buildings nationwide that use 35 per cent less energy than typical buildings.

In Asia we have developed Green Design, Construction and Leasing Guidelines, as well as a smart leasing toolkit to ensure good environmental performance of new sites, focusing on energy and water efficiency.

M&G Real Estate, part of M&GPrudential, has an approach to responsible property investment that enables it to manage and respond to the growing range of environmental and social issues that can impact property values. It continues to decarbonise its property estate through targeting low and no cost energy reduction measures such as LED lighting installations, real time monitoring of high energy users through smart building technology and realising energy efficiency through refurbishment. Further details on M&G Real Estate's progress can be found in its annual Responsible Property Investment report at www.mandg.co.uk/institutions/realestate/responsible-investing/

For the Group as a whole, further detail on our environmental performance throughout 2018 is available online and will be published in our 2018 ESG report early in 2019, including performance against our global environmental objectives.

Prudential plc – greenhouse gas emissions statement

We have compiled our global GHG emissions statement in accordance with the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. GHG emissions are broken down into three scopes; we have included full reporting for Scope 1 and 2 and select Scope 3 reporting as best practice.

Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity, heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes UK/EU/Africa booked business travel for the occupied estate, global water consumption from the occupied and investment estate (where Prudential have operational control), waste generated from occupied properties (UK and US) and global investment properties (where Prudential have operational control). We continue to work with our business units to review the extent of our Scope 3 reporting and increase coverage where practicable.

Please refer to our Basis of Reporting and supplementary reporting online for further detail on our methodology, reported consumption and drivers of variation.

Emissions source (tCO_2e)		2018	2017	% Change
Scope 1	Occupied estate[1]	9,191	10,494	-12%
	Investment properties	7,711	7,703	0%
Scope 2 – Location-based	Occupied estate[1]	56,554	61,154	-8%
	Investment properties	15,281	18,751	-19%
Scope 2 – Market-based (supplier and residual mix)	Occupied estate[1]	52,127	55,484	-6%
	Investment properties[1]	5,459	7,237	-25%
Scope 3	Group[1]	22,545	15,306	+47%
Scope 1 and Scope 2*	Occupied estate	61,318	65,979	-7%
	Investment estate	13,170	14,940	-12%
Total Scope 1 and 2*	Group	74,488	80,919	-8%
Total Scope 1, 2 and 3*	Group	97,032	96,225	+1%

Carbon intensity*		2018	2017	% Change
kg CO_2e per m^2 – Scope 1 and 2 only	Group[1]	24	29	-17%
kg CO_2e per employee – Scope 1 and 2 only	Group[1]	3.1	3.2	-3%
kg CO_2e per m^2 – Scope 1, 2 and 3	Group[1]	32	34	-8%

* Note that when reporting Group totals, the market-based emission is used.

Data notes	
Reporting period:	1 October 2017 to 30 September 2018
Baseline year:	1 October 2016 to 30 September 2017
Independent Assurance:	Deloitte LLP has provided limited assurance over selected environmental metrics in accordance with the International Auditing and Assurance Standards Board's (ISAE3000 (Revised)) international standard.
Consolidation (boundary) approach:	Operational Control
Consistency with financial statements:	The reporting period does not correspond with the Directors' Report period (01 January 2018 to 31 December 2018) as it was brought forward by three months to improve the availability of invoice data and reduce reliance on estimated data. Prudential owns assets, which are held on its balance sheet in the financial statements, over which it does not have operational control. These are excluded from the data below. Assets not included on the balance sheet but held under an operating lease and where we have operational control are included.
Emission factor:	Scope 1 and 3 reporting uses the UK DEFRA 2018 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2018 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply and RE-DISS factors where available.
Accounting methodology:	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard
Materiality threshold:	Five per cent

Note

[1] 2017 figure restated as revised data became available from suppliers.

People

An inclusive working environment, where we continually develop our talent, reward great performance, protect our people and value our differences, is key in delivering outstanding results for our customers, shareholders and communities.

Diversity and inclusion

Organisations benefit from a number of diverse perspectives and experiences and we consider this is important to our success today and in the future. Diversity and inclusion (D&I) is one of our strategic objectives. Tim Rolfe, Group HR Director, is the executive sponsor across the Group, with Nic Nicandrou, Chief Executive of Prudential Corporation Asia, acting as the Board member accountable for D&I work.

The Group D&I Policy ensures we provide equal opportunities to our workforce through fostering an environment where our current and prospective employees are treated with dignity and respect, ensuring an appropriate diversity of skill sets and backgrounds to deliver success across the Group. Our policy supports an inclusive culture, where all our employees are protected against discrimination and provided with opportunities regardless of their age, caring responsibilities, disability status, ethnicity, gender, religion, sexual orientation, professional, social, educational or cultural background, or employment contract type. Through our policy we govern our business units to have effective approaches in place to comply with local regulation, provide equality of opportunity and encourage our suppliers to promote equality of opportunity. Each of our businesses, including Group Head Office (GHO), is required to report regularly to Group HR on its compliance with the policy.

Over time, we aspire to have a senior management team that better represents the experiences and backgrounds of our customers and stakeholders. Diversity contributes to Board effectiveness and is essential for successfully delivering the strategy of an international Group. Our Board is committed to recruiting the best available talent and appointing the most appropriate candidate to each role. This process ensures appropriate diversity of experience, skill sets and professional backgrounds. For more information on diversity within our Board, please refer to page 109 of the Governance section within the Annual Report.

We have a strategic, long-term approach to D&I and the Board monitors progress regularly through the Group D&I Advisory Committee, including reviewing our benchmarked progress against industry advances on key aspects such as the diversity of our Leadership Team. The majority of D&I activity is managed by the individual business units, which focus on the priorities that make a key difference in their specific markets, in alignment with the Group-wide strategy. The articulation of our D&I strategy has been updated in 2018 to reflect the evolution of our D&I journey. Prudential Corporation Asia continued to develop its D&I Works Committee, made up of representatives from across its regional businesses. Its purpose is to drive the D&I strategies and initiatives in the respective countries, provide support and share best practices. In the US, Jackson has introduced a D&I Advisory Council to support senior leadership by helping guide, implement and oversee D&I strategies and initiatives, providing updates on progress and communicating D&I efforts and commitment internally and externally.

Across our businesses, our commitment to all employees regarding D&I includes making reasonable adjustments to those with special requirements and is supported by initiatives such as reviews of pay, performance management consistency, providing training to staff, engaging with recruitment firms and awareness campaigns to diversify the pool of potential candidates. In 2018, building on the unconscious bias leadership workshops for senior managers and executives delivered in 2017, we aimed to reach all employees via the Group-wide roll-out of unconscious bias e-learning. Completion rates exceeded 90 per cent throughout and positive feedback was received from participants. We again sponsored Dive In, the D&I festival for insurance and the financial services sector, which took place in 27 countries and 53 cities in the Americas, Asia, Africa, the Middle East and Europe. In 2018 we published two Group-wide D&I newsletters for all employees on the themes of mentoring and sponsorship and cultural inclusion. The cultural inclusion newsletter highlighted how our African businesses reflect the cultural diversity of the countries in which we operate through engaging with clients in their native languages to improve understanding of our products, helping us to provide a better service.

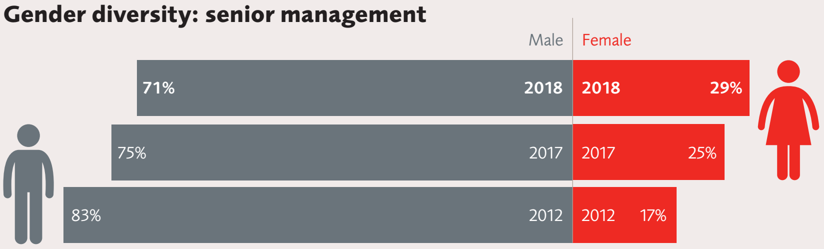
We are committed to improving the diversity balance of our organisation. For example, Prudential Corporation Asia completed a review of recruitment processes resulting in a clear commitment to equal opportunities being incorporated in all job adverts internally and externally across Asia. Additionally, Prudential Corporation Asia has committed to increasing the focus on blind CV assessment and gender balanced short-lists. Our Group operations have reported a measurable improvement in the balance of gender, ethnicity, international experience and sector background experience in hires. The Group offers tailored 1:1 maternity coaching for female staff. This development initiative helps mothers to prepare for maternity leave, offers support while they are out of the office, and aids and facilitates a successful return to the workplace. Externally, M&GPrudential achieved recognition from D&I-related awards and rankings. Several individuals were winners or shortlisted for awards, for example the EMpower100 Ethnic Minority Executives List, the Black Business Awards, Women in Investment Awards and Top 50 Leading Lights, Kindness and Leadership Awards. M&G Investments was ranked in the top 50 of the UK's Social Mobility Employers Index.

In addition to the established affinity networks – Prudential Women's Network, Pride (LGBT), CAN (cultural awareness) and Mind Matters (mental health) – we launched Enable (the Group-wide network for employees with physical and mental disabilities, allies, carers and champions) and PruPride – the first LGBT and allies network in Asia. We were part of the first cohort of companies to sign the HM Treasury Women in Finance Charter in 2016. In 2018, we achieved our commitment to have 27 per cent of women in senior management, a year ahead of the target date of the end of 2019. We continue to work towards the target of 30 per cent women in senior management by the end of 2021. See below for the gender breakdown of our workforce for 2018.

Talent development

Development of our people is key to our strategic objectives. Group Human Resources focuses on senior leadership through an annual talent review process. We continue to develop leaders and critical specialists for senior roles through succession planning. We segment our talent to identify short, medium and long-term successors. Development of our senior executive leaders is a bespoke exercise that we base on their requirements.

Gender diversity: senior management



Gender diversity: all employees

Headcount	Total	Male	Female	Undisclosed[2]	Unspecified[3]
Chairman & Independent Non-executive Directors	10	8	2	–	–
Executive Directors	6	6	0	–	–
Group Executive Committee (GEC) Includes Executive directors	11	11	0	–	–
Senior managers Excludes the Chairman, all directors and GEC members	79	56	23	–	–
Whole company[1] Full time equivalent Includes the Chairman, all directors, GEC members and senior managers	23,792	11,354	12,375	33.0	30.5

Notes

[1] Excludes Prudential Corporation Asia joint venture.

[2] In many of our businesses, we provide our employees with the option to not disclose their gender. For these employees, gender is recorded as 'undisclosed'.

[3] No specification or information is captured on gender for an immaterial number of our employees. These employees are recorded as 'unspecified'.

We offer a range of programmes that enable our people to grow and develop. Most programmes are managed by our business units. In 2018, 113 senior high-potential individuals participated in our established and well respected Group-wide leadership development programmes 'Impact' and 'Agility' and the 'Next Generation' emerging talent programme. These programmes were developed in partnership with world-leading academic institutions and co-delivered with business school thought leaders. Across our businesses there are many more examples of our continuing commitment to talent development. For example, in 2018 Prudential Corporation Asia built on its strategic workforce planning initiative to develop and upgrade capabilities and reshape some critical roles to ensure continued success. Prudential Corporation Asia has implemented a senior leadership behaviours framework, taking a significant step towards creating a purpose-led culture to help all employees embrace the transformation of their business.

Jackson offers customised onsite programmes, as well as access to an online university, to meet the personal and professional development needs of employees with all levels of experience. Development programmes have been aligned to known enterprise-wide skills gaps to further develop critical capabilities for the future.

The Group continues to provide innovative programmes designed in partnership with top academic institutions and industry experts, focused on early career development, leadership development and opportunities, to develop a strategic and innovation mindset through varied career experiences and projects. In 2018 the Enhance programme incorporated several new themes, notably collaboration, including virtual and a new course 'Experiments at Work', which encourages expansive thinking in finding fresh perspectives for repetitive challenges and applying creative behaviours in everyday situations.

M&GPrudential supports talent development through a range of programmes to increase personal and organisational capability, alongside bespoke development support for individuals in key roles, including leadership roles and critical specialists such as fund managers, technologists and actuaries.

Employee engagement

We want to foster an environment in which employees feel empowered and that they are making an active contribution to the organisation and the communities we serve. We drive employee engagement through a number of initiatives, including colleague appreciation programmes, wellbeing programmes, networking opportunities with peers and senior leaders across functions and employee focus groups. Each of our businesses manages its own activities in this area, including employee engagement surveys, regular employee open forums with senior management and team away days to discuss business performance. Our businesses, including GHO, have processes and, where appropriate, a policy in place for engaging with employees. For any significant issues that are likely to impact either positively or negatively on our reputation as an employer – at both business and Group level immediate reporting to Group HR is required.

Employee engagement in the context of the demerger

We understand that during times of change within organisations, colleagues can require extra support and engagement. Since we announced in March 2018 our intention to demerge M&GPrudential from the Group, we have embarked on a programme of engagement to ensure that colleagues are fully briefed on progress towards the demerger and the expected shape of the organisation afterwards. This has involved town hall meetings with senior management, smaller question-and-answer sessions with leadership, regular updates from senior management on progress, line managers playing a key role in demerger-related communications and encouraging colleagues to submit questions and concerns, with a commitment to respond as soon as practicable. The frequency of these two-way communications is increasing during 2019, as we move closer to the demerger.

We appreciate that managing and supporting our people through such a period of change is vital in ensuring that they remain engaged with the business, and we also recognise the value of the culture that we have built up in the business and are taking steps to ensure that culture is protected during the process of the demerger. Throughout our communications we have been stressing the importance of partnership, stewardship and ownership, key elements of our culture, and we are doing everything we can to ensure that our colleagues are aware that they have a stake in the future success of the demerged businesses.

Data protection and cyber security

For all businesses, the theft of large quantities of personal data has become increasingly common, at significant cost to consumers and businesses. For us, as for many other businesses, the impact of such events has the potential to be more severe in the future as our business changes and becomes increasingly digital. These types of incidents also have the potential to significantly impact on the continuity of our business, our customer relationships and our brand reputation, as well as to diminish customers' trust in engaging digitally with us and all businesses. The knock-on effect of this could be that many of the social benefits of new technology, such as enabling financial inclusion and greater access to primary healthcare, may not be realised. In this context, cyber risk remains a prominent concern and focus area for ourselves, regulators and businesses globally.

Our cyber strategy was rolled out during 2018, providing increased insight into our Group-wide information security performance. The strategy is designed to deliver against three objectives: to protect the business, comply with applicable laws and regulations, and support the growth of the business. A number of work streams underpin the delivery of the strategy, covering risk prevention, the Group-wide baseline of security controls and capability, and promoting resilience. This supports the business to prioritise and make informed, risk-based decisions. These benefits will continue to be delivered throughout 2019, as the strategy matures under the new Group Chief Information Security Officer.

A key element to managing cyber risk and strategies is to have good information, which our executives and other stakeholders across the business use to make good decisions. During the course of 2018, 18 reports on topics such as the current performance of cyber security capabilities across the Group and the lessons learned from industry events have been provided to various executive committees including the Group Executive Committee and the Group Risk Committee.

Using a newly developed set of Group-wide cyber key performance indicators (KPIs) that map to international standards such as National Institute of Standards and Technology (NIST), senior executives are provided with a monthly update from Group-wide Information Security regarding the Group's cyber performance in key areas of cyber risk management. Our Group-wide cyber KPIs track a broad range of security domains on a monthly basis, including infrastructure oversight, asset management, incident response, awareness and compliance. An annual in-depth, evidence-based analysis of our Group-wide cyber capabilities, aligning to international standards was also completed. This information is brought together and further augmented by regular threat update papers and a benchmarking of ourselves against our peers across the globe to facilitate timely decision-making by senior business leaders across the Group. The analysis we conduct and the KPIs we gather are kept under constant review to ensure that they remain aligned to the business and that they continue to facilitate business decision-making and thus reduce cyber risk. Throughout the year, Board members, including non-executives, have received one-to-one training on cyber threats, including privacy, by a senior manager of the Group-wide Information Security team.

The Group-wide cyber assurance programme, which is based on standards like the NIST Cyber Security Framework, became operational in 2018. It has provided valuable insights regarding our capabilities and performance in the way we manage cyber risk across the business. The information and analysis provided by the Group-wide Oversight and Assurance team has been used in a number of ways to inform our cyber security-related choices. For example, it is used to provide senior executives with assurance that our cyber risk is being appropriately managed, while business unit leaders have used the insight to make better-informed and targeted investment decisions.

The programme continues to evolve to ensure that the way we manage cyber risk remains effective and includes all three elements of cyber risk management – people, processes and technology. This is vital as changes to our business, the technologies we use and our operating environment continue to gather pace. For example, throughout 2018, we continually reviewed and made adjustments where necessary to our KPIs. This is to ensure that they provide appropriate oversight and cover areas of cyber risk that may have been introduced as a consequence of new technologies. Similarly, we continue to identify, adjust and review the cyber capabilities we need. The Group-wide policies and standards for information and cyber security, which were refreshed in 2018 to reflect the rapid advance in cyber threats, have been introduced and will be reviewed annually and adjusted where necessary to reflect a changing operational environment.

The Group has an established Cyber Threat Intelligence team that assists our businesses with understanding the cyber threats we face and provides guidance on how to protect and mitigate against these threats. We believe that knowledge sharing across our businesses is key to a mature intelligence function and we use a variety of mechanisms, including a Group-wide threat intelligence-sharing platform and weekly telephone conferences with representatives of business security teams, to ensure timely visibility and dissemination of intelligence to proactively defend the business. In the last year, we have further enhanced our collaboration tools and launched a weekly threat bulletin to provide situational awareness to a wider audience in information security.

Looking ahead to 2019 and recognising that the threat landscape will continue to evolve, we will continue to evolve and strengthen our cyber defences and management of cyber risk. To maximise effectiveness and efficiencies we are looking to establish global cyber centres of excellence. We will be exploring new machine learning and augmented intelligence technologies to identify if they can be used Group-wide to enhance and/or improve our understanding and management of cyber risk.

Communities

We take an active approach to managing ESG-related risks and tackling environmental and social challenges. Our strong contribution, harnessing the commitment of our people, continues to improve lives and build communities, wherever we work.

Our community investment strategy is closely aligned with our business purpose

Cha-Ching financial literacy programme

Prudential colleagues collaborated with Junior Achievement Kenya to provide financial literacy skills to children aged seven to 11 years using Cha-Ching education materials.

Volunteers acted as student mentors and shared their experiences of dealing with money, using the Cha-Ching concepts of Earn, Save, Spend and Donate. The programme culminated in a graduation ceremony, which provided a platform for pupils from different schools to come together and test their knowledge through a series of fun and engaging financial literacy games and challenges.

and with our stakeholders' concerns and interests, focused on four principal themes:

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

We establish long-term relationships with our charity partners to ensure that the projects we support are sustainable, and we work closely with them to ensure that our programmes continuously improve.

Education and life skills

Cha-Ching – the first global financial education programme

Developed by Prudential to address financial illiteracy, Cha-Ching is a global financial responsibility and education platform. Now in its eighth year, the programme is aimed at primary school-age children and has expanded from its origins in Asia to each of the four continents where the Group does business. In all the markets where it has been launched it has been very positively received, with strong feedback from parents, teachers, children and political stakeholders. In Asia, the programme reaches over 34 million households a day through a multi-distribution platform including Cartoon Network Asia, and through its own standardised curriculum and school contact programme, has reached more than 400,000 children so far. The curriculum developed in partnership with Junior Achievement has continued to be well received during 2018 and rolled out to a further 180,000 students in Indonesia, the Philippines, Malaysia and Thailand.

In the US, the Jackson Charitable Foundation has brought Cha-Ching to more than 2.7 million elementary school students since 2017 through partnerships with Junior Achievement USA and Discovery Education. The Cha-Ching videos and lessons have been integrated into Junior Achievement's third grade classroom programme. Each year, schools across the country have the chance to win US$10,000 to increase financial education at their school and US$1,000 to donate to a charity of their choice through the Cha-Ching Money Smart Kids Pledge Challenge in the US.

In the UK, working with Young Enterprise, we have developed an online educational resource for primary school students in England and Wales that has enabled the Cha-Ching programme to be brought into the classroom. The Quality Marked teaching resource is linked to the Personal Finance Education Group's Financial Education Framework and has guidance for teachers on how most effectively to integrate activities into their teaching, as well as activities for home-learning. Since launch in late 2016, the resource has been downloaded 28,478 times in 1,179 schools across the UK.

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

First Read – investing in early childhood development

Prudence Foundation has funded and supported the First Read programme since 2013, partnering with Save the Children to focus on investing in early childhood care and development in Cambodia and the Philippines. First Read helps parents to develop their children's numeracy and literacy skills by providing books in the local language or dialect, and encouraging them to read, sing and count together. It also helps parents understand the importance of healthy and nutritious food for children's development. Since 2013, more than 300,000 children aged up to six and their parents have benefited through this home-based early childhood development programme, while over 700,000 people have also benefited indirectly through shared knowledge and resources.

A new three-year partnership formed with the China Development Research Foundation will comprise two programmes, focusing on rural education and child health; and on nutrition improvement. Both programmes are aligned with the strategic development focus of the Chinese national government and will be delivered in rural China.

Employee volunteering

Jackson's charitable efforts are focused on strengthening families and increasing economic opportunities in the communities we call home. Our employees work together for a common cause, which helps them build stronger bonds and valuable skills.

Jackson employees volunteer with Chicago Youth Programmes throughout the year, mentoring students from under-resourced neighbourhoods, serving as important role models and creating a safe space for students to grow, learn and have fun.

Jackson Charitable Foundation teams up with Ramsey Education
In 2018, in addition to Cha-Ching, Jackson Charitable Foundation sponsored Ramsey Education's *Foundations in Personal Finance* curriculum in 250 high schools across the country. The Foundation, which has a mission to advance financial knowledge on a national scale, has teamed up with Ramsey Education to ensure that more than 20,000 high school students have access to this critical, financial education programme that teaches valuable skills to prepare them for a life of financial freedom. More than three million students have benefited from Foundations in Personal Finance in middle schools, high schools and universities nationwide. Foundations in Personal Finance can be used as a primary resource to fulfil requirements in mathematics, economics, family consumer science, business mathematics and personal finance. Educators who use this programme see their students build confidence, security and hope. They share stories of students going to college debt-free, paying cash for their first car, or even helping their parents learn about the importance of an emergency fund.

Nashville associates further financial education with Junior Achievement Career Exploration Centre
Jackson and its employees donated more than US$150,000 to sponsor the Jackson Career Exploration Center at the brand-new Junior Achievement Finance Park in Middle Tennessee. The interactive personal finance facility will reach older students with a hands-on experiential budgeting simulation facility where students convene for 13 teacher-led lessons. The hands-on experience helps students build a foundation to make smart financial decisions related to income, expenses, savings and understanding credit.

Supporting young people with employability and financial skills
M&GPrudential is a partner member of the KickStart Money primary financial education programme. The programme aims to reach 20,000 primary school children and focuses on saving, budgeting, careers, borrowing and consumer and public finance.

Through three secondary school partnerships in Paddington, Reading and Stirling, M&GPrudential has also been directly involved in building the knowledge and skills of young people. These partnerships have supported over 4,100 young people since 2013, with 370 employees giving their time and sharing their knowledge and skills.

Secondary school scholarships across Africa
In our markets in Africa we have committed to provide support for academically able but financially disadvantaged high school students, and to help build capacity for training in actuarial sciences at local universities. Prudential has worked with several charities operating in Ghana, Kenya, Uganda and Zambia to deliver the Prudential Scholarship Programme with the aim of improving quality and access to education for all, and ensuring that everyone marginalised by society receives education, skills and support towards employability. The Prudential Scholarship Programme has supported more than 7,000 academically able but financially disadvantaged high school students to complete their secondary education over either four or five years of high school. This has included financial bursaries to cover the cost of school fees and boarding fees where necessary, uniforms and books, as well as a programme to upgrade conditions to increase attendance at three schools in Uganda.

Disaster readiness and relief

Helping to make Asia more prepared and safer

Safe Steps is a first-of-its-kind, in terms of reach and breadth of partnerships, pan-Asian public service initiative to enhance awareness through the dissemination of educational survival tips for natural disasters, road safety and first aid. The programme was created and developed by Prudence Foundation in partnership with National Geographic and the International Federation of Red Cross and Red Crescent Societies. It is a multi-platform programme including on-air video messages and informative website and educational collateral that can be shared among communities. At its core, Safe Steps utilises one-minute videos to provide simple to understand messages on how to be prepared and stay safe in three areas that cause unnecessary loss of life: natural disasters (launched 2014), road safety (2016) and first aid (2017).

The programme continues to reach an estimated 250 million people every day across Asia, through partnerships with government, humanitarian and private sector organisations. In 2018, new partnerships were formed in Cambodia, Hong Kong, the Philippines, Singapore and Vietnam. For example, Prudence Foundation and Prudential Singapore embarked on a new partnership with the Singapore Red Cross Society, focusing on a mass community first aid training programme aimed at the younger demographic.

Safe Schools programme

Asia Pacific is the world's most disaster-prone region, and the Prudence Foundation continues to focus on disaster preparedness, relief and recovery in our Asia markets. Prudence Foundation works with the humanitarian, government and private sector to help communities better prepare for such disasters before they strike, as well as providing support at times of emergency response and recovery.

During 2018, Prudence Foundation continued to support the Safe Schools programme, partnering with Plan International and Save the Children in Cambodia, Indonesia, the Philippines, Thailand and Vietnam. The programme focuses on capacity-building for students, teachers and local community members on disaster preparedness. Since 2013, more than 85,000 students and 40,000 adults have participated.

In 2018, the Foundation formed a new partnership with Save the Children and the Philippines' Department of Education to implement a nationwide focused programme. The three-year programme will aim to develop a disaster risk reduction management information system, together with training and capacity building of teachers and local government officials. This innovative new approach to Safe Schools aims to ensure that every school in the Philippines will be able to benefit from the Safe Schools programme, providing the Department of Education with the information to help allocate its resources and expertise to support the ongoing implementation of the global and ASEAN Comprehensive Safe Schools framework.

Volunteering to support communities in need

During 2018, Prudence Foundation formed a partnership with Habitat for Humanity to implement a regional volunteering programme that supports communities in need, complementing the volunteer support we provide when appropriate during disaster recovery. In April 2018, over 70 volunteers from across the region spent one week in Yogyakarta, Indonesia, helping to build homes for those in need and an early childhood development centre. In November 2018, the Foundation led another group of more than 80 regional volunteers to Siem Reap in Cambodia to build houses for families desperate for new homes and support the refurbishment of a primary school. During 2018 the Foundation provided support to help with relief and recovery efforts in Taiwan (following the Hualien earthquake) and Laos (following the flooding). In 2019, we will also be supporting longer-term recovery in Lombok and Sulawesi, Indonesia which were both severely affected by natural disasters in 2018.

Safe Steps

Safe Steps is a pan-Asian public service initiative to enhance awareness through the dissemination of educational survival tips for natural disasters, road safety and first aid. The programme was created and developed by Prudence Foundation in partnership with National Geographic and the International Federation of Red Cross and Red Crescent Societies. Prudence Foundation and Prudential Singapore embarked on a new partnership with the Singapore Red Cross Society in 2018, with a mass community first aid training programme aimed at younger people.

PruGOals

As part of our nationwide commitment to social inclusion in the UK, Prudential has developed the PruGOals programme in partnership with our four charity partners: Teach First, Transformation Trust, Greenhouse Sports and the Dame Kelly Holmes Trust.

PruGOals aims to empower young people to achieve their goals, focusing on building confidence, raising aspirations and increasing self-esteem. The core programme takes the riders on a journey of commitment, endurance, training and fitness, and culminates in taking on the Prudential RideLondon-Surrey 46.

Emergency fund relief

Prudential has been a Group-level supporter of Save the Children since 2010 and is one of the Children's Emergency Fund's major supporters. This allows us to act swiftly when disasters occur in any of our markets and provides an instant, effective fundraising mechanism for employees when needed. In 2018 Save the Children's emergency fund was used 93 times across 35 countries, and helped to reach over 2.1 million people affected by emergencies with life-saving support.

Social inclusion

Commitment to social inclusion in the UK through Prudential RideLondon

Prudential RideLondon has established itself as a major mass-participation and charity fundraising event in the UK, and in the past six years, has raised more than £66 million for charity. In 2018 it raised more than £13 million for charity to set a European record for a cycling event, beating the previous year's record of £12.75 million. There was a sharp rise in the number of participants riding for charity – 55 per cent, up from 44 per cent in 2017. More than 900 charities have benefited. Prudential has sponsored the event since inception in 2013 and our own community engagement partnership, PruGOals, supported 420 16 to 18-year olds from 41 schools across the UK to improve their self-esteem, aspiration and educational outcomes. The PruGOals programme helps young people to achieve their goals regardless of social or economic background by providing aspirational challenges, culminating in taking on the Prudential RideLondon-Surrey 46. The 2018 post-event evaluation report from the charity Teach First reveals that students' 'resilience' and 'determination' rose by a third after completing the programme.

Enhancing later life

M&GPrudential's partnership with Royal Voluntary Service (RVS) continues with First Time for Everything. This programme aims to tackle loneliness and social isolation by encouraging 2,700 older people across the UK to stay active, engaged and connected to their community in 2018. Prudential has also continued to fund the Later Life Links programme with Age UK, providing long-term companionship, advice and practical help to older people. Running in six UK communities, the programme supported over 4,900 older people in 2018 through telephone and face-to-face support.

Working with purpose

In partnership with RVS we launched our 'Bring People Together' campaign, which seeks to encourage and empower more people to volunteer, particularly those aged 50 to 65. Specifically its aim is to inspire them to start their own activities or clubs for older people with the backing of RVS. From social activities and hobby classes to running a lunch club or providing companionship to older people in their homes, together we want to harness the get-up-and-go of pre-retirees by encouraging them to put their talents and life experience to valuable use by becoming volunteer co-ordinators. The programme aims to support the creation of 150 new groups and recruit 500 volunteer co-ordinators to lead them.

Apprenticeships in the UK

Youth unemployment remains a growing problem in the UK and M&GPrudential continues to help to shape future job prospects for young people. M&GPrudential's asset management and insurance businesses have run successful apprenticeship programmes for the last seven years, gaining recognition and awards for the success of the schemes. Over 300 apprentices have been through both programmes and over two-thirds of those who completed the programme secured ongoing employment with the business, while others chose to work elsewhere or moved on to higher education. In 2018, 15 Prudential UK apprentices joined the programmes, with an increased emphasis on recruitment from diverse backgrounds. All Prudential UK apprentices are on fixed-term contracts, with the exception of two graduate apprentices who are on permanent contracts. All M&G apprentices are offered permanent positions from the outset and UCAS points have been removed from graduate/internship applications to try and reach those from a low socio-economic background who may not have excelled at school but have done so at university. CVs have also been removed from the face-to-face interview stage, so that assessors are able to assess purely on potential, rather than being influenced by a candidate's background or experience.

Support for disadvantaged communities

M&GPrudential also continues to support disadvantaged communities near our offices and during 2018 over 200 charities received support either by donation or employee volunteering. The range of areas which received support is extensive and includes projects that relate to education, arts and heritage, children and youth, the environment, medical research and social and welfare matters. M&GPrudential continues to support many aspects of education and provides several on-site educational days for students at our London headquarters. M&GPrudential continued its support of City Giving Week with an on-site event which each day showcased several charities that have received support and highlighted the services they provide. The Lord Mayor of the City of London attended M&G's event as part of his initiative to promote the varied charitable activities undertaken by City businesses.

M&GPrudential continues to use its sponsorship of the RHS Chelsea Flower Show to support social issues through RHS outreach programmes including Greening Grey Britain, It's Your Neighbourhood and the RHS Campaign for School Gardening across the UK.

Employee volunteering

Successful volunteering programme – Chairman's Challenge

Many of our employees play an active role in their communities through volunteering, charitable donations and fundraising. In the UK and Europe, the US and Asia we offer our employees the opportunity to support charities through payroll giving.

Chairman's Challenge is our flagship international volunteering programme, bringing together people from across the Group to help in their communities. Colleagues from across the Group give their time and skills to support our global charity partners, including Plan International, Help Age International and Junior Achievement.

The programme continues to appeal to colleagues, with the number of volunteers signing up increasing year-on-year. Last year 9,054 colleagues from around the world took part, volunteering over 49,000 hours to support 33 projects.

Each volunteering project focuses on one or more of our CR priorities and allows us to support both large, well established charities and innovative, smaller-scale activities with volunteers as well as financial support. Prudential donates £150 to our charity partners for every employee who registers for the programme. Charity partners use this money to seed-fund charitable projects for Prudential volunteers. Each year, employees across the Group are involved in the voting process to decide on the most innovative projects, which receive extra funding towards their charitable objectives.

Volunteering across the Group

As well as volunteering efforts on behalf of the Chairman's Challenge, employees around the Group volunteered on a huge range of other charitable projects, from providing relief following disasters to mentoring schoolchildren, supporting the elderly and skills-sharing. We recognise that employee volunteering brings benefit not only to the charities but also to the development of our people, and we actively encourage colleagues to participate in our programmes.

Charitable donations

We calculate our community investment spend using the internationally recognised London Benchmarking Group (LBG) standard. This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions.

In 2018, the Group spent £27.3 million supporting community activities. The direct cash donations to charitable organisations amounted to £19.6 million, of which approximately £4.4 million came from our UK and Europe operations. The remaining £15.2 million was contributed to charitable organisations by Jackson and Prudential Corporation Asia.

The cash contribution to charitable organisations from our UK and Europe operations is broken down as follows: education £2,337,000; social, welfare and environment £1,995,000 and cultural £64,000.

The balance includes in-kind donations as set out on the Group website at www.prudential.co.uk/responsibility/standards prepared in accordance with LBG guidelines. This included 11,710 employees who dedicated 117,491 hours of volunteer service in their communities. Furthermore, £479,633 was donated across the Group by our employees through our payroll giving scheme.

Political donations

It is the Group's policy neither to make donations to political parties nor to incur political expenditure, within the meaning of those expressions as defined in the UK Political Parties, Elections and Referendums Act 2000. The Group did not make any such donations or incur any such expenditure in 2018.

Accountability and governance for corporate responsibility

The Board

The Board regularly reviews the Group's corporate responsibility performance and scrutinises and approves the Group corporate responsibility report and strategy on an annual basis.

Local governance

We believe that corporate responsibility is best managed on the ground by our people running the businesses. In M&GPrudential and Jackson there are governance committees in place – with senior management representation – that agree strategy and spend. In Asia, the Prudence Foundation has been established as a unified charitable platform to align and maximise the impact of community efforts across the region. The Prudence Foundation is governed by a statutory Board of Directors, under which a Board of Trustees operates as a decision-making forum, directing the management of the programmes in collaboration with our local markets, and ensuring that we maximise the value of our spend to local communities. The Material Subsidiary Boards oversee the business unit corporate responsibility initiatives. All business units submit comprehensive Board reports to the Subsidiary Board and to the Prudential plc Board annually providing detailed information on major strategic initiatives.

Code of Business Conduct

Consideration of environmental, social and community matters is integrated in our Code of Business Conduct. Our code is reviewed by the Board on an annual basis. Refer to page 72 for more information.

Risk assessment

For more information on the risks facing our business, see the Group Chief Risk Officer's report on page 52. Further information on how we manage our material ESG issues and associated risks are provided in the 'Managing our material ESG issues' section of the Corporate responsibility review on page 71.

Strategic report approval by the Board of Directors

The Strategic report set out on pages 9 to 86 is approved by the Board of Directors.

Signed on behalf of the Board of Directors

Mike Wells
Group Chief Executive
12 March 2019

03

Governance

Robust and transparent governance supporting the delivery of our strategy

Dear Shareholder

Good governance encourages decisions to be made in a way that is most likely to promote the success of the Company for the benefit of its members, taking into account the views and interest of the Group's wider stakeholders. We aim to achieve this through a governance framework that supports decision-making, is continuously updated to meet the Group's business needs, makes room for challenge and encompasses a prudent system of internal controls and processes for identifying, managing and mitigating key risks.

Set out below are some of the key strategic and governance items the Board has considered over 2018.

Demerger

Following the announcement in 2017 of the combination of our asset manager, M&G, and Prudential UK & Europe to form M&GPrudential, early in 2018 the Board announced the intention to demerge M&GPrudential from the remainder of the Prudential Group. During the year the Board has therefore been focused on the execution of that decision.

In preparation for this major transaction, the Board looked at its ways of working at the end of 2017 through our annual effectiveness review. The feedback from that review was used to ensure that the right environment for critical decision-making continued to be in place, and this has proved very helpful and effective groundwork as the Board was asked to consider a number of demerger-related items through the year.

In relation to the governance of both the Prudential and the M&GPrudential Groups, work has been undertaken to help ensure a smooth transition and ensure that both Groups have boards properly composed to meet their future strategic needs. Most importantly this has included establishing a separate M&GPrudential board and the appointment of the first independent non-executive director, Mike Evans, as chairman of that board.

Further information about the demerger is set out in the Strategic report.

Culture and values

The Board spent time in 2018 focusing on Prudential's culture, recognising that it is an important contributor to the Group's success and sustainable growth and the Board made further progress on considering how our Group's culture is articulated, communicated, rewarded and recognised.

In light of the upcoming demerger, the Group's culture has taken on extra significance as we navigate through a period of change. It is one of our objectives to ensure that the Group continues to be guided by its values and behaviours and demonstrates ongoing commitment to our stakeholders and to innovation, performance and excellence in execution.

The Board approved changes to its terms of reference in 2018 to make explicit reference to its role in establishing the Group's purpose, values and strategy.

Looking after our stakeholders and wider community initiatives

At Prudential, we recognise that our stakeholders are key to our long-term success. We seek to engage proactively with them, to understand their views and to take these views into account when making decisions.

The Board is cognisant of the emphasis that the new Corporate Governance Code puts on stakeholders more broadly than shareholders. The Board considered this in two separate meetings during the year and is developing mechanisms to ensure stakeholder views, and in particular the employee voice, make their way to Board level in an effective way.

I remain immensely proud of our international volunteering programme, the Chairman's Challenge, which continues to grow with over 9,000 colleagues having given 49,000 hours to supporting the community in 2018.

You can read more about our corporate social responsibility actions in the corporate responsibility review on pages 70 to 86 and in our 2018 ESG report which will be published on our website in May 2019.

Succession planning and Board composition changes

It has been a privilege to serve on the Board of Prudential plc since October 2010 and to have served as Chairman since July 2012.

I and my fellow members of the Nomination & Governance Committee agree that it is important that leadership of the Board is refreshed appropriately and that succession planning for my role as Chairman takes place in an open and transparent way.

Our Senior Independent Director, Mr Remnant, has therefore been consulting with major shareholders on my tenure extending to May 2021, subject to re-election each year. We are mindful of the provisions of the Corporate Governance Code which state that a chair should not remain in post beyond nine years from the date of first appointment to the board, which in my case would be October 2019. However, given the Group's planned demerger of the M&GPrudential business, and in light of the shareholder support we have received the Board has considered and confirmed that it believes it to be in shareholders' best interests for me to continue to serve in the Chair role in order to oversee the Board during this time of change and ensure that the Prudential Group is strongly established in its post-demerger state. I am fully committed to this challenge.

Further details of the agreed timeframe for my departure and plans for identifying and appointing a successor are set out in a report from Mr Remnant, as part of the Nomination & Governance Committee report on page 111. The Committee's report includes a description of the Group's approach to succession planning more widely.

Lord Turner has announced that he will retire from the Board at the 2019 Annual General Meeting. I want to thank him for his significant contribution to the Board over the last three and a half years, as a Non-executive Director and member of the Risk Committee.

We have also looked at our Board composition as part of our progress towards demerger. As Chief Executive of M&GPrudential, Mr Foley will naturally stand down from the Board as part of the demerger transition. Having taken into account the changed shape of the Prudential Group post-demerger and the reduced number of business units, the Board has taken a decision that the roles of Chief Executive Prudential Corporation Asia and Chief Executive Officer of Jackson Holdings LLC will no longer be Executive Director roles on the Board, although will continue to serve on the Group Executive Committee. As announced to the market on 28 February 2019 all of these Board changes will take effect from the conclusion of our 2019 Annual General Meeting. My thanks go to Mr Foley, Mr Nicandrou and Mr Falcon for their service.

I would also like to thank Ms Richards and Mr Stowe, as Executive Directors having stepped down during 2018, for their valuable contributions to the Board and to the Group during the year.

I hope that this report and the reports of my fellow Committee Chairs will demonstrate to you the work we have undertaken over the course of the year as well as the tangible and positive impact this has had on our business.

Paul Manduca
Chairman

Board of Directors

Key to Committee membership

Chair	Chair
Audit	Audit
N&G	Nomination & Governance
Rem	Remuneration
Risk	Risk

Chairman

Paul Manduca
Chairman

Appointment: October 2010
Age: 67

N&G

Relevant skills and experience
Paul will continue to draw on his extensive experience in leadership roles and his knowledge of the Group's core businesses, international markets and industry sectors, and his technical knowledge, to provide effective leadership during a period of change for the Group.

Paul has held a number of senior leadership roles. Notable appointments include serving as chairman of the Association of Investment Companies (1991 to 1993), acting as founding CEO of Threadneedle Asset Management Limited (1994 to 1999), global CEO of Rothschild Asset Management (1999 to 2002), directorships of Eagle Star and Allied Dunbar, holding the offices of European CEO of Deutsche Asset Management (2002 to 2005), chairman of Bridgewell Group plc and a director of Henderson Smaller Companies Investment Trust plc.

Other previous appointments include the chairmanship of Aon UK Limited and JPM European Smaller Companies Investment Trust Plc. From September 2005 until March 2011, Paul was a non-executive director of Wm Morrison Supermarkets Plc, including as senior independent director, audit committee chairman and remuneration committee chairman. He was a non-executive director and audit committee chairman of KazMunaiGas Exploration & Production until the end of September 2012 and chairman of Henderson Diversified Income Limited until July 2017.

Paul initially joined the Board in October 2010 as the Senior Independent Director and member of the Audit and Remuneration Committees, roles he held until his appointment as Chairman in July 2012. On becoming Chairman, Paul was also appointed Chair of the Nomination & Governance Committee, having been a member of the Committee since January 2011.

Other appointments
- RateSetter (Retail Money Market Limited) (chairman)
- Templeton Emerging Markets Investment Trust (TEMIT) (chairman)
- Securities Institute
- TheCityUK Advisory Council (chairman)

Chief Executive

Michael Wells
Group Chief Executive

Appointment: January 2011
Age: 58

Relevant skills and experience
Mike continues to develop the operational management of the Group on behalf of the Board, implementing Board decisions and leading the Executive Directors and senior executives in the management of all aspects of the day-to-day business of the Group.

Mike has more than three decades' experience in insurance and retirement services, having started his career at the US brokerage house Dean Witter, before going on to become a managing director at Smith Barney Shearson.

Mike joined the Prudential Group in 1995 and became Chief Operating Officer and Vice-Chairman of Jackson in 2003. In 2011, he was appointed President and Chief Executive Officer of Jackson, and joined the Board of Prudential.

During his leadership of Jackson, Mike was responsible for the development of Jackson's market-leading range of retirement solutions. He was also part of the Jackson teams that purchased and successfully integrated a savings institute and two life companies.

Mike joined the Board in 2011 and was appointed Group Chief Executive in June 2015.

Other appointments
- International Advisory Panel of the Monetary Authority of Singapore
- San Diego University Advisory Board

Board changes

Non-executive Directors
Mrs Wicker-Miurin was appointed as a Non-executive Director and a member of the Remuneration Committee with effect from 3 September 2018.

Ms Schroeder joined the Risk Committee with effect from 1 March 2018.

Mr Watjen joined the Risk Committee with effect from 1 November 2018.

As announced on 28 February, Lord Turner will step down from the Board with effect from the conclusion of the 2019 Annual General Meeting.

Executive Directors
Mr Turner joined the Board as an Executive Director and Group Chief Risk Officer with effect from 1 March 2018.

Ms Richards stepped down as Chief Executive of M&G and as Executive Director of the Company with effect from 10 August 2018.

Mr Stowe stepped down as Chairman and Chief Executive Officer of Prudential's North American Business Unit and as an Executive Director of the Company with effect from 31 December 2018. He was succeeded by Michael Falcon who joined the Board from 7 January 2019 and holds the title of Chief Executive Officer of Jackson Holdings LLC.

Mr Falcon will step down as an Executive Director of the Board at the conclusion of the 2019 Annual General Meeting, as will Mr Foley and Mr Nicandrou. These changes are being made as part of our progress towards demerger and are more fully described on page 88. Each of Mr Falcon, Mr Foley and Mr Nicandrou will maintain their roles as chief executives of their respective business units and members of the Group Executive Committee.

Executive Directors

Mark FitzPatrick CA
Chief Financial Officer

Appointment: July 2017
Age: 50

Relevant skills and experience
Mark has a strong background across financial services, insurance and investment management, encompassing wide geographical experience relevant to the Group's key markets.

Mark previously worked at Deloitte for 26 years, building his industry focus on insurance and investment management globally. During this time, Mark was managing partner for Clients and Markets, a member of the executive committee and a member of the board of Deloitte UK. He was a vice chairman of Deloitte for four years, leading the CFO Programme and developing the CFO Transition labs. Mark previously led the Insurance & Investment Management audit practice and the insurance industry practice.

Mark joined the Board as an Executive Director and Chief Financial Officer in July 2017.

James Turner FCA
Group Chief Risk Officer

Appointment: March 2018
Age: 49

Relevant skills and experience
Having held senior positions at Prudential for a number of years, James has a wide-ranging understanding of the business and draws on previous experience across internal audit, finance and compliance as well as technical knowledge.

James has led internal audit teams in UBS in both the UK and Switzerland. Prior to joining Prudential, James was the deputy head of compliance for Barclays plc. He also held a number of senior internal audit roles across the Barclays group, leading teams that covered the UK, the US, Western Europe, Africa and Asia retail and commercial banking activities.

James joined Prudential in November 2010 as the Director of Group-wide Internal Audit and was appointed Director of Group Finance in September 2015, with responsibility for delivery of the Group's internal and external financial reporting, business planning, performance monitoring and capital and liquidity planning. He also led the development of the Group's Solvency II internal model.

James joined the Board as an Executive Director and Group Chief Risk Officer in March 2018.

Other appointments
— West Bromwich Building Society (non-executive director)

Michael Falcon
Chief Executive Officer of Jackson Holdings LLC

Appointment: January 2019
Age: 56

Relevant skills and experience
Michael has extensive experience in senior positions across a range of financial services institutions in the US and Asia.

Michael holds a degree in Finance from Indiana University and began his career in commercial and investment banking at Chase Manhattan Bank in 1985. Between 1989 and 2000, Michael worked at Sara Lee Corporation (now Hanesbrands, Inc) in a variety of senior financial, strategic and general management roles, based in Chicago, Paris and Winston-Salem, North Carolina.

Between 2000 and 2008 Michael worked at Merrill Lynch, serving as head of the retirement group and other roles, including head of strategy and finance for the US Private Client business. Michael later served as a consultant and strategic adviser to companies in the retirement, equity awards, wealth management and asset management industries until joining J.P. Morgan Asset Management in 2010. Michael has served as a trustee and executive committee member of EBRI (the Employee Benefit Research Institute) and was founding chairman of the Advisory Board of EBRI's Center for Retirement Income Research between 2011 and 2014.

Before joining Prudential, Michael was based in Hong Kong as chief executive officer of Asia Pacific for J.P. Morgan Asset Management, a role he held since 2015, and was head of Asia Pacific funds from 2014. He joined J.P. Morgan Asset Management in New York as head of retirement in 2010, responsible for investment management and plan service businesses in the defined contribution, individual retirement and taxable savings market.

Michael joined the Board in January 2019 as an Executive Director, succeeding Barry Stowe, and holds the title of Chief Executive Officer of Jackson Holdings LLC (Jackson), which includes Jackson's US subsidiaries and affiliates (formerly the North American Business Unit).

John Foley
Chief Executive of M&GPrudential
Appointment: January 2016
Age: 62

Relevant skills and experience
John has wide-ranging experience of different senior roles in financial services, both at Prudential and in his earlier career, making him well placed to lead M&GPrudential and deliver on its long-term strategic aims.

John spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury of the combined TSB and Hill Samuel Bank. Before joining Prudential, John spent three years as general manager, global capital markets at National Australia Bank.

John joined Prudential as Deputy Group Treasurer in 2000 and became Managing Director of Prudential Capital and Group Treasurer in 2001. During his career at Prudential, John has held the offices of Chief Executive of Prudential Capital, Group Chief Risk Officer, Group Investment Director and Chief Executive of Prudential UK & Europe.

John first joined the Board in 2011 as Group Chief Risk Officer and was reappointed in January 2016, having stepped down during his time as Group Investment Director.

In 2017, John's role was expanded from Chief Executive of Prudential UK & Europe to Chief Executive of M&GPrudential, the Group's combined UK asset management and savings and retirement solutions business. In 2018 he took on the additional responsibility of acting as Chief Executive of the key regulated entities of M&G and Prudential UK.

Nicolaos Nicandrou ACA
Chief Executive of Prudential Corporation Asia
Appointment: October 2009
Age: 53

Relevant skills and experience
Nic has a finance background and having built up deep knowledge of the Group, moved to the position of Chief Executive of Prudential Corporation Asia in July 2017. Nic is responsible for Prudential Corporation Asia's life insurance and asset management business across 14 markets in the region.

Nic started his career at PricewaterhouseCoopers (PwC). Before joining Prudential, he worked at Aviva, where he held a number of senior finance roles, including Norwich Union Life finance director and board member, Aviva group financial control director, Aviva group financial management and reporting director and CGNU group financial reporting director.

Nic joined the Board in October 2009 as an Executive Director and Chief Financial Officer.

Other appointments
- CITIC-Prudential Life Insurance Company Limited (chairman) (a Prudential plc joint venture)

Non-executive Directors

The Hon. Philip Remnant CBE FCA
Senior Independent Director

Appointment: January 2013
Age: 64

Audit N&G Rem

Relevant skills and experience

Philip contributes experience across a number of sectors and in particular listed company experience and the financial services industry, including asset management, in the UK and Europe.

Philip was a senior advisor at Credit Suisse and a vice chairman of Credit Suisse First Boston (CSFB) Europe and head of the UK Investment Banking Department. He was twice seconded to the role of director general of the Takeover Panel. Philip also served on the board of Northern Rock plc and as chairman of the Shareholder Executive. Until July 2018, he also served on the board of UK Financial Investments Limited.

Philip joined the Board in January 2013 as a Non-executive Director, as Senior Independent Director and as a member of each of the Audit Committee, the Remuneration Committee and the Nomination & Governance Committee. He also chaired the M&G Group Limited board from April 2016 until October 2018.

Other appointments

— Severn Trent plc
— City of London Investment Trust (chairman)
— Takeover Panel (deputy chairman)

Sir Howard Davies

Appointment: October 2010
Age: 68

Audit N&G Risk

Relevant skills and experience

Sir Howard has a wealth of experience in the financial services industry, across the Civil Service, consultancy, asset management, regulatory and academia. He also contributes his detailed knowledge of the Group's key international markets including the UK, Europe, North America and Asia as well as international regulatory experience.

Sir Howard was previously chairman of the Phoenix Group and an independent director of Morgan Stanley Inc.

Sir Howard joined the Board in October 2010 as a Non-executive Director and Chair of the Risk Committee. He joined the Audit Committee in November 2010 and the Nomination & Governance Committee in July 2012.

Other appointments

— Royal Bank of Scotland (chairman)
— China Banking Regulatory Commission international advisory board
— China Securities Regulatory Commission international advisory board (chairman)
— Institut d'Études Politiques (Sciences Po)
— Millennium LLC regulatory advisory board

David Law ACA

Appointment: September 2015
Age: 58

Audit N&G Risk

Relevant skills and experience

David has experience across the Group's key international markets including the UK, Europe, North America and Asia, and across a number of industry sectors. He contributes extensive technical knowledge of audit, accounting and financial reporting essential to his role as Chair of the Audit Committee.

David was the global leader of PricewaterhouseCoopers (PwC) insurance practice, a partner in PwC's UK firm, and worked as the lead audit partner for multi-national insurance companies until his retirement in 2015. David has also been responsible for PwC's insurance and investment management assurance practice in London and the firm's Scottish assurance division.

David joined the Board in September 2015 as a Non-executive Director and member of the Audit Committee. David was appointed Chair of the Audit Committee and a member of the Risk Committee and of the Nomination & Governance Committee in May 2017.

Other appointments (until July 2019)

— L&F Holdings Limited (CEO) and its subsidiaries (the professional indemnity captive insurance group that serves the PwC network and its member firms)

Key to Committee membership

Chair	Chair
Audit	Audit
N&G	Nomination & Governance
Rem	Remuneration
Risk	Risk

Kaikhushru Nargolwala FCA

Appointment: January 2012
Age: 68

Rem Risk

Relevant skills and experience

Kai has experience across some of the Group's key international markets, particularly Hong Kong and the wider Asian market. In addition to his experience with listed groups, he contributes knowledge of the financial services sector.

Kai spent 19 years at Bank of America and was based in Hong Kong in roles as group executive vice president and head of the Asia Wholesale Banking Group during 1990 to 1995. He spent 10 years working for Standard Chartered PLC in Singapore as group executive director responsible for Asia Governance and Risk during 1998 to 2007. Kai was chief executive officer of the Asia Pacific Region of Credit Suisse AG during 2008 to 2010 and now serves as director and chairman of their remuneration committee.

Kai has served on a number of other boards, including Singapore Telecommunications and Tate and Lyle plc.

Kai joined the Board in January 2012 as a Non-executive Director and member of the Remuneration and Risk Committees.

Other appointments

- Prudential Corporation Asia Limited (Prudential plc subsidiary) (chairman)
- Clifford Capital Pte. Ltd (chair)
- Credit Suisse Group AG
- Duke-NUS Medical School (chairman)
- PSA International Pte Ltd

Anthony Nightingale CMG SBS JP

Appointment: June 2013
Age: 71

N&G Rem

Relevant skills and experience

Anthony has long executive experience of listed companies and, in particular, extensive knowledge of Asian markets.

Anthony spent his career in Asia, where he joined the Jardine Matheson Group in 1969, holding a number of senior positions before joining the board of Jardine Matheson Holdings in 1994. He was managing director of the Jardine Matheson Group from 2006 to 2012. His position on the Hong Kong-APEC trade policy study group ended in 2018 and he resigned as a member of the UK-ASEAN Business Council in 2019.

Anthony joined the Board in June 2013 as a Non-executive Director and member of the Remuneration Committee. He became Chair of the Remuneration Committee and a member of the Nomination & Governance Committee in May 2015.

Other appointments

- Jardine Matheson Holdings (and other Jardine Matheson group companies)
- Schindler Holding Limited
- Shui On Land Limited
- Vitasoy International Holdings Limited
- The Innovation and Strategic Development Council in Hong Kong
- The APEC Vision Group

Alice Schroeder

Appointment: June 2013
Age: 62

Audit Risk

Relevant skills and experience

Alice has experience across the insurance, asset management, technology and financial services industries in the US.

Alice began her career as a qualified accountant at Ernst & Young. She joined the Financial Accounting Standards Board as a manager in 1991, overseeing the issuance of several significant insurance accounting standards.

From 1993, she led teams of analysts specialising in property-casualty insurance as a managing director at CIBS Oppenheimer, PaineWebber (now UBS) and Morgan Stanley. Alice was also an independent board member of the Cetera Financial Group and held the office of CEO and chair of Showfer Media LLC (formerly WebTuner). She was also a director of Bank of America Merrill Lynch International until December 2018.

Alice joined the Board in June 2013 as a Non-executive Director and member of the Audit Committee. She became a member of the Risk Committee in March 2018.

Other appointments

- Quorum Health Corporation
- Natus Medical Incorporated

Key to Committee membership

Chair	Chair
Audit	Audit
N&G	Nomination & Governance
Rem	Remuneration
Risk	Risk

Non-executive Directors continued

Lord Turner FRS

Appointment: September 2015
Age: 63

Audit Risk

Relevant skills and experience
Lord Turner has extensive knowledge and experience of the UK regulatory regime.

Lord Turner began his career with McKinsey & Co, advising companies across a range of industries.

He served as director-general of the Confederation of British Industry, vice-chairman of Merrill Lynch Europe, chairman of the Pensions Commission and as a non-executive director of Standard Chartered Bank.

Lord Turner was chairman of the UK's Financial Services Authority, a member of the international Financial Stability Board and a non-executive director of the Bank of England.

Lord Turner joined the Board in September 2015 as a Non-executive Director and member of the Risk Committee. He became a member of the Audit Committee in May 2017.

Other appointments
- Chubb Europe (chairman)
- Energy Transition Commission (chairman)
- Envision Limited (advisory board)
- House of Lords crossbench member (from 2005)
- Senior Fellow of the Institute for New Economic Thinking
- London School of Economics and Cass Business School (visiting professor)
- OakNorth Bank (advisor)

Thomas Watjen

Appointment: July 2017
Age: 64

Rem Risk

Relevant skills and experience
Tom has experience across the insurance, asset management and financial services industries as well as experience with listed companies in the UK and the US.

Tom started his career at Aetna Life and Casualty before joining Conning & Company, an investment and asset management provider, where he became a partner in the consulting and private capital areas. He joined Morgan Stanley in 1987, and became a managing director in its insurance practice.

In 1994 he was appointed executive vice president and chief financial officer of Provident Companies Inc.

He was a key member of the team associated with Provident's merger with Unum in 1999 and was appointed president and chief executive officer of the renamed Unum Group in 2003, a role he held until May 2017.

Tom joined the Board in July 2017 as a Non-executive Director and member of the Remuneration Committee. He became a member of the Risk Committee in November 2018.

Other appointments
- SunTrust Banks, Inc

Fields Wicker-Miurin OBE

Appointment: September 2018
Age: 60

Rem

Relevant skills and experience
Fields has extensive international boardroom experience, combining knowledge of the Group's key geographic markets with experience across the global financial services industry.

Fields started her career at Philadelphia National Bank in 1982 before joining Strategic Planning Associates (now Oliver Wyman) as a senior partner in 1989. She became chief financial officer and director of strategy at the London Stock Exchange in 1994, leader of the global markets practice of AT Kearney in 1998 and managing director of Vesta Capital Advisors in 2000. She was appointed to Nasdaq's Technology Advisory Council in 2000 and was a member of the panel of experts advising the European Parliament on financial markets harmonisation for four years from 2002. She became a non-executive director and chair of the audit committee of Savills plc in 2002 and a non-executive director and chair of the investment committee of the Royal London Group in 2003.

Fields joined the Board in September 2018 as a Non-executive Director and member of the Remuneration Committee.

Other appointments
- BNP Paribas
- SCOR SE
- Department for Digital, Culture, Media & Sport
- Leaders' Quest (Partner)

How we operate

This section tells you more about the Group's governance, operation of the Board and Board roles.

Group governance

Corporate governance codes – statement of compliance

The Company has dual primary listings in London (premium listing) and Hong Kong and has therefore adopted a governance structure based on the UK and Hong Kong Corporate Governance Codes (the UK and HK Codes).

The Board confirms that, for the year under review, the Company has complied with all the principles and provisions of the 2016 UK Code, which was applicable for the reporting period. The Company has been applying the 2018 UK Code from 1 January 2019.

The Company has also complied with the provision of the HK Code other than as follows: Provision B.1.2(d) of the HK Code requires companies, on a comply or explain basis, to have a remuneration committee which makes recommendations to a main board on the remuneration of non-executive directors. This provision is not compatible with supporting provision D.2.3 of the UK Code which recommends that the board determines the remuneration of non-executive directors. Prudential has chosen to adopt a practice in line with the recommendations of the UK Code.

The UK Code is available from:
www.frc.org.uk

The HK Code is available from:
www.hkex.com.hk

Our governance framework

The Group has established a governance framework for the business which is designed to promote appropriate behaviours across the Group.

The governance framework includes the key mechanisms through which the Group sets strategy, plans its objectives, monitors performance, considers risk management, holds business units to account for delivering on business plans and arranges governance.

The Group Governance Manual (the Manual) sets out the policies and procedures under which the Group operates, taking into account statutory, regulatory and other relevant matters. Business units manage and report compliance with the Group-wide mandatory requirements and standards set out in the Manual through annual attestations. This includes compliance with our risk management framework, details of which are set out on pages 107 and 108 of this report.

The content of the Manual is reviewed regularly, reflecting the developing nature of both the Group and the markets in which it operates, with significant changes on key policies reported to the relevant Board Committee.

Material Subsidiary governance

Prudential has appointed independent non-executive directors to the boards of its four Material Subsidiary entities within the Group: Jackson National Life Insurance Company, M&G Group Limited, Prudential Corporation Asia Limited and The Prudential Assurance Company Limited. Each Material Subsidiary has a board of directors led by an independent chair and an audit committee and risk committee, composed entirely of independent non-executives.

Dialogue between the Group Chair, Group Risk Committee Chair and Group Audit Committee Chair and their counterparts in the Material Subsidiaries provides an effective information flow. Over the course of 2018 and early 2019, the Board of M&GPrudential has been developed by its independent Chairman, Mr Mike Evans. Mr Evans and the Group Chair have maintained dialogue throughout.

An evaluation of the board, audit and risk committees of each Material Subsidiary was carried out in respect of 2018 which concluded that each of those boards and committees operated effectively during the year. An assessment of whether each business unit audit and risk committee has fulfilled their mandates is conducted annually and the results reported to the Group Audit Committee and Group Risk Committee.

The Nomination & Governance Committee is responsible for oversight of governance arrangements for the Material Subsidiaries. This and other activities of the Nomination & Governance Committee during 2018 are described on pages 109 to 114.

As part of the Group's focus on corporate responsibility, the boards of each of our Material Subsidiaries considers updates on corporate responsibility activities and spend in their communities on an annual basis. This has created a layer of independent scrutiny to help ensure those boards are close to the community and charitable activities of their businesses.

Regulatory environment

Until the demerger is completed, the Prudential Regulation Authority (PRA) will continue to be the Group-wide supervisor of Prudential. The PRA will be the Group-wide supervisor of M&GPrudential following the demerger. After the demerger, Prudential's individual insurance and asset management businesses will continue to be supervised at a local entity level and local statutory capital requirements will continue to apply. The Supervisory College, made up of the authorities overseeing the principal regulated activities in jurisdictions where the future Prudential Group will operate, has made a collective decision that Hong Kong's Insurance Authority (IA) should become the new Group-wide supervisor for Prudential plc.

Interactions with our regulators shape our governance framework and the Chairman and Group Chief Executive play a leading role in representing the Group to regulators and ensuring our dialogue with them is constructive.

Stakeholder engagement

The Board has identified the Group's key stakeholders as including customers, investors, employees, regulators, civil society, the media and suppliers.

During the year, the Board considered workforce engagement activities in light of the provisions of the revised UK Code published in July 2018. In 2019 the Group will be putting in place procedures to help ensure that workforce practices and policies are consistent with the Group's values and support its long-term sustainable success and that the workforce voice is understood at Board level.

As a major institutional investor, the Board recognises the importance of maintaining an appropriate level of two-way communication with shareholders.

The Annual General Meeting is an opportunity for further shareholder engagement, for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors then in office attended the 2018 Annual General Meeting.

Details of the 2019 Annual General Meeting are available at www.prudential.co.uk/investors

A full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is conducted each year by the Group Chief Executive and the Chief Financial Officer, led by the Investor Relations team. A conference for investors and analysts is held on a regular basis, including in-depth business presentations and opportunities for attendees to meet with members of the Board and senior executives and an opportunity for the executive team to communicate progress and strategy outside of the financial reporting cycle. The most recent event was held in November 2018 and feedback was provided to the Board in November and December 2018.

The Group Chief Executive, Chief Financial Officer and Investor Relations team also attend major financial services conferences to present to, and meet with, the Company's shareholders.

In 2018, as part of the investor relations programme, over 370 meetings were held with more than 300 individual institutional investors in London, continental Europe, the USA and Asia.

The Company holds an ongoing programme of regular contact with major shareholders, conducted by the Chairman, to discuss their views on the Company's governance. The Senior Independent Director offers meetings to major shareholders as needed and this year carried out a consultation specifically on the Chairman's tenure. Engagement with institutional investors on the Directors' Remuneration Policy and implementation is led by the Remuneration Committee Chair on an annual basis. Other Non-executive Directors are available to meet with major shareholders on request.

Shareholder feedback and key issues from these meetings is communicated to the Board. Details of when feedback was discussed by the Board in 2018 can be found in the table on page 97.

The Annual General Meeting is an opportunity for further shareholder engagement, for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors then in office attended the 2018 Annual General Meeting.

Details of the 2019 Annual General Meeting are available at www.prudential.co.uk/investors

More details of stakeholder engagement with our communities and societies can be found in our Corporate responsibility review on pages 70 to 86 and on our website at www.prudential.co.uk/responsibility/approach.

Operation of the Board

How the Board leads the Group

The Group is headed by a Board led by the Chairman.

The Board is currently made up of 16 Directors, of which a majority, excluding the Chairman, are independent Non-executive Directors. Biographical details of each of the Directors can be found on pages 89 to 94 and further details of the roles of the Chairman, Group Chief Executive, Senior Independent Director, Committee Chairs and the Non-executive Directors can be found on pages 101 and 102.

The Board is collectively responsible to shareholders for the long-term sustainable success of the business through:

- Approving the Group's long-term strategic objectives, annual budgets and business plans, as recommended by the Group Chief Executive and any material changes to them;
- Monitoring the implementation of strategic objectives, annual budgets and business plans;
- Establishing the Company's purpose, values and strategy and satisfying itself that these are aligned with the Group's culture; and
- Assessing and monitoring culture, including alignment with policy, practices, behaviours and risk appetite.

Specific matters are reserved for decision by the Board, including:

- Approving dividend policy and determination of dividends;
- Approval of strategic projects;
- Approval of the three-year business and financial plan;
- Approval of the Group's full and half-yearly results announcements and any other periodic financial reporting;
- Responsibility for an effective system of internal control and risk management;
- Overseeing the Group's corporate social responsibility programmes; and
- Ensuring effective engagement with, and encouraging participation from, key stakeholder groups.

Key areas of focus – how the Board spent its time

The Board held 10 meetings during 2018. In addition to those meetings set out in the table below, the Board held a separate two-day strategy event in June and two Board workshops focused on the demerger.

In addition to meetings, the Board receives a monthly update report from management.

	Mar[1]	Apr	May	Jun	Jul	Aug	Sep	Oct	Dec
Strategy and implementation									
Approval and review of strategic priorities	●	○	○	○	○	○	○	○	○
Strategic priorities monitoring	○	○	●	○	●	○	●	○	●
Approval of three-year operating plan	○	○	○	○	○	○	○	○	●
Strategic projects[2]	●	●	●	●	●	●	●	●	●
Group Chief Executive's report	●	●	●	●	●	○	●	●	●
Report from Committee Chairs									
Audit	●	○	●	○	●	●	○	●	●
Nomination & Governance	●	○	○	●	○	○	○	●	○
Remuneration	●	●	○	●	○	○	●	○	●
Risk	●	○	●	○	●	○	○	●	●
Financial reporting and dividends									
Chief Financial Officer's performance report	●	●	●	●	●	○	●	●	●
Full year	●	○	○	○	○	○	○	○	○
Half year	○	○	○	○	●	●	○	○	○
Group Solvency II reporting	○	○	●	○	○	○	○	○	○
Business unit Chief Executive updates									
Prudential Corporation Asia	●	●	●	●	●	○	●	●	●
Jackson	●	●	●	●	●	○	●	●	●
M&GPrudential	●	●	●	●	●	○	●	●	●
Risk, regulatory and compliance									
Regulatory and compliance updates	●	○	●	○	●	○	●	●	●
Chief Risk Officer's report	●	○	●	●	●	○	●	●	●
Government relations	●	○	●	○	●	○	●	●	●
Relations with regulators	●	○	●	●	●	○	●	●	●
Governance and stakeholders									
Governance updates	●	●	●	●	●	○	●	●	●
Board evaluation and actions tracking	●	○	○	○	○	○	●	○	○
Succession planning	●	●	●	●	●	○	●	○	●
Corporate responsibility reporting and ESG	○	●	○	○	○	○	○	●	●
Diversity and inclusion	○	○	○	○	●	○	○	○	●
Talent review	○	○	○	○	○	○	○	○	●
Non-executive Directors' fees	○	○	○	●	○	○	○	○	○
Investor updates including feedback on investor meetings	●	●	●	●	●	○	●	●	●

Notes

1 The Board held two meetings in March 2018.

2 Strategic projects considered during the year included the demerger of M&GPrudential, announced in March, the acquisition of TMB Asset Management Co., Ltd. in Thailand, announced in July, and the renewal of the bancassurance alliance with United Overseas Bank Limited, announced in January 2019, as well as other confidential matters.

Board and Committee meeting attendance throughout 2018

Individual Directors' attendance at meetings throughout the year is set out in the table below.

		Board 10 meetings	**Audit Committee** 9 meetings	**Nomination & Governance Committee** 3 meetings	**Remuneration Committee** 5 meetings	**Risk Committee** 5 meetings	**Joint Audit and Risk Committee** 1 meeting	**General Meeting** 1 meeting
Chairman	Paul Manduca	●●●●●●●●●●		●●●				●
Executive Directors	Mike Wells	●●●●●●●●●●						●
	Mark FitzPatrick	●●●●●●●●●●						●
	James Turner	●●●●●●●●●●						●
	John Foley	●●●●●●●●●●						●
	Nic Nicandrou	●●●●●●●●●●						●
	Anne Richards[1]	●●●●●●●						●
	Barry Stowe[2]	●● ●●●●●●●						●
Non-executive Directors	Philip Remnant	●●●●●●●●●●	●●●●●●●●●	●●●	●●●●●		●	●
	Howard Davies	●●●●●●●●●●	●●●●●●●●●	●●●		●●●●●	●	●
	David Law	●●●●●●●●●●	●●●●●●●●●	●●●		●●●●●	●	●
	Kai Nargolwala	●●●●●●●●●●			●●●●●	●●●●●	●	●
	Anthony Nightingale	●●●●●●●●●●		●●●	●●●●●			●
	Alice Schroeder[3]	●●●●●●●●●●	●●●●●●●●●			●●●●	●	●
	Lord Turner	●●●●●●●●●●	●●●●●●●●●			●●●●●	●	●
	Tom Watjen[4]	●●●●●●●●●●			●●●●●	●		●
	Fields Wicker-Miurin[5]	●●●			●●			

Notes

[1] Ms Richards stepped down from the Board with effect from 10 August 2018.

[2] Mr Stowe stepped down from the Board with effect from 31 December 2018.

[3] Ms Schroeder was appointed a member of the Risk Committee with effect from 1 March 2018.

[4] Mr Watjen was appointed a member of the Risk Committee with effect from 1 November 2018.

[5] Mrs Wicker-Miurin was appointed a member of the Board with effect from 3 September 2018.

Board and Committee papers are usually provided one week in advance of a meeting. Where a Director is unable to attend a meeting, his or her views are canvassed in advance by the Chairman of that meeting where possible.

Board effectiveness

Actions during 2018 arising from the 2017 review

At the end of 2017, an externally facilitated review of the Board's effectiveness was carried out by Boardroom Review Limited. During 2018, the action points that had been identified in that review were addressed and the Board received an update on progress against those actions in September 2018 and February 2019.

Set out below are the themes, summary of actions and progress updates:

Theme	*Summary of actions*	*Progress*
Creating the right environment for critical decision-making	Spend additional time on site visits Continue to hold Non-executive Director only sessions on an as required basis	— The agenda of the April 2018 Board meeting held in Singapore was extended to ensure that a range of internal and external stakeholder views on the Group's Asia business was given. — During the Board visit to Washington, DC in September 2018, the Jackson Holdings team provided the Board with updates on the US business and with a specific perspective on the US government, its regulatory regime and impact on the Jackson Holdings businesses. — The Chairman's current practice of holding regular private Non-executive Director meetings has continued and Non-executive Directors may request additional meetings if needed. — The practice of private, members-only meetings is also established separately for the Risk and Audit Committees and has continued in 2018, with ad hoc private meetings being held as required.
Highlighting culture on the agenda	Provide further reports to the Board on culture in 2018 and mature the Group's strategic objective to develop a framework for a measurable, definable culture	— A report on culture was presented to the Board in October 2018 detailing actions taken and proposed actions up to demerger and beyond. — The Risk Committee continues to monitor risk culture across the organisation. — The Board has approved amendments to its terms of reference which formalise the Board's role in establishing the Group's purpose, values and strategy and ensuring the alignment of these with Group culture.
Increasing the Board's resilience	Continue to focus on gender and other diversity in all new Board appointments Introduce a skills map to monitor experience and expertise more formally	— The appointment of Mrs Wicker-Miurin as a Non-executive Director and member of the Remuneration Committee with effect from 3 September 2018, helped to strengthen the Board's range of skills, technical expertise and knowledge. — The search for additional Non-executive Directors is ongoing given the Board's desire to continue enhancing its diversity, including gender and geography. — The Nomination & Governance Committee continues to utilise a skills map for Non-executive Director succession planning to ensure that gaps in Board experience or knowledge are identified and addressed.

Board site visits

Singapore

In Singapore, the Board received deep dive presentations on:

- Eastspring Investments, Prudential Corporation Asia's asset management business;
- The health ecosystem and partnerships that Prudential Corporation Asia is developing, including with healthcare technology and services company, Babylon Health;
- Digitisation and customer acquisition;
- Expanding the Group's presence in China; and
- Financial and performance updates on the Singapore business and Asia more widely.

Washington, DC, USA

In Washington, the Board focused on Jackson's initiatives around:

- Customer understanding of variable annuity products;
- Distribution;
- Regulatory modernisation and government interactions; and
- Technology and people.

2018 review and actions for 2019

The performance evaluation of the Board and its principal Committees for 2018 was conducted internally at the end of 2018 through a questionnaire. The findings were presented to the Board in February 2019 and an action plan agreed to address areas of focus identified by the evaluation.

The review confirmed that the Board continued to operate effectively during the year and no major areas requiring improvement were highlighted.

Theme	*Summarised actions*
Board composition and process	Continuing work on Board succession with a focus on gender and geographic diversity. Reduction in Board and Committee paper volume.
Risk, capital and audit	Cyber risk focus for Board agenda for 2019. Board training on the HK Insurance Authority regulatory regime.
Stakeholders	Review of stakeholder groups. Review of workforce voice and its representation at Board level.
People	Develop diversity and inclusion reporting to the Board. Ensure overseas and 'home' Boards give scope for Non-executives to meet colleagues below Group Executive Committee level.

Director evaluation

The performance of the Non-executive Directors and the Group Chief Executive during 2018 was evaluated by the Chairman in individual meetings.

Philip Remnant, the Senior Independent Director, led the Non-executive Directors in a performance evaluation of the Chairman.

Executive Directors are subject to regular review and the Group Chief Executive individually appraised the performance of each of the Executive Directors as part of the annual Group-wide performance evaluation of all employees.

The outcome of each of these evaluation processes is reported to the Nomination & Governance Committee in February each year in order to inform the Committee's recommendation for Board members to be put forward for re-election by shareholders.

Executive Director performance is also reviewed by the Remuneration Committee as part of its deliberations on bonus payments.

Directors

Board roles and governance

The terms of reference of the Chairman, Group Chief Executive and Senior Independent Director were updated in December 2018 to reflect the 2018 UK Code and the Board also considered the Board Effectiveness Guidance issued by the Financial Reporting Council (FRC) as to how these roles ought to be implemented.

Chairman – Paul Manduca

The Chairman is responsible for the leadership and governance of the Board, ensuring its smooth and effective running in discharging its responsibilities to the Group's stakeholders and managing Board business.

Managing Board business

- Responsible for setting the Board agenda, ensuring the right issues are brought to the Board's attention through collaboration with the Group Chief Executive and the Group General Counsel and Company Secretary
- Facilitating open, honest and constructive debate among Directors. When chairing meetings, ensuring there is sufficient time to consider all topics, all views are heard and all Board members, and in particular Non-executive Directors, have an opportunity to constructively challenge management
- Meeting with Non-executive Directors throughout the year. In 2018, the Chairman met with Non-executive Directors without Executive Directors being present on four occasions
- Ensuring information brought to the Board is accurate, clear, timely and contains sufficient analysis appropriate to the scale and nature of the decisions to be made
- Promoting effective reporting of Board Committee business at Board meetings through regular Committee Chair updates

Membership and composition of the Board

- Leading the Nomination & Governance Committee in succession planning and the identification of potential candidates, having regard to the skills and experience the Board needs to fulfil its strategy, and making recommendations to the Board
- Considering the development needs of the Directors so that Directors continually update their skills and knowledge required to fulfil their duties, including the provision of a comprehensive induction for new Directors
- Maintaining an effective dialogue with the Non-executive Directors to encourage engagement and maximise their contributions

Governance

- Leading the Board's determination of appropriate corporate governance and business values, including ethos, values and culture at Board level and throughout the Group
- Working with the Group General Counsel and Company Secretary to ensure continued good governance
- Acting as key contact for independent chairs of Material Subsidiaries
- Meeting with the independent chairs of the Group's Material Subsidiaries on a regular basis and reporting to the Board on the outcome of those meetings

Relationship with the Group Chief Executive

- Discussing broad strategic plans with the Group Chief Executive prior to submission to the Board
- Ensuring the Board is aware of the necessary resources to achieve the strategic plan
- Providing support and advice to the Group Chief Executive

Relations with shareholders and other stakeholders

- Representing the Board externally at business, political and community level. Presenting the Group's views and positions as determined by the Board
- Playing a major role in the Group's engagement with regulators
- Balancing the interests of different categories of stakeholders, preserving an independent view and ensuring effective communication
- Engaging in a programme of meetings with key shareholders throughout the year and reporting to the Board on the issues raised at those meetings

External positions

- Approving Directors' external appointments prior to them being accepted, taking into account the required time commitment and escalating consideration of conflicts of interests to the Nomination & Governance Committee as needed

Group Chief Executive – Mike Wells

The Group Chief Executive leads the Executive Directors and senior executives and is responsible for the operational management of the Group on behalf of the Board on a day-to-day basis:

- Responsible for the implementation of Board decisions
- Establishes processes to ensure operations are compliant with regulatory requirements
- Sets policies, provides day-to-day leadership and makes decisions on matters affecting the operation, performance and strategy of the Group, seeking Board approval for matters reserved to the Board
- Supported by the Group Executive Committee which he chairs and which receives reports on performance and implementation of strategy for each business unit and discusses major projects and other activities related to the attainment of strategy
- Chairs the Chief Executive's Committee meetings which are held weekly to review matters requiring approval under the Group's framework of delegated authorities
- Keeps in regular contact with the Chairman and briefs him on key issues
- Meets with key regulators worldwide
- Leads on day-to-day effective stakeholder engagement

Senior Independent Director – Philip Remnant

The Senior Independent Director acts as an alternative conduit to the Board for shareholder concerns and leads the evaluation of the Chairman:

- Acts as a sounding board for the Chairman, providing support in the delivery of the Chairman's objectives
- Leads the Non-executive Directors in conducting the Chairman's annual evaluation
- Holds meetings with Non-executive Directors without management being present, typically at least once a year to evaluate the performance of the Chairman
- Offers meetings to major shareholders to provide them with an additional communication point on request and is generally available to any shareholder to address concerns not resolved through normal channels

Committee Chairs

Each of the Committee Chairs is responsible for the effective operation of their respective Committees:

- Responsible for the leadership and governance of their Committee
- Sets the agenda for Committee meetings
- Reports to the Board on the activities of each Committee meeting and the business considered, including, where appropriate, seeking Board approval for actions in accordance with the Committees' terms of reference
- Works with the Group General Counsel and Company Secretary to ensure the continued good governance of each Committee during the year

In addition to Committee duties, the Chairs of the Audit and Risk Committees act as key contact points for the independent chairs of the audit and risk committees of the Material Subsidiaries

Non-executive Directors

All of the Non-executive Directors are deemed to be independent and together have a wide range of experience which can be applied to attain the strategic aims of the Group through:

- Constructive and effective challenge
- Providing strategic guidance and offering specialist advice
- Scrutinising and holding to account the performance of management in meeting agreed goals and objectives
- Serving on at least one of the Board's principal Committees
- Engaging with Executive Directors and other senior management at Board and Committee meetings as well as at site visits, training sessions and on an informal basis
- Taking part in one-to-one meetings with the Group Strategy team and participation in the annual Strategy Away Day

The Board has established four principal Committees whose functions are summarised below.

Nomination & Governance Committee

Chair
Paul Manduca

- Keeps leadership needs under review in support of the Group's strategic objectives
- Develops succession planning for the Board and senior executives based on merit against objective criteria promoting diversity in all areas
- Oversees development of a diverse pipeline in succession planning
- Monitors the Group's diversity initiatives
- Recommends appointments to the Board, its principal Committees and appointments of non-executive chairs to the boards of Material Subsidiaries
- Oversees the governance of Material Subsidiaries and the Group's overall governance framework

See Nomination & Governance Committee report on pages 109 to 114

Remuneration Committee

Chair
Anthony Nightingale

- Ensures there is a formal and transparent process for establishing the Directors' Remuneration Policy
- Approves individual remuneration packages of the Chairman, Executive Directors, senior executives and Material Subsidiary non-executive directors
- Approves the overall Remuneration Policy for the Group
- Reviews the design and development of share plans and approves and assesses performance targets where applicable and ensures alignment with the Group's culture
- Reviews workforce remuneration practices and policies when setting executive remuneration

See Remuneration Committee report on pages 132 to 165

Audit Committee

Chair
David Law

- Responsible for the integrity of the Group's financial reporting, including scrutinising accounting policies
- Monitors the effectiveness of internal control and risk management systems, including compliance arrangements
- Monitors the effectiveness and objectivity of internal and external auditors
- Approves the internal audit plan and recommends the appointment of the external auditor

See Audit Committee report on pages 115 to 123

Risk Committee

Chair
Howard Davies

- Leads on and oversees the Group's overall risk appetite, risk tolerance and strategy
- Approves the Group's risk management framework and monitors its effectiveness
- Supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk
- Provides advice to the Remuneration Committee on risk management considerations to inform remuneration decisions

See Risk Committee report on pages 124 to 127

Terms of reference for the principal Committees can be accessed at www.prudential.co.uk/investors/governance-and-policies/board-committees-terms-of-reference

The Board has established a Standing Committee which can meet as required to assist with any business of the Board. It is typically used for ad hoc or urgent matters which cannot be delayed until the next scheduled Board meeting. All Directors are members of the Standing Committee and have the right to attend all meetings and receive papers.

Notice of a Standing Committee meeting is sent to all Directors and if an individual is unable to attend, he/she can give comments to the Chairman or Group Company Secretary ahead of the meeting for consideration by the Standing Committee. Before taking decisions on any matter, the Standing Committee must first determine that the business it is considering is appropriate for a Committee of the Board and does not properly need to be brought before the whole Board. All Standing Committee meetings are reported in full to the next scheduled Board meeting.

Over 2018, the Company held five meetings of the Standing Committee. This governance structure allows for fast decision-making where necessary, while ensuring that the full Board has oversight of all matters under consideration and all Non-executives can contribute.

Building Directors' knowledge

Induction – new Directors

The two new Directors appointed during 2018, Mr Turner and Mrs Wicker-Miurin, each received a comprehensive induction, tailored to reflect their experience and position as Executive and Non-executive Directors respectively.

Prior to his appointment as Group Chief Risk Officer, Mr Turner was a long-serving member of the Prudential senior executive team, having most recently served as Director of Group Finance. As a result of his prior roles, Mr Turner was a regular attendee of meetings of the Risk and Audit Committees and has a strong understanding of the business and its control environment. Therefore his induction was specifically tailored to cover the strategic and operational priorities of the Group Risk function and his role as a member of the Board, including his regulatory obligations.

A summary of the general and specific induction programme for Mrs Wicker-Miurin is set out below:

General induction programme relevant to new Non-executive Directors		*Role-specific induction programme for Fields Wicker-Miurin*
Understanding our governance	*Understanding our business*	
— Meetings with the Chairman and Group Chief Executive separately — Explanation of the Group's strategy and business plan — Explanation of Prudential's corporate structure, Board and Executive Committee structure — Briefings on Group governance framework and key policies — Training as needed on the rules and governance requirements of the London and Hong Kong Stock Exchanges and on fulfilling the statutory duties of a Director	— Tailored briefings with each business unit to gain a comprehensive understanding of each of their business models, product suites, pricing arrangements and governance structures — Tailored meetings with all Group functions — Comprehensive briefings on the regulatory environment in which the Group operates — Briefings on top risks and internal controls — Induction briefings and training as a whole give Directors an understanding of the interests of the Group's key stakeholders	— Orientation to the work and role of the Remuneration Committee — Updates on current UK remuneration topics — Meeting with the Chair of the Remuneration Committee to discuss the annual cycle of Committee work, its current focus and focus for 2019 and beyond

Mr Falcon has commenced a comprehensive induction programme following his appointment to the Board with effect from 7 January 2019.

Continuing development of knowledge and skills

During 2018, the Board and its Committees received a number of technical and business updates as part of their scheduled meetings, providing information on external developments relevant to the Group and on particular products or operations. Below is an overview of how Directors are kept up to date:

- The Board holds an annual strategy session, which allows for detailed updates on each of the business units and deep dives on strategic direction and objectives for the Group;
- The Board receives updates on brand, diversity and inclusion, health and safety matters and corporate responsibility activities, usually once a year;
- The Board receives updates on corporate governance, political and regulatory developments, and the dynamics of equity and currency markets at every scheduled meeting;
- Over 2018, the Board received two specific updates on the impact of the FRC's revised corporate governance code highlighting key themes and actions for the Group;
- In October 2018, the Group ran a focused cyber security update for members of the Risk and Audit Committees, which was particularly aimed at developing the knowledge of the Non-executive Directors;
- In October 2018, the Board also received an update about developments surrounding Environmental, Social and Governance (ESG) reporting, including climate related risk;
- The Board reviews each business unit in depth at least once a year and conducts periodic site visits as part of this. In 2018, the Board met in Singapore and Washington, DC, USA. Details of the activities undertaken on these visits are set out in the box on page 100;
- The Board and the Risk Committee receive regular updates on market developments and key risks, including Solvency II and cyber risk. The Risk Committee reviews top risks on an annual basis and deep dives into specific topics in response to the identification of key risks. This review covers the financial, operational and strategic risks, whilst also identifying and addressing business environment and insurance risks within the Group. The identification of such risks inform the risk reporting provided to the Committee and the Board;
- The Risk Committee received updates and training on matters including General Data Protection Regulation, reputational risks and LIBOR discontinuation over the year;
- The Audit Committee received updates on developments affecting financial reporting and the work of audit committees generally. In 2018, this included financial reporting developments, anti-money laundering, anti-bribery and corruption, fraud prevention, whistleblowing and cyber risk training; and
- The Remuneration Committee receives updates on regulatory and governance developments affecting the Group's remuneration arrangements. In 2018, these included trends with the insurance industry and peers, trends from the 2018 Annual General Meeting season, Corporate Governance reform including remuneration and gender pay gap reporting.

All Directors have the opportunity to discuss their individual development needs as part of the annual Board effectiveness review and Directors are asked to provide a record of training received externally on an annual basis. All Directors have the right to obtain professional advice at Prudential's expense.

Further information on Directors

Information on a number of regulations and processes relevant to Directors, and how these are addressed by Prudential, is given below.

Area	*Prudential's approach*
Rules governing appointment and removal	— The appointment and removal of Directors is governed by the provisions in the Articles of Association (the Articles), the UK Code, the HK Code (as appended to the Hong Kong Listing Rules (the HK Listing Rules)) and the Companies Act 2006.
'Senior management' definition	— The Executive Directors are the senior management population for the purposes of the Hong Kong Listing Rules.
Terms of appointment	— Non-executive Director tenure is shown on page 160. — Non-executive Directors are appointed for an initial term of three years, commencing with their election by shareholders. From 2019, Directors' tenure commences from the date of their initial appointment to the Board. — Subject to review by the Nomination & Governance Committee and re-election by shareholders, it would be expected that Non-executive Directors serve a second term of three years. After six years, Non-executive Directors may be appointed for a further year, up to a maximum of three years in total. Reappointment is subject to rigorous review as well as re-election by shareholders. — The Directors' remuneration report sets out the terms of the Non-executive Directors' letters of appointment on page 141 and the terms of Executive Directors' service contracts on page 160.
Time commitment	— At present, the time commitment expected of a Non-executive Director is approximately 32.5 days per annum. — All Non-executive Directors currently serve on at least one of the Board's principal Committees, which requires an additional commitment of time dependent on the Committee and role. — On appointment, all Non-executive Directors confirm they are able to devote sufficient time to the Group's affairs to meet the demands of the role. — All Non-executive Directors are required to discuss any additional commitments which might impact the time which he or she is able to devote to their role with the Chairman prior to accepting.
Independence	— The independence of the Non-executive Directors is determined by reference to the UK Code and HK Listing Rules as follows: – For the purposes of the UK Code, throughout the year, all Non-executive Directors were considered by the Board to be independent in character and judgement and to have met the criteria for independence as set out in the UK Code; and – All the Non-executive Directors were considered independent for the purposes of the HK Listing Rules, and each Non-executive Director provides an annual confirmation of his or her independence as required under the HK Listing Rules. — In accordance with US regulatory requirements, Prudential affirms annually that all members of the Audit Committee are independent within the meaning of the Sarbanes-Oxley legislation. — Prudential is one of the UK's largest institutional investors. The Board does not believe that this compromises the independence of those Non-executive Directors who are on the boards of companies in which the Group has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre Non-executive Directors. — The Board and Nomination & Governance Committee in particular considered independence of the Chairman and Mr Davies before proposing them for re-election, given that both will have served on the Board for nine years at October 2019. A full explanation of independence considerations is set out in the Nomination & Governance Committee Report.
Audit Committee experience	— In relation to the provisions of the UK Code and HK Listing Rules, the Board is satisfied that Mr Law has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the business operates. Full biographies of the Committee members including experience and professional qualifications, are set out on pages 92 to 94. — The Board has determined that Mr Law qualifies as the Audit Committee financial expert under the requirements of Form 20-F.

Area	*Prudential's approach*
Indemnities	— Subject to the provisions of the Companies Act 2006, the Company's Articles permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. — Suitable insurance cover is in place in respect of legal action against directors and senior managers of companies within the Group. — Qualifying third-party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain directors of other companies within the Group. — Qualifying pension scheme indemnity provisions are also in place for the benefit of certain pension trustee directors within the Group. — These indemnities were in force during 2018 and remain so.
Significant contracts	— At no time during the year did any Director hold a material interest in any contract of significance with the Company or any subsidiary undertaking.

Risk management and internal control

The Board is responsible for ensuring that an appropriate and effective system of internal control and risk management is in place across the Group. The framework of risk management and internal controls centres on clear delegated authorities to ensure Board oversight and control of important decisions. The framework is underpinned by the Group Code of Business Conduct, which sets out the ethical standards the Board requires of itself, employees, agents and others working in the Group. The framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal control

The Group Governance Manual (the Manual) sets out delegated authorities and establishes the requirements for subsidiaries to seek approvals from or report to Group Head Office. Group-wide standards are established through policies and other governance arrangements. These policies are also included within the Manual. Internal controls and processes, based on the provisions established in the Manual, are in place across the Group. These include controls covering the preparation of financial reporting. The operation of these controls and processes facilitates the preparation of reliable financial reporting and the preparation of local and consolidated financial statements in accordance with the applicable accounting standards, and requirements of the Sarbanes-Oxley Act. These controls include certifications by the chief executive and chief financial officer of each business unit with respect to the accuracy of information provided for use in preparation of the Group's consolidated financial reporting, and the assurance work carried out in respect of US reporting requirements.

The Board has delegated authority to the Audit Committee to review the framework and effectiveness of the Group's systems of internal control. The Audit Committee is supported in this responsibility by the assurance work carried out by Group-wide Internal Audit and the work of the business unit audit committees, which oversee the effectiveness of controls in each respective business unit. Details of how the Audit Committee oversees the framework of controls and their effectiveness on an ongoing basis, is set out more fully in the report on pages 115 to 123.

Risk management

A key component of the Manual is the Group Risk Framework, which requires all business units to establish processes for identifying, evaluating and managing the risks facing the business.

The Board determines the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. It has delegated authority to the Risk Committee to assist the Board in providing leadership, direction and oversight of the Group's overall risk appetite, risk tolerance and strategy, overseeing and advising on the current and potential future risk exposures of the Group, reviewing and approving the Group's risk management framework, including changes to risk limits within the overall Board approved risk appetite, monitoring the effectiveness of the risk management framework and adherence to the various risk policies. Regular activities are detailed in the report on pages 124 to 127.

The Group's risk governance arrangements, which support the Board, the Risk Committee and the Audit Committee, are based on the principles of the 'three lines of defence' model: risk taking and management, risk control and oversight, and independent assurance.

First line of defence (risk taking and management)

- Takes and manages risk exposures in accordance with the risk appetite, mandate and limits set by the Board;
- Identifies and reports the risks that the Group is exposed to, and those that are emerging;
- Promptly escalates any limit breaches or any violations of risk management policies, mandates or instructions;
- Identifies and promptly escalates significant emerging risk issues; and
- Manages the business to ensure full compliance with the Group risk management framework as set out in the Manual, which includes the Group Risk Framework and risk policies as well as approval requirements, among other requirements.

Second line of defence (risk control and oversight)

- Assists the Board to formulate and then implement the approved risk appetite and limit framework, risk management plans, risk policies, risk reporting and risk identification processes; and
- Reviews and assesses the risk-taking activities of the first line of defence, where appropriate challenging the actions being taken to manage and control risks and approving any significant changes to the controls in place.

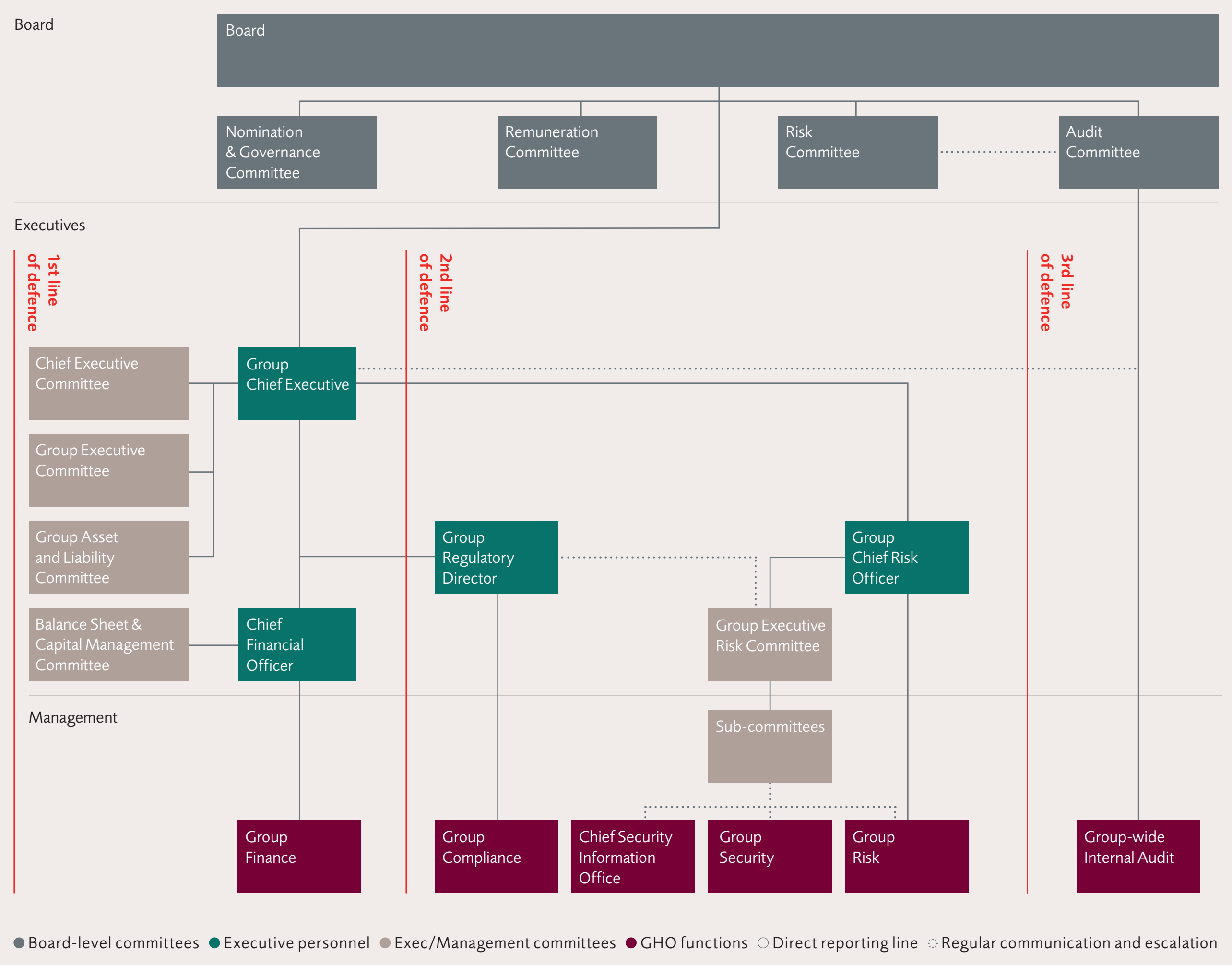
Third line of defence (independent assurance)

- Provides independent assurance on the design, effectiveness and implementation of the overall system of internal control, including risk management and compliance.

Formal review of controls

A formal evaluation of the systems of internal control and risk management is carried out at least annually. Prior to the Board reaching a conclusion on the effectiveness of the systems in place, the full report is considered by the Disclosure Committee and Audit Committee, with risk-specific disclosures within the report also reviewed by the Risk Committee. This evaluation takes place prior to the publication of the Annual Report.

As part of the evaluation, the chief executive and chief financial officer of each business unit, including Group Head Office, certify compliance with the Group's governance policies and the risk management and internal control requirements. The Group Risk function facilitates a review of the matters identified by this certification process. This includes the assessment of any risk and control issues reported during the year, risk and control matters identified and reported by the other Group oversight functions and the findings from the reviews undertaken by Group-wide Internal Audit, which carries out risk-based audit plans across the Group. Issues arising from any external regulatory engagement are also taken into account.



For the purposes of the effectiveness review, the Group has followed the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In line with this guidance, the certification provided above does not apply to certain material joint ventures where the Group does not exercise full management control. In these cases, the Group satisfies itself that suitable governance and risk management arrangements are in place to protect the Group's interests. However, the relevant Group company which is party to the joint venture must, in respect of any services it provides in support of the joint venture, comply with the requirements of the Group's internal governance framework.

Effectiveness of controls

In accordance with provision C.2.3 of the UK Code and provisions C.2.1 and C.2.2 of the HK Code, the Board reviewed the effectiveness and performance of the system of risk management and internal control during 2018. This review covered all material controls, including financial, operational and compliance controls, risk management systems, budgets and the adequacy of the resources, qualifications, experience of staff of the Group's accounting, internal audit and financial reporting functions. The review identified a number of areas for improvement, particularly in respect of the general IT control environment, and the necessary actions that have been or are being taken. The Audit Committees at Group and subsidiary level collectively monitor outstanding actions regularly and ensure sufficient resource and focus is in place to resolve them within a reasonable time frame.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report, and confirms that the system remains effective.

Committee reports

The principal Board Committees are the Nomination & Governance, Audit, Risk and Remuneration Committees. These Committees form a key element of the Group governance framework, providing effective independent oversight of the Group's activities by the Non-executive Directors. Each Committee Chair provides an update to the Board on the matters covered at each Committee meeting, supported by a short written summary.

Paul Manduca
Chair of the Nomination & Governance Committee

Committee members
- Paul Manduca (Chair)
- Howard Davies
- David Law
- Anthony Nightingale
- Philip Remnant

Regular attendees
- Group Chief Executive
- Group Human Resources Director
- Group General Counsel and Company Secretary

Number of meetings in 2018:
Three.

Nomination & Governance Committee report

Dear Shareholder

This report highlights some of the key areas of focus considered by the Committee during 2018.

Ongoing succession planning

The Committee's main role is ensuring that the Board retains an appropriate balance of skills to support the strategic objectives of the Group and maintains a rigorous and transparent approach to the appointment of Directors.

In 2018 we welcomed two Directors to the Board. Mr Turner was appointed as an Executive Director and Group Chief Risk Officer in March, an internal appointment to succeed Penny James.

A new Non-executive Director, Mrs Wicker-Miurin, was appointed in September following an extensive search. Full biographical details for both Mr Turner and Mrs Wicker-Miurin can be found on pages 90 and 94.

Following the year end, we also welcomed Mr Falcon to the Board in January 2019 following Mr Stowe's retirement as Chairman and Chief Executive of our North American Business Unit.

We view succession as ongoing – our planning for both Executive and Non-executive roles includes emergency cover as well as longer-term options.

Demerger

A significant part of our succession planning this year was focused on determining the best mix of skills for the Board for post demerger.

The new structure of the Board will include Mr Wells, Mr FitzPatrick and Mr Turner as Executive Directors. We took the decision that our business unit chief executives would step down from their Board roles although they will continue to attend relevant parts of Board meetings. We are making that change to our Board from the Annual General Meeting this year, and accordingly Mr Falcon, Mr Nicandrou and Mr Foley will not stand for election or re-election in May 2019.

Since the announcement of our intention to demerge M&GPrudential, the Committee has had to oversee some elements of establishing the M&GPrudential board. The Committee interviewed and recommended, with the input of the M&GPrudential chief executive, the appointment of Mike Evans to the M&GPrudential board, and details were announced on 1 October. The Committee has assisted Mike Evans in the search for suitable non-executives to join the M&GPrudential board.

The Committee also considered succession planning in respect of my role as Chairman of the Board. A separate part of this section provides an update from Philip Remnant, our Senior Independent Director on this matter.

Diversity

Although improving gender diversity at Board level has received a great deal of the Committee's attention, this remains a challenge and one which the Committee is focusing on. Gender diversity is an important factor in identifying candidates for Board level succession and there is more work to be done across building our internal pipeline, ensuring external recruitment is producing a diverse pool and appointing at Board level.

The Committee's terms of reference were updated to formalise its role in developing a diverse pipeline and expanding its role in reviewing and monitoring diversity initiatives across the Group as a whole.

Committee governance

Following the publication of the revised UK Corporate Governance Code in July 2018 the Committee reviewed and recommended a number of amendments to its terms of reference in order to align them with the new Code and evolving governance best practice.

The Committee also conducted its usual reviews of governance arrangements of the Group's Material Subsidiaries, including the review of performance of each Material Subsidiary board, their terms of reference and the review of the ongoing appointments of the independent non-executive directors and chairs of those boards.

As Chair of the Committee, I have responsibility for ensuring the Committee operates effectively. In order to enable the Committee to provide constructive challenge to management, I encourage open debate and contributions from all Committee members.

As part of the Board's effectiveness review, described in more detail on pages 99 and 100, the Committee was found to be operating effectively.

How the Committee spent its time during 2018

	Feb	Jun	Oct
Year end matters, re-election and tenure			
Review external positions, conflicts of interests and independence, time commitment, tenure and terms of appointment	●	○	○
Review performance of Chairman and Non-executive Directors	●	○	○
Review relevant disclosures in the Annual Report and Accounts	●	○	○
Recommend election of Directors by shareholders	●	○	○
Succession planning, diversity and appointments			
Chairman	●	○	●
Non-executive Directors	●	●	●
Group Chief Executive	○	●	○
Executive Directors	○	○	●
Group Executive Committee composition	○	○	●
Governance			
Membership review of principal Board Committees	●	○	●
Committee terms of reference	○	○	●
Demerger governance arrangements	○	○	●
Group governance framework	○	○	●
Material Subsidiary governance			
Subsidiary board composition, non-executive succession planning and appointments	●	○	●
Terms of reference for Material Subsidiary boards, chairs and committees	○	○	●
Material Subsidiary governance manual	○	○	●
Material Subsidiary board, chair and director evaluations	●	○	○
Appointment of M&GPrudential chair (not a Material Subsidiary)	○	●	○

Report from Philip Remnant, Senior Independent Director

Philip Remnant
Senior Independent Director

Succession planning for the role of Chairman of the Board, on which I lead, is considered by the Committee on a regular basis. We review the necessary skills and experience required for the effective leadership of the Board of an international financial services group.

This year, we also had to consider two major changes: the revised UK Code which, under the comply or explain principle, sets out that the tenure of the chairman of a listed company should be no more than nine years from first appointment to the board, and our demerger.

Mr Manduca's appointment to the Board was in October 2010, meaning the Code would prescribe his retirement in October 2019.

At a time of substantial change for the Group, the Board considers that it would be disruptive for Mr Manduca to stand down during the demerger process. The Board believes that shareholders will benefit from a committed and engaged Chairman to lead the Group through the transaction and to remain in role for some period of time thereafter to ensure continuing strong governance in the Prudential Group post-demerger. It is currently intended that Mr Manduca would stand down as Chairman in May 2021, subject to annual re-election up to that date.

We are therefore proposing that Mr Manduca stand for election as Chairman at our forthcoming 2019 Annual General Meeting.

Before taking this decision, we consulted with a number of our investors to obtain their views and take them into account in our decision-making. Shareholders responded positively to the specific engagement on this topic and were supportive of Mr Manduca's extended tenure.

The process for identifying candidates to succeed Mr Manduca will commence in 2020, I will lead this process, assisted by the Committee.

Key matters considered during the year

Matter considered	*How the Committee addressed the matter*
Succession planning	
Board composition	Throughout the year, the Committee kept succession plans for all Executive and Non-executive Board roles under review. Succession plans are supported by the year end Board evaluation and individual performance evaluations which help inform the Committee's recommendations. The Committee takes account of the size, structure and composition of the Board and its Committees, including existing knowledge, experience and diversity. In doing so, the Committee considers the Group's strategic needs and anticipates future needs, skills and experience. The Committee is involved from the start when a vacancy or a gap in the Board's skills is identified. Led by the Chairman, and working with the Group Chief Executive and Human Resources Director, a role specification is prepared. This will take into account feedback from the Committee and the Group's Diversity and Inclusion Policy. Once the specification is agreed, specialist talent agencies are typically engaged to create a shortlist of candidates which is reviewed by the Committee and other stakeholders. Interviews with individuals then take place with selected Committee members and feedback is provided to all members. In this manner, a preferred candidate is selected and the Committee then recommends the individual to the Board for appointment (subject to regulatory approval where required). Contemporaneously with this process, due diligence checks are undertaken on the candidate and Prudential liaises with the relevant regulatory authorities for any approvals needed. The Committee is kept updated on this process as necessary. This year, the Committee has considered Board composition and succession planning in the context of the decision to demerge M&GPrudential from the Prudential Group, and took the decision in February 2019 to recommend that the current chief executives of the business units would step down at the forthcoming Annual General Meeting. The Board was in unanimous agreement that under the post-demerger structure, effective oversight of the business units can be maintained without the business unit chief executives being plc Board members.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Non-executive Directors	During the year, the Committee finalised the appointment of Mrs Wicker-Miurin as a Non-executive Director. The Committee was supported in the search for candidates by the Miles Partnership. The number of Non-executive Directors required on the Board is considered on a regular basis, and this year particularly in the context of the smaller Group post-demerger. The Committee uses a regularly refreshed skills map for Non-executive succession planning. The skills map identifies skills and experience by sector, geography and technical skills, which are desirable for the Board as a whole, taking account the Group's strategic direction. Full biographical details of each Non-executive Director, including a summary of the skills and experience attributable to them which have been identified as important to the Group's long-term sustainable success, are set out on pages 92 to 94.
Executive Directors and senior executives	The Committee carried out its annual review of the succession plans in place for the Group Chief Executive, other Executive Directors and Group Executive Committee (GEC) roles. The Committee directed the development and renewal of these plans through the Group HR Director, supported by Egon Zehnder in the case of the Group Chief Executive plan and by Talent Intelligence for the other Executive Director roles and GEC members. In 2017, Talent Intelligence prepared long-lists and short-lists with a focus on gender and ethnic diversity requirements. The Committee has oversight of senior executive level succession planning and the talent pipeline. The Committee discussed these plans closely with the Group Chief Executive to identify business requirements and plan for future succession needs and gave feedback on the planning process. The Company announced on 12 October 2018 that Mr Stowe would retire as Chairman and Chief Executive of the North American Business Unit with effect from 31 December 2018. Mr Stowe was succeeded in this role by Mr Falcon, who joined the Board on 7 January 2019. Mr Falcon's appointment was considered in June 2018 following a comprehensive search, led by Korn Ferry, with support from Spencer Stuart. The Committee considered candidate profiles and skills and conducted interviews before agreeing to recommend Mr Falcon's appointment to the Board. Full biographical details for Mr Falcon can be found on page 90.
Use of search consultancies	The Miles Partnership does not have any additional connection with Prudential. In addition to acting as search consultant for certain executive hires, Egon Zehnder also provides support for senior development assessments. Talent Intelligence also provides additional succession planning support to the Group below GEC level.
Election of Directors	As part of its ongoing work on Board succession planning, the Committee considered the ongoing appointment of the Chairman, Committee Chairs and Non-executive Directors, taking into account time commitment and the general balance of skills, diversity, experience and knowledge on the Board and assessing length of service in their roles. Particular attention has been paid to the recommendation to re-elect Mr Nargolwala and Sir Howard Davies at the Annual General Meeting to be held in 2019 due to their length of service. In Mr Davies' case, election at the 2019 Annual General Meeting will take him through the Code-prescribed nine years from date of appointment. The Board does not consider that Mr Davies' independence will be impacted by his tenure extending for six months beyond the nine-year anniversary. When making recommendations for Directors to stand for election at the Annual General Meeting, the Committee considers individual Directors' contribution to Prudential's long-term success as well as their commitment to the role and other external positions or directorships which may impact their independence or availability. Having reviewed the performance of the Non-executive Directors in office at the time, and having received feedback from the Group Chief Executive on the performance of the Executive Directors, the Committee concluded that each Director continued to perform effectively and was able to devote sufficient time to fulfil their duties. Following review of the outcomes of the Board evaluation process, the Group considers that the Non-executive Directors continued to exhibit appropriate behaviours, contributed effectively to decision-making and exercised sound independent judgement in holding management to account.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Election of Directors *continued*	The diversity of the Board including skills and experience, and the contribution made by each Director is set out in the individual biographies of Directors on pages 89 to 94. The Committee recommended to the Board those Directors standing for election at the Company's Annual General Meeting.
Diversity Diversity and Inclusion Policy	The Group has a Diversity and Inclusion Policy that aims to provide equal opportunities for all who apply and who perform work for our organisation, including the Executive and Non-executive Directors, irrespective of sex, race, age, ethnic origin, educational, social and cultural background, marital status, pregnancy and maternity, civil partnership status, any gender reassignment, religion or belief, sexual orientation, disability, or part time/fixed term work. The Committee keeps this under review across all its recruitment planning.
Board and senior management	Given the global reach of the Group's operations, its business strategy and long-term focus, the Board makes every effort to ensure it is able to recruit Directors from different backgrounds, with diverse experience, perspective and skills. This diversity not only contributes towards Board effectiveness but is essential for successfully delivering the strategy of an international group. The Board is committed to recruiting the best available talent and appointing the most suitable candidate for each role, while at the same time aiming for, appropriate diversity on the Board. In December 2018 the Board approved changes to the Committee's terms of reference to formalise its responsibility for overseeing the development of a diverse pipeline for Board and other senior executives. This will include ensuring that plans are based on merit against objective criteria and promote diversity across gender, social and ethnic background and cognitive and personal strengths. In the case of Board appointments, the Committee will consider relevant results of the annual Board effectiveness evaluation and ensure suggested enhancements to the Board are addressed. The Board considers that its diversity of experience, skill set and professional background has increased as a result of Board level succession in 2018.
Group-wide	In December 2018 the Board approved changes to the Committee's terms of reference to include responsibility for periodically reviewing any objectives for the implementation of diversity for the Group as a whole and monitoring the impact of diversity initiatives. In 2016 the Board decided to sign the HM Treasury Women in Finance Charter. In 2018 the Group achieved its commitment to have 27 per cent women in senior management roles, a year earlier than the target date of the end of 2019. The Group continues to work towards achieving at least 30 per cent of women in senior management by the end of 2021. The business units also engaged in a number of targeted activities in support of the Group's Diversity and Inclusion Policy, including awareness training of unconscious bias. Updates on activities relating to the diversity across the Group are provided to the Board periodically. The Group's activities in this respect are described in our corporate responsibility review on pages 70 to 86.
Governance Review of principal Committee membership	The Committee regularly reviews the membership of all principal Committees and makes recommendations to the Board as appropriate. Recommendations on Committee membership are taken after consultation with the Chair of the relevant Committee. In March, the Committee made a recommendation that Ms Schroeder join the Risk Committee, and in October, that Mr Watjen join the Risk Committee. These appointments refreshed experience, provided succession options and increased diversity on the Committee.
Independence criteria	The Committee considered the independence of the Non-executive Directors against relevant requirements as outlined on page 105, taking into account the amended Code which requires nine-year tenure to run from the time of appointment to the board rather than first election by shareholders.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Conflicts of interest	The Board considered in October and December 2018 the new Code provision formalising the need for boards to identify and manage conflicts of interest. The Board has delegated authority to the Committee to consider, and authorise where necessary, any actual or potential conflicts of interest. Prior to proposing Directors for re-election, the Committee considered the external appointments of all Directors and reviewed existing conflict authorisations, reaffirming or updating any terms or conditions attached to authorisations where required. In addition, the Committee considered the external positions of those Directors appointed during the year, noted changes in the external positions of existing Directors and considered whether these gave rise to any conflicts. The Board considers that the procedures set out above for dealing with conflicts of interest operate effectively.
Subsidiary governance	
Material Subsidiaries	During the year under review, the Committee carried out various duties related to the Material Subsidiaries: — Succession planning arrangements for non-executive directors; — Evaluating the performance of the Material Subsidiary boards, chairs and directors; and — Reviewing Material Subsidiary governance arrangements, including principles for attendance at committee meetings, and the terms of reference for the Material Subsidiary boards and chairs.
M&GPrudential	On 1 October 2018, the Company announced the appointment of Mike Evans as chair of M&GPrudential with immediate effect. The Committee considered and recommended the appointment of Mr Evans as chair of the M&GPrudential board. The Committee continues to be involved in supporting Mr Evans in M&GPrudential board appointments which are ongoing.

David Law
Chair of the Audit Committee

Committee members
- David Law (Chair)
- Howard Davies
- Philip Remnant
- Alice Schroeder
- Lord Turner

Regular attendees
- Chairman of the Board
- Group Chief Executive
- Chief Financial Officer
- Group Chief Risk Officer
- Director of Group Finance
- Director of Group Financial Accounting & Reporting
- Group Regulatory and Government Relations Director
- Group General Counsel and Company Secretary
- Director of Group Compliance
- Director of Group-wide Internal Audit
- External Audit Partner

Number of meetings in 2018:
Nine. (In addition, a joint meeting was held with the Risk Committee)

Audit Committee report

Dear Shareholder

As Chair of the Audit Committee, I am pleased to present this report on the Committee's activities during 2018. The Committee provides the Board with assurance as to the integrity of the Group's financial reporting and, together with the Risk Committee, monitors the effectiveness of the second and third lines of defence, which are an integral part of our internal control environment.

With regard to the Group's financial reporting, the Committee's work is focused on ensuring appropriate financial accounting policies are adopted and implemented and on assessing key judgements and disclosures. The introduction of financial accounting standard IFRS 17, which is now anticipated to come into effect in 2022, will be a significant challenge and change and as a consequence the Committee received updates during 2018 on the Group's progress towards its implementation.

External auditor

An important part of the Committee's work consists of overseeing the Group's relationship with KPMG LLP (KPMG), including safeguarding independence, approving non-audit fees and satisfying itself that it is in the best interests of shareholders to recommend the reappointment of KPMG. Following the publication of the FRC's Audit Quality Inspection report for KPMG in June 2018, I and the Group Finance Director met with KPMG's leadership and the Committee discussed the actions their firm is taking to improve quality. We also reviewed the assessment of the audit of Prudential and introduced changes to enhance our auditor effectiveness monitoring process.

It remains the Committee's current view that, without exceptional circumstances, change to the current auditor should not occur during a period of significant change for Prudential. It is therefore the Committee's intention to appoint a new auditor for the 2023 financial year-end, after the first year of implementation of the new insurance accounting standard. A plan to identify KPMG's successor to ensure a smooth transition has been developed. Further explanation of the Committee's approach is set out in this report.

Demerger activities

In 2018 the Committee considered a number of key areas under its remit in the context of the demerger process including the progress in integrating the finance functions of M&G and Prudential UK & Europe into a single M&GPrudential team with an appropriate control environment and the capabilities, processes and systems to support both the demerger activity and the future ambitions of the M&GPrudential business.

Internal audit

During 2018 the Committee continued to receive regular briefings from the Group-wide Internal Audit (GwIA) Director. GwIA undertook a programme of risk-based audits covering matters across the business units in addition to assurance work on significant change programmes. Delivery of the internal audit plan and the independent assurance provided by GwIA represent important components of the Committee's oversight of the Group's internal controls procedures. The effectiveness of GwIA was assessed during the year, together with a review of progress against suggested enhancements identified by the external review undertaken by Deloitte in 2017. I meet regularly with the GwIA Director to discuss the work done and matters arising and the Committee also asked that management responsible for rectifying some of the issues identified to attend the Committee to ensure that appropriate action was being taken. The Committee also approved the 2019 internal audit plan which takes account of the business and organisational changes arising from the planned demerger. The work highlighted GwIA's role in supporting the demerger and the creation of two appropriately sized, resourced and experienced independent internal audit functions.

Compliance

The Committee received updates on matters arising from the annual Compliance Plan (the Plan) throughout 2018. The Plan focused on a number of areas to help strengthen the compliance framework, which is intended to aid the Group in meeting regulatory obligations, including monitoring compliance with key elements of the compliance framework such as conflicts of interest, anti-money laundering and anti-bribery and corruption policies. The Committee also approved the 2019 Compliance Plan in the context of the proposed demerger, and is monitoring relevant aspects of the proposed transition of Prudential's lead regulator from the Prudential Regulatory Authority to the Hong Kong Insurance Authority (IA).

Committee governance

The Committee works closely with the Risk Committee to make sure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, Sir Howard and I agree the most appropriate Committee to consider the matter. In October 2018 the two Committees held a joint session on cyber security, including updates on the Group-wide cyber security strategy and information security programme, more details of which are set out in the Risk Committee report on pages 124 and 125.

As Chair of the Committee, I have responsibility for ensuring the Committee operates effectively. In advance of each Committee meeting, I speak to the chairs of our Material Subsidiary audit committees and report to the full Board after each Committee meeting on the main matters discussed. We have also held private sessions as a Committee to discuss performance and also with the Group's Resilience Director to discuss whistleblowing cases and their resolution and had private discussions with GwIA and KPMG. An annual review of our effectiveness was carried out as part of the Board evaluation, described in more detail on page 100. The Committee was found to be functioning effectively.

How the Committee spent its time during 2018

	Feb	Mar[1]	May	Jul	Aug	Oct[1]	Dec
Financial reporting and external auditor							
Periodic financial reporting including: — Full and half-yearly report and accounts — Key accounting judgements and disclosures, including tax — Solvency II results and governance processes — Associated audit reports	●	●	●	●	●	●	●
Audit planning, fees, independence, effectiveness and reappointment	●	○	●	●	○	●	●
Environmental, social and governance reporting	○	○	●	○	○	○	○
Internal control framework							
Internal control framework including effectiveness	●	○	●	●	○	○	●
Internal audit							
Status updates and effectiveness	●	○	●	●	○	●	●
Internal audit plan	○	○	○	●	○	○	●
Compliance							
Status updates	●	○	●	●	○	●	●
Compliance plan	○	○	○	●	○	○	●
Financial crime and whistleblowing							
Financial crime prevention and whistleblowing – regular updates	●	○	●	●	○	●	●
Governance and reporting							
Material Subsidiaries updates	●	○	●	●	○	●	●
Internal governance framework including effectiveness	●	○	●	●	○	●	●
Business unit audit committee effectiveness and terms of reference	●	○	○	○	○	●	○
Committee terms of reference and effectiveness	●	○	○	○	○	●	○

Note

[1] Two meetings were held in each of March and October 2018.

Key matters considered during the year

Matter considered | ***How the Committee addressed the matter***

Financial reporting and tax

Overview

One of the Committee's key responsibilities is to monitor the integrity of the financial statements and any other periodic financial reporting. During the last year, items reviewed by the Committee included the 2017 Annual Report and Accounts, the 2017 Solvency and Financial Condition Report and associated Pillar 3 returns submitted to the Group's regulator, the 2017 Environmental, Social and Governance Report, the 2017 Tax Strategy Report, the 2018 Half Year Report and Accounts, and the key accounting judgements for the 2018 Annual Report.

In reviewing these and other items, the Committee received reports from management and, as appropriate, reports from internal and external assurance providers, which in some cases were provided at the explicit request of the Committee.

When considering financial reporting the Committee assesses compliance with relevant accounting standards, regulations and governance codes. During 2018, the Group adopted IFRS 15 'Revenue from contracts with customers' and, as described in note A2, this had no material effect on the Group's financial results. The Committee also reviewed the potential impact of accounting standards that are effective in the future, including IFRS 16 'Leases' and IFRS 17 'Insurance Contracts'. The approach to adopting these standards is further discussed in note A2. The Committee requested regular updates from management on the progress against plans for implementing IFRS 17 given its particular significance.

The following sections set out the key assumptions, judgements and other matters considered as part of their review of the 2018 Annual Report and Accounts.

Key assumptions and judgements

The Committee reviewed the key assumptions and judgements including those made in valuing the Group's investments, insurance liabilities and deferred acquisition costs under IFRS, together with reports on the operation of internal controls to derive these amounts. It also reviewed the assumptions underpinning the Group's European Embedded Value (EEV) metrics.

Assumption setting

The measurement of insurance liabilities and EEV are based on estimates of future cash flows, including those to and from policyholders, over a long period of time. These estimates can, depending on the type of business, be highly judgemental. The Committee considered changes to assumptions and other estimates used to derive IFRS insurance liabilities and the Group's EEV. Peer benchmarking was considered where available. The key assumptions reviewed were:

- Persistency, mortality, morbidity (including in relation to medical inflation) and expense assumptions within the Asia life businesses;
- Policyholder behaviour assumptions (including mortality) affecting the measurement of Jackson guaranteed liabilities (see note C4.2(b) of the IFRS financial statements and note 14 to the EEV basis results); and
- Mortality, expense and credit risk assumptions for the UK annuity business. Mortality assumptions continued to be an area of focus given ongoing analysis of historic experience, (see note C4.1(d) to the IFRS financial statements).

The Committee was satisfied that the assumptions adopted by management were appropriate. Further information on the effects of material changes to insurance assets and liabilities is included in note B3 to the IFRS financial statements and note 14 of the EEV basis results.

Goodwill and other intangible assets including deferred acquisition costs (DAC)

The Committee received information to enable it to review the more material intangible asset balances. This included the recoverability and amortisation of the DAC balance in the US and whether there had been any indication of impairment of the Group's distribution rights assets. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2018. Further information is contained in note C5 of the IFRS financial statements.

Investments

The Committee received information on the carrying value of investments in the Group's balance sheet including on those assets which are harder to value and data on the application of the Group's Independent Price Verification policy. This data showed that the majority of the Group's assets were marked to market using two independent prices, reducing the level of judgement applied in investment valuation. Further information on the valuation of assets is contained in note C3 of the IFRS financial statements. The Committee satisfied itself that overall investments were valued appropriately.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Other financial reporting matters and tax reporting	***Provisions*** The Committee regularly reviews the Group's provisions, including the level of provisioning for regulatory and litigation matters and provisions for certain open tax items including tax matters in litigation. The Committee was satisfied that the level of provisioning adopted by management was appropriate. See note C11 of the IFRS financial statements. ***Going concern and viability statements*** The Committee considered various analyses from management regarding Group and subsidiary capital and liquidity prior to recommending to the Board that it could conclude that the financial statements should continue to be prepared on the going-concern basis (see page 128), and that the disclosures on the Group's longer-term viability (see page 68) were both reasonable and appropriate. The Committee considered information on the risks to the Group's liquidity and capital position as well as the impact of the proposed demerger and the scenarios that could arise as part of the UK's intended withdrawal from the EU. ***Alternative performance measures*** The Committee reviewed the alternative performance measures contained in the Group's Strategic Report. It considered the consistency with the prior year and the prominence as compared to IFRS measures of performance. ***Fair, balanced and understandable requirement*** The Committee carried out a formal review of whether the Annual Report and Accounts were 'fair, balanced and understandable' as required by the UK Corporate Governance Code. In particular, they considered whether the report gave a full picture of the Group's performance in the year with important messages appropriately highlighted, the level of consistency between financial statements and narrative sections and whether performance measures were clearly explained. After completion of its detailed review, the Committee was satisfied that, taken as a whole, the Group's Annual Report and Accounts were fair, balanced and understandable. ***FRC review of 2017 Annual Report and Accounts*** As an outcome of the FRC's regular oversight role on company reporting through its review of the Group's 2017 Annual Report and Accounts, a small number of disclosure improvements have been made in the 2018 financial statements of which the most significant is to demonstrate better the linkage between movement in insurance and investment contract balances reported in the income statement and the notes (see note C4.1 (a)(iii)). The FRC notes that its review was based on the Group's 2017 Annual Report and Accounts only and does not benefit from detailed knowledge of the Group's business or an understanding of the underlying transactions. ***Parent company financial statements*** The Committee reviewed the parent company profit and loss account and balance sheet, which included recognition of a pension surplus asset, (see note 7 of the Parent Company financial statements).
External audit **Review of effectiveness, non-audit services and auditor reappointment**	
External audit effectiveness	The Group's external auditor is KPMG LLP (KPMG) and oversight of the relationship with them is one of the Committee's key responsibilities. The Committee reviews the effectiveness of the audit throughout the year taking into account: — The detailed audit strategy for the year and coverage of the highlighted risks; — Group materiality and how that is applied to the individual business units; — Insight around the key accounting judgements, including benchmarking, and the way KPMG applied constructive challenge and professional scepticism in dealing with management. The Committee formally met with the Group Lead Partner without management present on three occasions over the last year; — The outcome of management's internal evaluation of the auditor as discussed below; and — Other external evaluations of KPMG, with a focus on the FRC's Annual Quality Review.

Key matters considered during the year continued

Matter considered	***How the Committee addressed the matter***
External audit effectiveness *continued*	***Internal evaluation of KPMG*** This was conducted using a questionnaire that was circulated to the Committee members, Material Subsidiary audit committee members, the Chief Financial Officer and the Group's senior financial leadership for completion. The survey asked 24 questions over four categories (team performance, process, communication and audit execution) in relation to the 2017 audit. The degree of challenge and robustness of approach to the audit were key components of the evaluation. KPMG were given the opportunity to respond to the findings in the report. As a result of the report KPMG proposed enhancements to the audit and team and progress against these changes were reported to the Committee in December. ***FRC's Annual Audit Quality Review of KPMG*** During June 2018, the FRC published the principal findings arising from the 2017/18 inspection of KPMG carried out by its Audit Quality Review team. The FRC noted that there had been a deterioration in quality at KPMG and it was placing the firm under increased scrutiny. The audit of Prudential plc had not been reviewed by the FRC as part of the 2017/18 inspection. As a result of the FRC's findings the Committee discussed the findings and the firm's response and questioned KPMG on how those enhancements would be applied to the Prudential plc audit. It noted the good practice identified by the FRC in respect of the audit of insurance liabilities and the seriousness with which KPMG were addressing the FRC's findings. Overall, it was satisfied that the audit of Prudential plc remained effective. However, in light of the findings it requested that KPMG provide continuing updates on progress on delivering the enhancements discussed and the items raised as part of the internal evaluation of audit effectiveness. It also challenged management to further enhance its internal process to review its effectiveness of the 2018 audit.
Auditor independence and objectivity	The Committee has responsibility for monitoring auditor independence and objectivity and is supported in doing so by the Group's Auditor Independence Policy (the Policy). The Policy is updated annually and approved by the Committee. It sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and is based on four key principles which specify that the auditor should not: — Audit its own firm's work; — Act as management or employees for the Group; — Have a mutual or conflicting interest with the Group; or — Be put in a position of being an advocate for the Group. The Policy has two permissible service types: those that require specific approval by the Committee on an engagement basis and those that are pre-approved by the Committee with an annual monetary limit capped at no more than 5 per cent of the Group audit fee in the proposed year and capped at £50,000 individually. In accordance with the Policy, the Committee approved these permissible services, classified as either audit or non-audit services, and monitored the usage of the annual limits on a quarterly basis. All non-audit services undertaken by KPMG were agreed prior to the commencement of work and were confirmed as permissible for the external auditor to undertake in accordance with the Policy which complies with the rules and regulations of the UK Financial Reporting Councils Ethical Standard (2016), the US Securities and Exchange Commission (SEC) and the standards of the Public Company Accounting Oversight Board (PCAOB). In keeping with professional ethical standards, KPMG also confirmed their independence to the Committee and set out the supporting evidence for their conclusion in a report that was considered by the Committee prior to publication of the financial results. While as yet to be formalised as rules, the Kingman review, the Competitions and Market Authority review of the audit market and the Brydon review will shape the future of audit and the audit regulator with a view to enhancing audit quality and independence. The Committee will continue to monitor developments to ensure the Group's policies and processes around audit effectiveness and independence evolve in line with market practice.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Fees paid to the auditor	The fees paid to KPMG for the year ended 31 December 2018 amounted to £18.3 million (2017: £17.3 million) of which £2.3 million (2017: £2.6 million) was payable in respect of non-audit services. Non-audit services accounted for 13 per cent of total fees payable (2017: 15 per cent). A breakdown of the fees paid to KPMG can be found in note B2.4 to the financial statements. Of the £2.3 million of non-audit services, £1.1 million was in respect of assurance services. These services covered assurance over the Group's Solvency II external disclosures, assurance reports on internal controls of certain Group companies that are made available for third parties and comfort letter procedures to support debt raising in the year. The remaining £1.2 million principally related to work performed as part of planning for the proposed demerger. In all these cases, the audit firm was considered the most appropriate to carry out the work, given its knowledge of the Group and the synergies that arise from running these engagements alongside its main audit. All non-audit services were pre-approved by the Committee and were in line with the Policy discussed above.
Reappointment	Based on the outcome of the effectiveness evaluation and all other considerations, the Committee concluded that there was nothing in the performance of the auditor which would require a change. The Committee therefore recommended that KPMG be reappointed as the auditor. A resolution to this effect will be proposed to shareholders at the 2019 Annual General Meeting.
Audit tender	The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements, the Company will be required to change audit firm no later than for the 2023 financial year end. The external audit was last put out to competitive retender in 1999 when the present auditor, KPMG, was appointed. Since 2005, the Committee has annually considered the need to retender the external audit service. The Committee's Chairman and the Group's Finance Director currently recuse themselves from these discussions. The Group is undergoing a period of unprecedented change with both the demerger of M&GPrudential from Prudential plc being considered and the new insurance accounting standard (IFRS 17) requiring implementation in 2022. The Committee currently believes any change of auditor should be scheduled to limit operational disruption during such a period of change given the significant volume of work to be delivered by the Group's finance teams in relation to the demerger and preparing to implement the new insurance accounting standard in 2022. The Committee considered its strategy on audit tendering in February 2019, concluding that with the change in implementation date for IFRS 17 that the previously proposed timeline for appointing a new auditor should also be extended by one year to the 2023 year end. In conducting this review, the Committee concluded that it would be appropriate to commence a competitive tender for the 2023 audit in the first half of 2020. This would permit the current auditors to complete the first year of IFRS 17 adoption and reduce the 'self-review' threat to any of the audit firms conducting advisory services on implementation of finance systems for the new accounting standard who are invited to tender for the audit. The suggested timeline should also enable the Committee to take into account any proposals arising from the current reviews of the auditing profession. The timing remains subject to the Committee's normal annual review of auditor performance and recommendation to shareholders. The Company has complied throughout the 2018 financial year with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the Competition and Markets Authority. A plan to identify successor firms to ensure that there is sufficient time for an orderly transition and to safeguard independence was considered and agreed by the Committee. In line with the FRC Ethical Standard, the rules and regulations of the SEC and the standards of the PCAOB, a new lead audit partner, Philip Smart, was appointed in respect of the 2017 financial year. Mr Smart is expected to be in place for a five-year term until the completion of the 2021 reporting cycle. A new lead audit partner would be required for the 2022 audit and an appropriate transition plan developed.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Second line oversight Compliance, financial crime prevention, whistleblowing	
Regular reporting from the Compliance function	Regular updates were provided to the Committee by the Group Regulatory and Government Affairs Director and the Group Compliance Director. The reports kept the Committee apprised of key compliance activities, issues and controls, including progress against the 2018 Compliance Plan, the outcome of compliance monitoring activities across the Group and the effectiveness of business units' compliance activities.
Compliance Plan and focus for 2019	Key activities identified for the first half of 2019 include: regulatory engagement, including managing the transition of our lead regulator from the UK's Prudential Regulatory Authority to the Hong Kong IA, supporting delivery of the demerger activities in key areas and providing ongoing advice, guidance and oversight to business units covering key risks such as conflicts of interest and financial crime. The Committee intends to review updates to the 2019 Group Compliance Plan around the mid-year point. Group Compliance will also continue to drive forward capabilities within the team and wider compliance community, carrying out activities to maintain oversight of the top risks identified.
Financial crime prevention	The Committee received the Money Laundering Reporting Officer's report which assessed the operation and effectiveness of the Group's systems and controls in relation to managing financial crime risks. As part of its responsibility for the oversight of financial crime prevention, the Committee received updates on cyber security (as part of a joint meeting held with the Risk Committee in October 2018), anti-bribery and corruption, anti-money laundering and sanctions activities undertaken during the year.
Whistleblowing	The Group continues to operate a Group-wide whistleblowing programme ('Speak Out'), hosted by an independent third party (Navex). The Speak Out programme receives ad hoc reports from a wide variety of channels, including a web portal, hotline, email and letters. Reports are captured, confidentially recorded by Navex, and flagged for investigation by the appropriate team. Under the Senior Managers Certification Regime (SMCR), the role of the Whistleblowing Champion continues to be carried out by the Chair of the Prudential Assurance Company (PAC) Audit Committee, an independent non-executive director of PAC. The Committee is responsible for oversight of the effectiveness of the Group's whistleblowing arrangements. The Committee receives regular reports on the most serious cases and other significant matters raised through the programme and the action taken to address them. The Committee is also briefed on emerging Speak Out trends and themes. The Committee may, and has, requested further review of particular areas of interest. The Committee reviewed the Group's Speak Out programme arrangements during the year, satisfying itself that they continue to comply with regulatory and governance requirements. The Committee also noted the consistency of approach adopted across subsidiary committees. This was facilitated through greater visibility of regional significant issues (addressed by subsidiary audit committees) and their outcomes. The Speak Out process has been further enhanced this year by focusing on (post-reporting) management action and, where relevant, sharing of lessons learnt. The Chair and Committee spent time privately with the Group Resilience Director, to ensure that investigations were adequately resourced and appropriately managed, that there had been no retaliation against anyone making a report and that investigations were not improperly influenced. The Committee was also updated on arrangements for promoting Group-wide awareness of the Speak Out policy (including computer-based training tailored for each business unit) and a refresh of Speak Out communications across the Group.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Third line oversight **Internal audit** Regular reporting	The Committee received regular updates from Group-wide Internal Audit (GwIA) on audits conducted and management's progress in addressing audit findings within agreed timelines. Any delays in implementing remediation actions were escalated to the Committee and given particular scrutiny. The independent assurance provided by GwIA formed a key part of the Committee's deliberations on the Group's overall control environment. During 2018, the areas reviewed included: change management and transformation, financial controls, outsourcing and third-party supply, customer outcomes, cyber risk, compliance and regulatory and second line of defence. The Director of GwIA reports functionally to the Committee Chair and for management purposes to the Group Chief Executive, and also has direct access to the Chairman of the Board. In addition to formal Committee meetings, the Committee meets with the Director of GwIA in private to discuss matters relating to, for example, the effectiveness of the internal audit function, significant audit findings and the risk and control culture of the organisation. The Committee Chair also meets with GwIA's Quality Assurance Director to discuss the outcome of the quality reviews of GwIA's work and actions arising.
Annual plan and focus for 2019	The Committee approved the half-year update of the 2018 plan. It also considered and approved the Internal Audit Plan, resource and budget for 2019. The 2019 Internal Audit Plan was formulated based on a bottom-up risk assessment of audit needs mapped against various metrics combined with top-down challenge. The plan was then mapped against a series of risk and control parameters, including the top risks identified by the Risk Committee, to verify that it is appropriately balanced between financial, business change, regulatory and operational risk drivers and provides appropriate coverage of key risk areas and audit themes within a risk-based cycle of coverage. Key areas of focus for 2019 include: strategic change initiatives, customer outcomes, cyber security, financial risk and financial controls, outsourcing and digitisation.
Effectiveness	The Committee is responsible for approval of the GwIA charter, audit plan, resources, and for monitoring the effectiveness of the function. The Committee assesses the effectiveness of GwIA through a combination of External Quality Assessment (EQA) reviews, required every five years, and an annual internal effectiveness review, performed by the GwIA Quality Assurance Director. A 2018 Internal Effectiveness review, performed by the GwIA Quality Assurance Director, was conducted in accordance with the professional practice standards of the Chartered Institute of Internal Auditors (CIIA) and assessed continued conformance with the CIIA guidance for Effective Internal Audit in the Financial Services (the Code). The review concluded that GwIA continued to comply with the requirements of internal audit policies, procedures and practices, and standards in all material respects relating to audit planning and execution, and continued to be aligned with its mandated objectives and maintained general conformance with the CIIA Code. During 2018, GwIA also progressed those areas that were identified by the 2017 EQA as opportunities for enhancement to existing practice. In response to the demerger announcement, the function commenced its preparations for creating two appropriately skilled and sized, independent internal audit functions, where previously there was a single function. Having considered the findings of the internal effectiveness review performed by the Quality Assurance Director, the Committee concluded that GwIA had continued to operate in compliance with the requirements of GwIA policies, procedures and practice standards in all material respects and remained aligned to mandated objectives during 2018.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Internal control	
Internal control and risk management systems	The Committee is responsible for reporting and making recommendations to the Board on the effectiveness of Group-wide internal control and risk management systems. The Committee considered the outcome of the annual review of the systems of internal control and risk management as discussed on pages 107 and 108. The review identified a number of areas for improvement, particularly in respect of the general IT control environment, and the necessary actions that have been or are being taken. The Audit Committees at group and subsidiary level collectively monitor outstanding actions regularly and ensure sufficient resource and focus is in place to resolve them within a reasonable time frame. The Board confirmed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report and confirms that the system remains effective. An update to the organisational structure and governance model for cyber security management, to further strengthen the Group's information security capabilities, was presented at a joint meeting of the Risk and Audit Committees in October 2018.
Governance	
Group governance framework	The Group Governance Manual sets out the policies and procedures by which the Group operates within its framework of internal governance, taking into account relevant statutory and regulatory matters. It is a platform for mandating specific ways of working across the Group and each business unit attests annually to compliance with: — Mandatory requirements set out in Group-wide policies, including matters which must be reported to the Group functions; and — Matters requiring prior approval from those parties with delegated authority. The Committee reviewed the results of the Group Governance Manual annual content review and the results of the year end certification of compliance with Group Governance Manual requirements for the year ended 31 December 2018.

Howard Davies

Howard Davies
Chair of the Risk Committee

Committee members
- Howard Davies (Chair)
- David Law
- Kai Nargolwala
- Alice Schroeder (from March 2018)
- Lord Turner
- Tom Watjen (from November 2018)

Regular attendees
- Chairman of the Board
- Group Chief Executive
- Group Chief Risk Officer
- Chief Financial Officer
- Group Regulatory and Government Relations Director
- Group General Counsel and Company Secretary
- Director of Group-wide Internal Audit

Dependent on the business to be discussed at each meeting, chief risk officers of the business units and members of the Group Risk Leadership Team are invited to attend each meeting as appropriate

Number of meetings in 2018:
Five. (In addition a joint meeting was held with the Audit Committee)

Risk Committee report

Dear Shareholder

As Chair of the Risk Committee, I am pleased to report on the Committee's activities and focus during 2018.

Committee operation

The Committee assists the Board in providing leadership, direction and oversight of the Group's overall risk appetite and limits, risk strategy, and risk culture. It also oversees and advises the Board on current and future risk exposures of the Group, including those which have the potential to impact on the delivery of the Group's Business Plan. The Committee reviews the Group Risk Framework and recommends changes to it for approval by the Board to ensure that it remains effective in identifying and managing the risks faced by the Group. In March 2018, the Group announced the appointment of Mr Turner as Group Chief Risk Officer (CRO) and Executive Director. During the year, the Committee welcomed Ms Schroeder and Mr Watjen as members in March and November respectively.

The Committee received regular reports from the CRO, who is advised by the Group Executive Risk Committee (GERC). I provided feedback on the performance of the CRO to the Group Chief Executive Officer as part of the annual evaluation of the Board and its members. The Committee also received regular reports from the Group-wide Internal Audit and Compliance functions and updates from other areas of the business as needed.

Transformation activity and demerger of M&GPrudential

During 2018, a key area of consideration for the Committee was the risk associated with the Group's portfolio of key strategic change initiatives, including the merger and transformation programmes at M&GPrudential and the planned demerger of M&GPrudential from the rest of the Group. In March 2018, prior to the announcement of the demerger, the Committee considered the associated risks of proceeding and weighed them against the risks of retaining the current Group structure. Analyses of the key financial risks to the execution of the demerger under various stress scenarios were considered. During the year, the Committee considered updates, risk opinions, guidance and assurance on critical change and demerger activity.

Risk appetite and principal risks

During 2018 we reviewed the Group's risk policies and the aggregate limits accompanying the Group risk appetite statements, updating limits where necessary to reflect changes in the Group's risk profile and the evolving regulatory and macroeconomic environments. We also reviewed the principal risks facing the Group and received regular updates on these through the course of the year and received regular reports from the chief risk officers of our Material Subsidiaries. A fuller explanation of principal risks facing the Group and the way in which the Group manages these is set out in the CRO's report on pages 52 to 69. During 2018, the Committee considered risk assessments and opinions on key areas covering the risks associated with the Group's Business Plan and executive remuneration, further details of which are noted below.

In respect of our principal risks, we continued to focus on those arising from the products we offer our customers, those inherent in our investment portfolios and the risks that arise from the operation of our businesses. We regularly reviewed the strength of our capital and liquidity positions, which included the results of stress and scenario analyses, and the significant ongoing changes to the regulatory framework and environment. In addition, we closely monitored risks arising from the macroeconomic environment and the pace of regulatory developments across the globe.

In-depth reviews included consideration of the Jackson fixed annuity business and hedging programme. Reviews were also performed on the Group's credit risk exposures, in the context of our assessment of the global credit cycle, and into our Asia business which included reviews of the product lifecycle in Singapore, persistency risk in Indonesia and fund management and modelling in our Hong Kong and Singapore businesses. During the year we continued to oversee the work required as a result of the continued applicability to the Group of the requirements under the Global Systemically Important Insurer (G-SII) regime, which included the approval of the 2018 Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan.

Information security and privacy

Information security and data privacy also received attention from the Committee in 2018. During the year we reviewed progress achieved on the implementation of our plans on cyber defence. The Committee received updates on implementation activity to ensure compliance with the EU's General Data Protection Regulation

(GDPR), which came into force in May 2018. In October 2018 a joint session with the Audit Committee on cyber security included an update on the Group-wide cyber security strategy and information security programme and was aimed at enhancing the knowledge of Non-executive Directors as well as providing an update on the progress of the Group's approach to cyber security.

Regulatory matters

The Committee reviewed the methodology and annual calibration of the Solvency II internal model, and we also oversaw the submission of the Group's Major Model Change application in December 2018 in respect of the model. The Committee considered the Group results of field testing of the Insurance Capital Standards (ICS) in October 2018.

Following the announcement in August 2018 that the Hong Kong IA would become the Group's regulator after the demerger of M&GPrudential, updates on the discussions with the Hong Kong IA on the future regulatory relationship were provided as part of the CRO's regular reporting to the Committee.

Committee governance

We work closely with the Audit Committee to ensure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, Mr Law and I agree the most appropriate Committee to consider the matter.

As Chair of the Committee, I have responsibility for ensuring the Committee operates effectively. In order to enable the Committee to provide constructive challenge to management, I encourage open debate and contributions from all Committee members. I report to the Board in full after each meeting on the main matters discussed. An annual review of our effectiveness was carried out as part of the Board evaluation, described in more detail on page 100. The Committee was found to be functioning effectively.

How the Committee spent its time during 2018

	Feb	May	Jul	Oct	Dec
Markets and Group risk updates					
Group risk update	●	●	●	●	●
Material Subsidiaries	●	●	●	●	●
Risk management					
Group top risk identification	●	○	●	○	○
Top risk discussions	●	●	●	●	●
Business unit specific risk matters	●	●	●	●	●
Risk assessment of Business Plan	○	○	○	○	●
Risk function effectiveness	●	○	○	○	○
Risk culture	○	○	○	○	●
Risk oversight of remuneration	●	○	●	○	●
Transformation	●	●	●	●	●
Information security and privacy	●	●	●	●	●
Regulatory matters					
Regulatory matters	●	●	●	●	●
Risk framework					
Solvency II internal model development and changes	●	●	●	○	●
Group risk appetite review	○	○	○	●	○
Risk limit updates	●	○	●	○	○
Risk policy framework refresh	○	○	●	○	●
Risk-related compliance policies	●	○	●	●	○
Group-wide Internal Audit update	●	●	●	●	●
Governance and reporting					
Full and half year risk disclosures	●	○	●	○	○
Global Systemically Important Insurer	○	○	○	●	○
Liquidity Risk Management Plan, Systemic Risk Management Plan and Recovery Plan	○	○	○	●	○
Solvency II reporting and governance processes	○	●	○	○	○
Own Risk and Solvency Assessment	○	●	○	○	○
Year-end E-cap results	○	●	○	○	○
Group Regulatory and Compliance report	●	●	●	●	●
Committee terms of reference	●	○	○	●	○

Key matters considered during the year

Matter considered	*How the Committee addressed the matter*
Business Plan	As part of its role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed Group Risk's assessment of the Group's Business Plan which covered a range of both financial and non-financial considerations including those associated with the demerger of M&GPrudential from the Group. As part of the Group Risk's review of the annual Group Business Plan, Group Approved Limits were reviewed, updated and approved by the Committee.
Risk appetite	The Committee is responsible for recommending the Group's overall risk appetite and tolerance to the Board. The Committee approved the Group Risk Appetite Statement, which sets aggregate risk limits in respect of capital requirements, earnings volatility and liquidity as well as maintaining the existing tolerance levels associated with each of these limits.
Risk framework and management	Annually, business units must assess and certify their compliance with the Group Risk Framework and risk policies as part of the annual Group Governance Manual certification. The certification process for risk policies is facilitated by Group Risk and subject to oversight by the Committee. In 2018, the Group Risk Framework and risk policies were subject to their annual review, with changes being approved by the Committee. The Committee conducted its annual review of Risk effectiveness in February. It also approved the Group Risk Mandate, which formally sets out the purpose and responsibilities of the Group Risk function, and how it works with other functions and maintains oversight of business unit risk functions and their effectiveness in managing the key risks to the Group. In December 2018, the Committee considered an update on activities supporting a positive risk culture across Prudential, including the developments and improvements implemented across the business units over the year. The Committee considered the results of a number of 'deep dive' reviews undertaken during 2018. These focused on risks embedded within the existing portfolio of products in our US, Asia and UK businesses, as well as the risks arising from, and to, the demerger.
Transformation activity and demerger of M&GPrudential	In March 2018, the Group announced the planned demerger of M&GPrudential from the rest of the Group, further contributing to the portfolio of key strategic change activity across the Group. The Committee was provided with updates on this activity throughout the year, and considered the results of risk opinions, guidance and assurance on the demerger. Analyses of the key financial risks to the execution of the demerger under various stress scenarios were considered. Risk recommendations and observations were provided to the Committee on the key merger and transformation programmes currently ongoing at M&GPrudential.
Hong Kong Insurance Authority (IA)	In August 2018, it was announced that the Hong Kong IA would become the Group-wide supervisor for Prudential plc after the demerger of M&GPrudential. Key updates on the discussions with the Hong Kong IA on the future regulatory relationship were provided to the Committee as part of the CRO's regular reporting.
Information security and privacy	In July 2018, the Committee was provided with an update on the key deliverables relating to the Group's cyber resilience and throughout 2018 the Committee received regular updates on Group-wide information security metrics providing a view of security posture across our businesses. An update to the organisational structure and governance model for cyber security management, to further strengthen the Group's information security capability, was presented at a joint meeting of the Risk and Audit Committees in October. In November 2018, Prudential participated in the annual FTSE 350 Cyber Governance Health Check survey, insights from which inform government policy on cyber security and contribute to guidance and support provided to industry and boards. In the key area of data privacy, the Committee received updates throughout the year on progress on Group-wide implementation activity to ensure compliance with the General Data Protection Regulation.

Key matters considered during the year continued

Matter considered	*How the Committee addressed the matter*
Jackson oversight	The Committee received regular updates on the Jackson business throughout 2018, including updates on financial risk oversight over the business. The Committee approved updates to key risk limits used in its monitoring of the financial risks to the Jackson business, in particular those over interest rate risk. Additionally, the Committee considered the results of in-depth reviews performed on the Jackson fixed annuity business and hedging programme.
Group principal risks	The Committee evaluated the Group's principal risks, considering recommendations for promoting additional risks and changes in the scope of existing risks. The Committee received regular reporting on the principal risks and mitigating actions over the course of the year within the Group CRO's regular report to the Committee. These reports also provided the Committee with regulatory updates; developments under Solvency II and the Group's internal model; the implications of the developing global capital standards including the engagement with the Hong Kong IA on the development of an industry group capital and risk management framework; and developments and the deliverables required as a result of the Group's designation as a Global Systemically Important Insurer.
Solvency II reporting	The Committee considered the Own Risk and Solvency Assessment report based on the outcomes of the Group's Business Plan and the full year 2017 risk and solvency positions prior to its approval by the Board. The report was also considered in light of the results of the Group's regular stress testing. The Committee reviewed the methodology and annual calibration of the Solvency II internal model. The 2018 Major Model Change application was closely overseen by the Committee throughout the year and we approved the model changes as part of the submission of the application to the regulator.
Global Systemically Important Insurer (G-SII)	The Financial Stability Board (FSB) confirmed in November 2017 that the 2016 Global Systematically Important Insurer designation would continue to apply to the Group. As a result, in 2018 the Committee was required to consider and approve updated deliverables associated with the designation. These included the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan.
Stress testing	Stress and scenario testing is a key risk measurement and management tool for the Group. The Reverse Stress Test exercise was carried out which confirmed the Group's position as remaining resilient to certain business failure scenarios. The report related to the Group's year end 2017 position and was submitted to the PRA. The Committee also considered the results of the 2018 European Insurance and Occupational Pensions Authority (EIOPA) Stress Tests, which were submitted to the PRA and EIOPA.
Remuneration	The Committee has a formal role in the provision of advice to the Remuneration Committee on risk management considerations in respect of executive remuneration. The Committee considered reviews on the risk management considerations associated with annual incentive plans during the year and reports on remuneration-related matters.
Compliance and audit reporting	The Committee received regular reporting on key compliance risks and mitigation activity, and reviewed and approved updates to a number of regulatory compliance risk-related policies including those around anti-bribery and corruption, conflicts of interest and personal account dealing. The Committee also received updates from Group-wide Internal Audit throughout the year.

Statutory and regulatory disclosures

Financial reporting

The Directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 172 to 329 and the supplementary information on pages 342 to 375. It is the responsibility of the auditor to form independent opinions, based on its audit of the financial statements and its audit of the EEV basis supplementary information, and to report its opinions to the Company's shareholders and to the Company. Its opinions are given on pages 330 to 340 and page 376.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial affairs of the Company and of the Group. The criteria applied in the preparation of the financial statements are set out in the statement of Directors' responsibilities on pages 329 and 375. Company law also requires the Board to approve the Strategic report. In addition, the UK Code requires the Directors' statement to state that they consider the Annual Report and financial statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors are further required to confirm that the Strategic report includes a fair review of the development and performance of the business, with a description of the principal risks and uncertainties. Such confirmation is included in the statement of Directors' responsibilities on pages 329 and 375.

The Strategic report provides, on pages 48 to 50, a description of the Group's capital position, financing and liquidity. The risks facing the Group's business are discussed in the Group Chief Risk Officer's report of the risks facing our business and how these are managed on pages 52 to 69.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Going concern

In accordance with the guidance issued by the Financial Reporting Council in September 2014, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', after making sufficient enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that the financial statements are approved. In support of this expectation, the Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate, are set out in the Strategic report on pages 10 to 86. The risks facing the Group's capital and liquidity positions and their sensitivities are referred to in the Strategic report on pages 52 to 69 and note II(c) 'Solvency Capital Position at 31 December 2018' within Additional unaudited financial information. In addition the Directors considered the operational and financial risks arising from the UK's intended departure from the European Union in a number of possible scenarios, including those which assume no withdrawal agreement is enacted. The Group's IFRS financial statements include the details of the Group's borrowings in note C6 on page 269, the market risk and liquidity analysis associated with the Group's assets and liabilities can be found in note C3.4(a) on pages 236 to 238, policyholder liability maturity profile by business units in notes C4.1(b), (c) and (d) on pages 244, 246 and 248 respectively, cash flow details in the consolidated statement of cash flows and provisions and contingencies in notes C11 and D2. The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2018.

Powers of the Board

The Board may exercise all powers conferred on it by the Company's Articles and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company.

Securities dealing and inside information

Prudential has adopted securities dealing rules relating to transactions by Directors on terms no less exacting than required by Appendix 10 to the HK Listing Rules and by relevant UK regulations. The Directors have complied with these rules throughout the period.

The Group has adopted an Inside Information Policy which includes guidance and procedures for the identification, dissemination and escalation of inside information as well as appropriate controls on the disclosure of such information in line with regulatory requirements. All staff are made aware of the policy and receive communications reminding them of their obligations when they work on any confidential matters in the business or are notified when the Company enters or exits a closed period.

Requirements of Listing Rule 9.8.4

Information to be included in the Annual Report and accounts under Listing Rule 9.8.4 may be found as follows:

Listing Rule	*Description*	*Page*
9.8.4 (4)	Details of long-term incentive schemes required by Listing Rule 9.4.3	161
9.8.4 (10)	Contracts of Significance involving a Director	106

US regulation and legislation

As a result of its listing on the New York Stock Exchange, the Company is required to comply with the relevant provisions of the Sarbanes-Oxley Act 2002 as they apply to foreign private issuers and has adopted procedures to ensure such compliance. In particular, in relation to Section 302 of the Sarbanes-Oxley Act 2002 which covers disclosure controls and procedures, a Disclosure Committee has been established, reporting to the Group Chief Executive, chaired by the Chief Financial Officer and comprising members of Group head office management. The work of the Disclosure Committee supports the Group Chief Executive and Chief Financial Officer in making the certifications regarding the effectiveness of the Group's disclosure procedures.

Change of control

Under the agreements governing Prudential Corporation Holdings Limited's life insurance and fund management joint ventures with China International Trust & Investment Corporation (CITIC), if there is a change of control of the Company, CITIC may terminate the agreements and either (i) purchase the Company's entire interest in the joint venture or require the Company to sell its interest to a third party designated by CITIC, or (ii) require the Company to purchase all of CITIC's interest in the joint venture. The price of such purchase or sale is to be the fair value of the shares to be transferred, as determined by the auditor of the joint venture.

Customers

The five largest customers of the Group constituted in aggregate less than 30 per cent of its total revenue from sales for each of 2018 and 2017.

Index to principal Directors' report disclosures

Information required to be disclosed in the Directors' report may be found in the following sections:

Information	*Section in Annual Report*	*Page number(s)*
Disclosure of information to auditor	Statutory and regulatory disclosures	128
Directors in office during the year	Board of Directors	89 to 94
Corporate responsibility governance	Corporate responsibility review	70 to 86
Employment practices	Corporate responsibility review	78 to 80
Greenhouse gas emissions	Corporate responsibility review	75 to 77
Charitable donations	Corporate responsibility review	85
Political donations and expenditure	Corporate responsibility review	85
Remuneration Committee report	Directors' remuneration report	132 to 169
Directors' interests in shares	Directors' remuneration report	158
Agreements for compensation for loss of office or employment on takeover	Directors' remuneration report	162 and 163
Details of qualifying third-party indemnity provisions	Governance report	106
Internal control and risk management	Governance report	107 and 108
Powers of Directors	Governance report	128
Rules governing appointment of Directors	Governance report	105
Significant agreements impacted by a change of control	Governance report	129
Future developments of the business of the Company	Group Chief Executive's report	4 to 7
Post-balance sheet events	Note D3 of the notes on the Group financial statements	299
Rules governing changes to the Articles of Association	Shareholder information	420
Structure of share capital, including changes during the year and restrictions on the transfer of securities, voting rights and significant shareholders	Shareholder information and note C10 of the notes on the Group financial statements	420, 421 and 291
Business review	Strategic report	10 to 86
Changes in borrowings	Strategic report and note C6 of the notes on the Group financial statements	48, 49 and 269
Dividend details	Strategic report	2 and 39
Financial instruments	Strategic report and Additional information	52 to 69 and 407

In addition, the risk factors set out on pages 407 to 415 and the additional unaudited financial information set out on pages 378 to 406, are incorporated by reference into the Directors' report.

Signed on behalf of the Board of Directors

A. Porter

Alan F Porter
Group General Counsel and Company Secretary
12 March 2019

04

Directors' remuneration report

This report has been prepared to comply with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, as well as the Companies Act 2006 and other related regulations.

The following sections were subject to audit: Table of 2018 and 2017 Executive Director total remuneration (the 'single figure') and related notes, salary information table in section entitled Remuneration in respect of performance in 2018, Pension entitlements, Long-term incentives awarded in 2018, Chairman and Non-executive Director remuneration in 2018, Statement of Directors' shareholdings, Outstanding share options, Recruitment arrangements and Payments to past Directors and payments for loss of office.

Annual statement from the Chairman of the Remuneration Committee

Dear shareholder,
I am pleased to present the Remuneration Committee's report for the year to 31 December 2018.

The Committee's report is presented in the following sections:

1 An 'at a glance' summary of the Group's remuneration arrangements on pages 135 and 136;

2 A summary of our Directors' remuneration policy on pages 137 to 141 which describes how we pay Directors. This policy was approved by shareholders at the 2017 AGM;

3 Our Annual report on remuneration on pages 142 to 165 which describes how the Committee applied the Directors' remuneration policy in 2018 and the decisions it has made in respect of 2019; and

4 Supplementary information on pages 166 to 169.

By way of preface, I would like to share the context for the key decisions the Committee took during 2018, in particular, how we rewarded performance achieved during the year, the remuneration arrangements for those joining and stepping down from the Board and the decisions relating to remuneration arrangements in 2019.

I am delighted to welcome Fields Wicker-Miurin who joined the Committee in September 2018.

Implementing the Directors' remuneration policy

During 2018, the Committee operated all elements of remuneration in line with the Directors' remuneration policy, which received the support of 90.7 per cent of shareholders at the AGM in May 2017. The new policy simplified pay arrangements by reducing the number of annual bonus measures, it also introduced a two-year holding period on long-term incentive awards and increased share ownership guidelines.

I am pleased to note that an annual review of the Committee's effectiveness was carried out in 2018 as part of the Board evaluation, as described in more detail on page 100. The Committee was found to be functioning effectively.

Rewarding 2018 performance

Prudential's executive remuneration arrangements reward the achievement of Group, business, functional and personal targets, provided that this performance is delivered within the Company's risk framework and appetites, and that the conduct expectations of Prudential, our regulators and other stakeholders are met.

As set out in the Strategic report section earlier in this Annual Report, the Group delivered a strong financial result which has been achieved in parallel to the Group's good progress in the preparations for the intended demerger of M&GPrudential. The table opposite illustrates achievement of KPIs.

2018 operating profit and Group free surplus generation exceeded the stretching targets established by the Board, with operating profit 6 per cent higher and Group free surplus generation 14 per cent higher than 2017 on a constant exchange rate basis, despite lower earnings from annuities following the reinsurance transaction in March 2018. EEV new business profit was 11 per cent higher than prior year on a constant exchange rate basis reflecting the performances outlined in the business performance review, which delivered a result approaching the Board approved targets. All of our business units achieved target remittances levels and, although lower than the prior period, we achieved our objective to balance net remittances sufficient to cover the dividend and corporate costs, with reinvestment in profitable opportunities within the business units, and maintained significant cash stock at the centre. The business unit remittances contributed to Group cashflow, which approached the stretch target level. The Group achieved these results while maintaining appropriate levels of capital and while operating within the Group's risk framework and appetites. The Committee believes that the bonuses it awarded to Executive Directors for 2018 (between 84 per cent and 95 per cent of executives' maximum AIP opportunities) appropriately reflect this performance.

Performance in 2018 has continued to deliver on the momentum achieved in recent years. The Group delivered total operating profits of £13,782 million in the 2016, 2017 and 2018 financial years. Based on total shareholder return (TSR) and this strong cumulative operating profit performance over the period, the Committee determined that between 55.5 and 62.5 per cent of the Prudential Long Term Incentive Plan (PLTIP) awards made to Executive Directors in 2016 would vest (depending on the business unit). These awards will be released to participants in April 2019.

The Committee continues to ensure that payments and share or ADR award releases reflect the performance of the business, and remains mindful of its scope to use discretion if it is not satisfied that underlying financial performance justifies the rewards arithmetically suggested by the achievement of the performance conditions.

The total 2018 remuneration or 'single figure' for the Group Chief Executive, Mike Wells, is 13.2 per cent lower than his total 2017 'single figure', notwithstanding his exceptional leadership and personal performance. This chiefly reflects that a lower proportion of 2016 PLTIP awards vested than of 2015 awards.

Changes to the executive team

As you will be aware, there have been changes to Prudential's team of Executive Directors during 2018. James Turner was appointed as Group Chief Risk Officer in March 2018. Anne Richards stepped down from the Board as Chief Executive, M&G in August 2018. Barry Stowe retired as Chairman and Chief Executive Officer of our North American Business Unit (NABU) and stepped down from the Board on 31 December 2018. He was succeeded by Michael Falcon who was appointed to the Board on 7 January 2019. The remuneration decisions arising from these changes were disclosed in stock exchange and website announcements when they took place. Further information can be found in the Recruitment arrangements and Payments to past Directors sections of this report.

Implementation in 2019

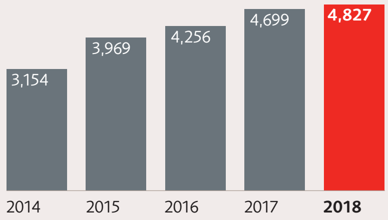
The Committee intends to continue to operate within the current Directors' remuneration policy during 2019. In determining remuneration packages for 2019, the Committee was mindful of the need for restraint in base salary increases. All Executive Directors received a salary increase of 2 per cent effective 1 January 2019. The 2019 salary increase budgets for other employees across the Group's business units were between 2 per cent and 8 per cent. No changes have been made to executives' maximum opportunities under either the annual incentive or the long-term incentive plans, as we believe remuneration packages provide an appropriate balance between performance over the short and the long term.

During late 2018 and early 2019, I corresponded with and met the majority of our major shareholders, as well as organisations that represent and advise shareholders. On behalf of the Committee, *Performance measures* | *Group performance (£m)*[3] | *2017-2018 growth (AER/CER)*[4] | *2018 bonus achievement*

Operating profit[1]

Prudential's primary measure of profitability and a key driver of shareholder value.

CAGR[5] (excluding Korea): +11%



3%/6%

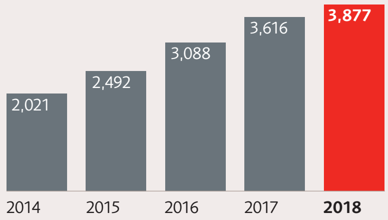
Above stretch target level

Operating profit accounted for 35 per cent of Group financial bonus targets.

EEV new business profit[2]

A measure of the future profitability of the new business sold during the year and indicates the profitable growth of the Group.

CAGR[5] (excluding Korea and UK bulk annuity new business profits): +18%



7%/11%

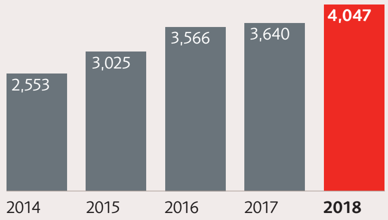
Approaching target level

EEV new business profit accounted for 15 per cent of Group financial bonus targets.

Group free surplus generation

A measure of the internal cash generation of our business units.

CAGR[5] (excluding Korea and UK bulk annuity new business profits): +14%



11%/14%

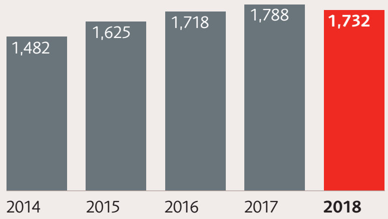
Above stretch target level

Group free surplus generation accounted for 30 per cent of Group financial bonus targets.

Business unit remittances[3]

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

CAGR[5]: +4%



-3%

Above target, approaching stretch target level

A cashflow measure was used to determine 20 per cent of the Group financial bonus targets.

Notes

[1] In this report 'operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns. As previously reported and excluding the contribution from the Korea life business for all years.

[2] As previously reported and excluding the contribution from the Korea life business and UK bulk annuity new business profits for all years.

[3] As reported basis.

[4] As reported basis/constant exchange basis (excluding business unit remittances, which are presented as reported).

[5] 2014-2018 CAGR as reported.

I would like to thank them for their engagement. During this consultation, there was a great deal of support for the proposals which the Committee made for 2019 and valuable discussions on other areas for consideration.

In light of conversations with shareholders and their advisers, and given the unusual circumstances of the Group as it prepares for the planned demerger of the M&GPrudential business, the Committee has made the following changes for 2019 which aim to enhance the transparency of executive remuneration arrangements; simplify the connection between performance and reward; and reflect changes in market practice which are developing in the context of the new UK Corporate Governance Code:

Reduced proportion of 2019 PLTIP awards vesting for threshold performance

The Committee has reduced the proportion of 2019 PLTIP awards which would vest for threshold performance from 25 per cent to 20 per cent. This would see the value available for threshold performance decrease from 100 per cent of salary for the Group Chief Executive to 80 per cent of salary.

Revised 2019 PLTIP award performance measures

It is imperative that the performance measures attached to PLTIP awards create a clear focus within the executive team and a straightforward connection with the value to be delivered to shareholders, particularly as the Group prepares for the planned demerger. On this basis, the Committee has decided that a different mixture of performance conditions are used, specifically for the awards to be made in 2019, which will vest based on performance over the 2019 to 2021 financial years.

The vesting of 75 per cent of the 2019 PLTIP awards will be based on the achievement of relative TSR targets. Performance against our balanced scorecard targets will continue to determine the vesting of the remaining 25 per cent of the awards as set out in the Statement of implementation in 2019. The measures attached to long-term incentive awards to be made in 2020 and subsequent years will be developed in light of the evolving priorities of the business and we will consult with shareholders on these in due course.

This approach benefits from maximising the community of interest between Executive Directors and other shareholders during the 2019 to 2021 period, improving simplicity by reducing the number of measures used in the PLTIP, and providing a set of metrics common to all Executive Directors by removing the different measures and weightings previously applied to Group executives, business unit Chief Executives and to the Group Chief Risk Officer.

Reduced pension benefits for newly recruited Executive Directors

The Committee is mindful of the recent developments with regards to the alignment of retirement benefits across the Group, and for externally recruited Executive Directors appointed on or after 1 March 2019 has committed to reducing the pension benefits from the current level of 25 per cent of salary to 20 per cent of salary. As part of next year's review of the Directors' remuneration policy, the Committee will consider its approach to Executive Director pension benefits further in the light of market developments, to ensure they are appropriately aligned to the retirement arrangements offered across the wider workforce taking into account the composition of the Group at that time.

Early publication of the CEO pay ratio

The Committee has decided to publish the CEO pay ratio in the 2018 Directors' remuneration report, one year in advance of the disclosure becoming a requirement under the UK Companies (Miscellaneous Reporting) Regulations 2018. This has been welcomed by many shareholders.

Enhanced disclosure of performance against personal and functional Annual Incentive Plan targets

This report includes more detail about the process for setting personal and strategic targets, and about levels of achievement against the targets used for 2018 bonuses. There is also a new section on the functional objectives used in the determination of the Group Chief Risk Officer's bonus. These disclosures can be found in the Annual report on remuneration.

Post cessation share ownership policy

Our current policy is that existing remuneration arrangements, including the deferral under the bonus into Prudential plc shares or ADRs for three years and a post-performance holding period of two years for awards of Prudential plc shares or ADRs under the PLTIP, will normally continue to provide alignment between the interests of our senior executives and our other shareholders for a period after the end of employment. This will be reviewed as part of the development of the new Directors' remuneration policy in 2019.

In conclusion

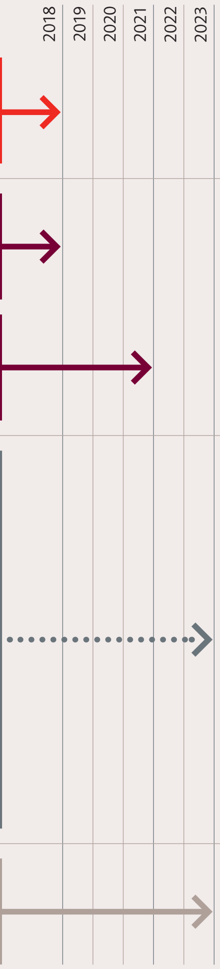
The Committee intends to seek shareholder approval for a new Directors' remuneration policy at the 2020 AGM. During 2019, we will review this policy, taking into account the demerger, the views of our shareholders, evolving market practice in meeting the requirements of the new UK Corporate Governance Code, changing accounting standards and the broader regulatory and competitive environment. I trust that you will find this report a clear account of the way in which the Committee has implemented the Directors' remuneration policy during 2018.

Anthony Nightingale

Anthony Nightingale, CMG SBS JP
Chairman of the Remuneration Committee
12 March 2019

Our Executive Directors' remuneration at a glance

Our current remuneration architecture



Key elements[1]		Key features of the policy	How we implemented the policy
Fixed pay	Salary and benefits	Broadly aligned with pay budget for other employees	Salary increase of 2% in 2018
Short-term variable pay Financial/functional and personal objectives set with reference to business plans approved by the Board	Cash bonus Deferred bonus	The maximum opportunity is up to 200% of salary 40% of bonus is deferred into shares for three years Award is subject to malus and clawback provisions	The Group Chief Executive has a maximum bonus opportunity of 200% of salary. For other Executive Directors the maximum is 180% of salary or less 2018 bonuses were paid based on financial performance or functional measures as well as personal objectives
Long-term variable pay Stretching operating profit ranges set with reference to business plans approved by the Board for in-flight awards[2] TSR vesting relative to international insurance peers Balanced scorecard of capital, conduct and diversity measures	Prudential Long Term Incentive Plan (PLTIP)	Maximum award under the plan is 550% of salary Aligned with long-term business strategy and delivery of shareholder value Measured over three financial years from year of award with a two-year post-performance holding period Award is subject to malus and clawback provisions	Awards in 2018 were below the plan limits: — Group Chief Executive: 400% of salary — CEO, NABU: 460% of salary — CEO, M&G: 450% of salary[3] — Other PLTIP awards were 250% of salary For business unit CEOs, awards vest based on TSR, business unit operating profit and balanced scorecard measures For other Executive Directors, awards vest based on TSR, Group operating profit and balanced scorecard measures
Share ownership guidelines	Share ownership guidelines	Significant share ownership guidelines for all Executive Directors as follows: — 400% of salary for the Group Chief Executive — 250% of salary for other Executive Directors	

Notes

1 The CEO, NABU is also eligible to receive a 10 per cent share of the Jackson bonus pool.

2 PLTIP awards granted in 2019 will be subject to relative TSR and balanced scorecard measures only.

3 The CEO, M&G resigned during the year and this award will lapse.

What performance means for Executive Directors' pay

At Prudential, remuneration packages are designed to ensure a strong alignment between pay and performance. As you can see from the charts within the Annual statement from the Chairman of the Remuneration Committee, sustained growth across our key performance metrics has delivered substantial value to our shareholders. This has been reflected in both the annual bonuses paid and the release of long-term incentive awards, as set out in the Annual report on remuneration.

In particular, the long-term incentives awarded to Executive Directors in 2016 had stretching performance conditions attached to vesting and were denominated in shares or ADRs. The value generated for shareholders through share price growth and dividends paid over the last three years is reflected in the value of the LTIP releases.

The value of these performance-related elements of remuneration is added to the fixed packages provided to Executive Directors to calculate the 2018 'single figure' of total remuneration. The total 2018 'single figure' for the Group Chief Executive is 13.2 per cent less than the total 2017 'single figure', despite continuing strong business performance and his exceptional leadership and personal performance. This is chiefly a result of a lower level of vesting of the 2016 PLTIP awards. The values for the Executive Directors during the year are outlined in the table below:

		Fixed pay		Performance related			
Executive Director	**Role**	**2018 salary**	**Pension and benefits**	**2018 bonus**	**LTIP vesting**	**2018 single figure**	**2017 single figure[1]**
Mark FitzPatrick	Chief Financial Officer	£745,000	£275,000	£1,241,000	–	£2,261,000	£1,634,000
John Foley	Chief Executive, M&GPrudential	£781,000	£318,000	£1,186,000	£1,511,000	£3,796,000	£4,597,000
Nic Nicandrou[2]	Chief Executive, PCA[3]	£1,023,000	£654,000	£1,692,000	£1,433,000	£4,802,000	£4,705,000
Anne Richards[4]	Chief Executive, M&G	£249,000	£164,000	–	–	£413,000	£3,053,000
Barry Stowe[2,5]	Chairman and CEO, NABU[6]	£867,000	£287,000	£4,935,000	£2,761,000	£8,850,000	£9,541,000
James Turner[7]	Group Chief Risk Officer	£521,000	£239,000	£793,000	£347,000	£1,900,000	N/A
Mike Wells	Group Chief Executive	£1,126,000	£689,000	£2,133,000	£3,486,000	£7,434,000	£8,560,000

Notes

1 Revised 2017 single figure, in line with the regulations, reflecting the actual value of 2017 LTIP releases and additional dividends paid as set out in the notes to the 2017 single figure table on page 145.
2 Nic Nicandrou and Barry Stowe are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.
3 PCA is an abbreviation of Prudential Corporation Asia.
4 Anne Richards resigned and stepped down from the Board as an Executive Director on 10 August 2018. Her employment with the Company terminated on 30 November 2018.
5 Barry Stowe retired from the Board on 31 December 2018. His employment with the Company will terminate on 31 December 2019.
6 NABU is an abbreviation of North American Business Unit which includes Jackson National Life and PPM America. NABU is now described as Jackson Holdings.
7 James Turner was appointed to the Board on 1 March 2018 as Group Chief Risk Officer. The remuneration above was paid in respect of his service as an Executive Director.

Aligning 2019 pay to performance

The Committee awarded salary increases to the Executive Directors for 2019 of 2 per cent, which was at the lower end of the range of salary increase budgets for the wider workforce. No changes have been made to incentive opportunities as we believe remuneration packages remain strongly aligned with performance over both the short and the long term. However, as discussed in the Annual statement from the Chairman of the Remuneration Committee in the previous section, the Committee has reduced the proportion of the 2019 PLTIP awards which would vest for threshold performance.

Remuneration packages for 2019 are set out in detail in the Annual report on remuneration and summarised below:

			AIP		
Executive Director	**Role**	**2019 salary**	**Maximum bonus (% of salary)**	**Bonus deferred (% of bonus)**	**PLTIP award (% of salary)[1]**
Michael Falcon[2]	Chairman and CEO, Jackson Holdings	US$800,000	100%	40%	400%
Mark FitzPatrick	Chief Financial Officer	£760,000	175%	40%	250%
John Foley	Chief Executive, M&GPrudential	£797,000	180%	40%	250%
Nic Nicandrou	Chief Executive, Prudential Corporation Asia	HK$10,930,000	180%	40%	250%
James Turner	Group Chief Risk Officer	£638,000	160%	40%	250%
Mike Wells	Group Chief Executive	£1,149,000	200%	40%	400%

Notes

1 The PLTIP award is subject to a three-year performance period and a further two-year holding period.
2 Michael Falcon was appointed to the Board on 7 January 2019 as Chairman and Chief Executive Officer, Jackson Holdings LLC. In addition to having a maximum bonus opportunity of 100 per cent of salary under the AIP he will also be eligible to receive a 10 per cent share of the Jackson bonus pool.

Summary of the current Directors' remuneration policy

The Company's Directors' remuneration policy was approved by shareholders at the 2017 AGM. This policy came into effect following the AGM on 18 May 2017 and is expected to apply until the 2020 AGM, when shareholders will be asked to approve a revised Directors' remuneration policy.

The pages that follow present a summary of the current Directors' remuneration policy. The complete policy can be found on our website at www.prudential.co.uk/investors/governance-and-policies

Remuneration for Executive Directors

Fixed pay

Element	*Operation*	*Opportunity*
Salary	The Committee reviews salaries annually, considering factors such as: — Salary increases for other employees across the Group; — The performance and experience of the executive; — The size and scope of the role; — Group and/or business unit financial performance; — Internal relativities; and — External factors such as economic conditions and market data. Market data is also reviewed so that salaries remain in a competitive range, relative to each Executive Director's local market.	Annual salary increases for Executive Directors will normally be in line with the increases for other employees across our business units. However, there is no prescribed maximum annual increase.
Benefits	Executive Directors are offered benefits which reflect their individual circumstances and are competitive within their local market, including: — Health and wellness benefits; — Protection and security benefits; — Transport benefits; — Family and education benefits; — All employee share plans and savings plans; — Relocation and expatriate benefits; and — Reimbursed business expenses (including any tax liability) incurred when travelling overseas in performance of duties.	The maximum paid will be the cost to the Company of providing benefits. The cost of benefits may vary from year to year but the Committee is mindful of achieving the best value from providers.
Provision for an income in retirement	Current Executive Directors have the option to: — Receive payments into a defined contribution scheme; and/or — Take a cash supplement in lieu of contributions. Jackson's Defined Contribution Retirement Plan has a guaranteed element (6 per cent of pensionable salary) and additional contributions (up to a further 6 per cent of pensionable salary) based on the profitability of Jackson.	Executive Directors are entitled to receive pension contributions or a cash supplement (or combination of the two) up to a total of 25 per cent of base salary. In addition, the Chief Executive, Prudential Corporation Asia receives statutory contributions into the Mandatory Provident Fund.

Variable pay

Element	*Operation*	*Opportunity*
Annual bonus	Currently all Executive Directors participate in the Annual Incentive Plan (AIP). AIP awards for all Executive Directors, other than the Group Chief Risk Officer, are subject to the achievement of financial and personal objectives. The Group Chief Risk Officer's performance measures are entirely based on a combination of functional and personal measures. Business unit chief executives either have measures of their business unit's financial performance in the AIP or they may participate in a business unit specific bonus plan. For example, the Chairman and CEO, NABU currently participates in the Jackson Senior Management Bonus Pool as well as in the AIP. The financial measures used for the annual bonus will typically include profit and cash flow targets and payments depend on the achievement of minimum capital thresholds. Jackson's profitability and other key financial measures determine the value of the Jackson Senior Management Bonus Pool. In specific circumstances, the Committee also has the power to recover all (or part of) bonuses for a period after they are awarded to executives. These clawback powers apply to the cash and deferred elements of bonuses made in respect of performance in 2015 and subsequent years.	The Chief Executive, M&G has a bonus opportunity of the lower of six times salary or 0.75 per cent of M&G's operating profit. For other Executive Directors the maximum AIP opportunity is up to 200 per cent of salary. Annual awards are disclosed in the relevant Annual report on remuneration. In addition to the AIP, the Chairman and CEO, NABU receives a 10 per cent share of the Jackson Senior Management Bonus Pool.
Deferred bonus shares	Executive Directors are required to defer a percentage (currently 40 per cent) of their total annual bonus into Prudential shares for three years. The release of awards is not subject to any further performance conditions. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding deferred award in specific circumstances. From 2015, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).	The maximum vesting under this arrangement is 100 per cent of the original deferral plus accrued dividend shares.
Prudential Long Term Incentive Plan	Currently all Executive Directors participate in the Prudential Long Term Incentive Plan (PLTIP). The PLTIP has a three-year performance period. The performance measures attached to each award are dependent on the role of the executive and will be disclosed in the relevant Annual report on remuneration. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and subsequent years, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback). From 2017, PLTIP awards are usually subject to an additional two-year holding period following the end of the three-year performance period.	The value of shares awarded under the PLTIP (in any given financial year) may not exceed 550 per cent of the executive's annual basic salary. Awards made in a particular year are usually significantly below this limit and are disclosed in the relevant Annual report on remuneration. The Committee would consult with major shareholders before increasing award levels during the life of this policy. The maximum vesting under the PLTIP is 100 per cent of the original share award plus accrued dividend shares.

Share ownership guidelines

The guidelines for share ownership are as follows:

— 400 per cent of salary for the Group Chief Executive; and

— 250 per cent of salary for other Executive Directors.

Executives have five years from the implementation of these increased guidelines (or from the date of their appointment, if later) to build this level of ownership. Shares earned and deferred under the AIP are included in calculating the Executive Director's shareholding for these purposes. Unvested share awards under long-term incentive plans are not included but vested share awards under long-term incentive plans which are subject to the two-year holding period are included.

Progress against the share ownership guidelines is detailed in the Statement of Directors' shareholdings section of the Annual report on remuneration.

Malus and clawback policy

The Committee may apply clawback and/or a malus adjustment to variable pay in certain circumstances as set out below. The Committee can delay the release of awards pending the completion of an investigation which could lead to the application of malus or clawback.

	Circumstances when the Committee may exercise its discretion to apply malus or clawback to an award
Malus (applies in respect of any annual bonus or long-term incentive award) Allows unvested shares awarded under deferred bonus and LTIP plans to be forfeited or reduced in certain circumstances.	Where a business decision taken during the performance period by the business unit by which the participant was employed has resulted in a material breach of any law, regulation, code of practice or other instrument that applies to companies or individuals within the business unit. There is a materially adverse restatement of the accounts for any year during the performance period of (i) the business unit in which the participant worked at any time in that year; and/or (ii) any member of the Group which is attributable to incorrect information about the affairs of that business unit. Any matter arises which the Committee believes affects or may affect the reputation of the Company or any member of the Group.
Clawback Allows cash and share awards to be recovered before or after release in certain circumstances.	Where at any time before the fifth anniversary of the start of the performance period, either (i) there is a materially adverse restatement of the Company's published accounts in respect of any financial year which (in whole or part) comprised part of the performance period; or (ii) it becomes apparent that a material breach of a law or regulation took place during the performance period which resulted in significant harm to the Company or its reputation, and the Committee considers it appropriate, taking account of the extent of the participants' responsibility for the relevant restatement or breach, that clawback be applied to the relevant participant.

The full Directors' remuneration policy sets out the Committee's powers in respect of Executive Directors joining or leaving the Board, where a change in performance conditions is appropriate or in the case of corporate transactions (such as a takeover, merger or rights issue). The policy also describes legacy long-term incentive plans under which some Executive Directors continue to hold awards.

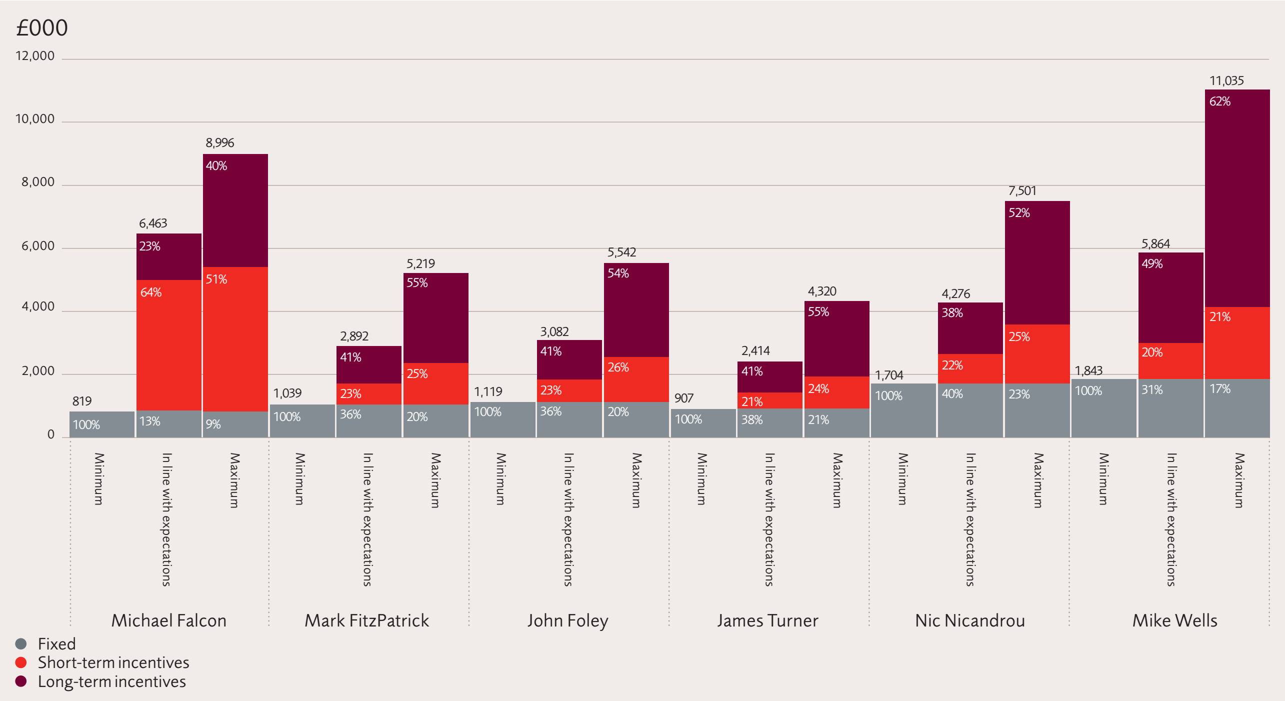
Subsequent to the approval of the Directors' remuneration policy by our shareholders, we have determined that for PLTIP awards granted in 2019 and subsequent years the proportion vesting for threshold performance will be reduced from 25 per cent to 20 per cent of the maximum opportunity, and externally recruited Executive Directors appointed on or after 1 March 2019 will be offered pension benefits of 20 per cent of salary, rather than the current level of 25 per cent of salary.

Scenarios of total remuneration

The following chart provides an illustration of the future total remuneration for each Executive Director in respect of their remuneration opportunity for 2019. Three scenarios of potential outcome are provided based on underlying assumptions shown in the notes to the chart. In line with changes to Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which would apply from the next Directors' remuneration policy, we have indicated the maximum remuneration that would be delivered to each Executive Director by a 50 per cent share price growth during the relevant performance period.

The Committee is satisfied that the maximum potential remuneration of the Executive Directors is appropriate. Prudential's policy is to offer Executive Directors remuneration which reflects the performance and experience of the executive, internal relativities and Group and/or business unit financial performance. In order for the maximum illustrated total remuneration to be payable:

- Financial performance must exceed the Group and/or business unit's stretching business plan;
- Relative TSR must be at or above the upper quartile relative to the peer group;
- The balanced scorecard, aligned to the Group's strategic priorities, must be fully satisfied;
- Functional and personal performance objectives must be fully met;
- Performance must be achieved within the Group's and business units' risk framework and appetites; and
- The Company's share price must grow by 50 per cent over three years.



Note

The scenarios in the chart above have been calculated on the following assumptions:

	Minimum	**In line with expectations**	**Maximum**
Fixed pay	Base salary at 1 January 2019. Pension allowance at 1 January 2019. Estimated value of benefits based on amounts paid in 2018. For Michael Falcon this has been based on the value of benefits paid to his predecessor, Barry Stowe. Nic Nicandrou and Michael Falcon are paid in HK$ and US$ respectively and figures have been converted to GBP for the purposes of this chart.		
Annual bonus	No bonus paid.	50% of maximum AIP. Jackson bonus pool at the average of the last three years.	100% of maximum AIP. Jackson bonus pool at highest of the last three years.
Long-term incentives (excludes dividends)	No PLTIP vesting.	Vesting of 62.5% of award under PLTIP (midway between threshold and maximum).	Vesting of 100% of award under PLTIP; plus Share price growth of 50% over three years.

Remuneration for Non-executive Directors and the Chairman

Non-executive Directors		
Fees	***Benefits***	***Share ownership guidelines***
All Non-executive Directors receive a basic fee for their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of committees or acting as the Senior Independent Director. Fees are paid to Non-executive Directors in cash. Fees are reviewed annually by the Board with any changes effective from 1 July. Non-executive Directors are not eligible to participate in annual bonus plans or long-term incentive plans. If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.	Travel and expenses for Non-executive Directors are incurred in the normal course of business, for example, in relation to attendance at Board and Committee meetings. The costs associated with these are all met by the Company.	It is expected that Non-executive Directors will hold shares with a value equivalent to one times the annual basic fee (excluding additional fees for chairmanship and membership of any committees). Non-executive Directors are expected to attain this level of share ownership within three years of their appointment.
Chairman		
The Chairman receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of time. Fees will otherwise be reviewed annually with any changes effective from 1 July. The Chairman is not eligible to participate in annual bonus plans or long-term incentive plans.	The Chairman may be offered benefits including: — Health and wellness benefits; — Protection and security benefits; — Transport benefits; — Reimbursement of business expenses (and any associated tax liabilities) incurred when travelling overseas in performance of duties; and — Relocation and expatriate benefits (where appropriate). The Chairman is not eligible to receive a pension allowance or to participate in the Group's employee pension schemes.	The Chairman has a share ownership guideline of one times his annual fee and is expected to attain this level of share ownership within five years of the date of his appointment.

In setting the Directors' remuneration policy, the Committee considers a range of factors including:

Statement of consideration of conditions elsewhere in the Group

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit's salary increase budget is set with reference to local market conditions. The Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

Prudential does not consult with employees when setting the Directors' remuneration policy. Prudential is a global organisation with employees and agents in multiple business units and geographies. As such, there are practical challenges associated with consulting with employees directly on this matter. As many employees are also shareholders, they are able to participate in binding votes on the Directors' remuneration policy and annual votes on the Annual report on remuneration.

Statement of consideration of shareholder views

The Committee and the Company undertake regular consultation with key institutional investors on the remuneration policy and its implementation. This engagement is led by the Remuneration Committee Chair and is an integral part of the Company's investor relations programme. The Committee is grateful to shareholders for their feedback and takes this into account when determining executive remuneration. As set out in the Annual statement from the Chairman of the Remuneration Committee, feedback from shareholders and their advisers informed a number of changes to the Company's 2019 remuneration arrangements.

Annual report on remuneration

The Board has established Audit, Remuneration, Risk and Nomination & Governance Committees as principal standing committees of the Board. These committees form a key element of the Group governance framework.

The operation of the Remuneration Committee

Members

Anthony Nightingale (Chair of the Committee)
Kai Nargolwala
Philip Remnant
Thomas Watjen
Fields Wicker-Miurin (member since 3 September 2018)

Individual Directors' attendance at meetings throughout 2018 is set out in the Governance section.

Role and responsibility

The role and responsibilities of the Committee are set out in its terms of reference, which are reviewed by the Committee and approved by the Board on an annual basis, and which can be found on the Company's website. The Committee's role is to assist the Board in meeting its responsibilities regarding the determination, implementation and operation of the overall remuneration policy for the Group, including the remuneration of the Chairman and Executive Directors, as well as overseeing the remuneration arrangements of other staff within its purview.

The principal responsibilities of the Committee are:

- Determining and recommending to the Board for approval, the framework and policy for the remuneration of the Chairman, Executive Directors and other members of the Group Executive Committee;
- Approving the design of performance-related pay schemes operated for the Executive Directors and other members of the Group Executive Committee, and determining the targets and individual payouts under such schemes;
- Reviewing the design and development of all share plans requiring approval by the Board and/or the Company's shareholders;
- Approving the share ownership guidelines for the Chairman and Executive Directors and other members of the Group Executive Committee, and monitoring compliance;
- Reviewing and approving individual packages for the Executive Directors and other members of the Group Executive Committee, and the fees of the Chairman and the Non-executive Directors of the Group's material subsidiaries;
- Reviewing and approving packages to be offered to newly recruited Executive Directors and other members of the Group Executive Committee;
- Reviewing and approving the structure and quantum of any severance package for Executive Directors and other members of the Group Executive Committee to ensure they are fair and do not reward failure;
- Ensuring the process for establishing remuneration policy is transparent and consistent with the Group's risk framework and appetites, encouraging strong risk management and solvency management practices;
- Reviewing the workforce remuneration practices and related policies across the Group when setting the remuneration policy for Executive Directors, as well as the alignment of incentives and awards with culture;
- Monitoring the remuneration and risk management implications of remuneration of senior executives across the Group, other selected roles and those with an opportunity to earn in excess of £1 million in a particular year; and
- Overseeing the implementation of the Group remuneration policy for those roles within scope of the specific arrangements referred to in Article 275 of Solvency II.

In 2018, the Committee met five times. Key activities at each meeting are shown in the table below:

Meeting	*Key activities*
Early March 2018	Approve the 2017 Directors' remuneration report and the Gender pay gap report; consider 2017 bonus awards for Executive Directors; consider vesting of the long-term incentive awards with a performance period ending on 31 December 2017; approve 2018 long-term incentive awards, performance measures and plan documentation; note an update on regulation affecting remuneration; and review the appointment of the Committee's independent adviser.
Mid-March 2018	Confirm 2017 annual bonuses and the vesting of long-term incentive awards with a performance period ending on 31 December 2017, in light of audited financial results.
June 2018	Consider performance for outstanding long-term incentive awards, based on the half-year results; review the remuneration of senior executives across the Group, employees with a remuneration opportunity over £1 million per annum and employees within the scope of the Solvency II remuneration rules; review progress towards share ownership guidelines by the Chairman, Executive Directors and other Group Executive Committee members; approve the expense approval process for the Group Chief Executive and Chairman; and approve the Chairman's fees.
September 2018	Review proposed 2019 remuneration arrangements for Executive Directors ahead of consultation with shareholders; note an update on regulation affecting remuneration; review the potential impact of the demerger on remuneration arrangements; review gender pay gap reporting data; and approve the Committee's terms of reference for recommendation to the Board.
December 2018	Review level of participation in the Company's all-employee share plans and dilution levels resulting from the Company's share plans; consider the potential impact of the demerger on remuneration arrangements; approve Group Executive Committee members' 2019 salaries and incentive opportunities; consider the annual bonus measures and targets to be used in 2019; review an initial draft of the 2018 Annual report on remuneration; approve the Committee's 2019 Schedule of Business; approve the fees for independent non-executive directors of Material Subsidiaries; and note an update on regulation affecting remuneration.

Additionally, a number of resolutions in writing were approved by the Committee between these meetings relating to the approval of the Solvency II Remuneration Policy Statement covering the 2017 financial year; new Executive Directors' remuneration arrangements and separation arrangements for those Executive Directors who stepped down from the Board; joining arrangements for the new Chairman and Chief Executive Officer, NABU; and the M&GPrudential Chairman's fee.

The Chairman and the Group Chief Executive attend meetings by invitation. The Committee also had the benefit of advice from:

- Group Chief Risk Officer;
- Chief Financial Officer;
- Group Human Resources Director; and
- Director of Group Reward and Employee Relations.

Individuals are never present when their own remuneration is discussed and the Committee is always careful to manage potential conflicts of interest when receiving views from Executive Directors or senior management about executive remuneration proposals.

During 2018, Deloitte LLP was the independent adviser to the Committee. Deloitte was appointed by the Committee in 2011 following a competitive tender process. As part of this process, the Committee considered the services that Deloitte provided to Prudential and its competitors, as well as other potential conflicts of interest. Deloitte is a member of the Remuneration Consultants' Group and voluntarily operates under their code of conduct when providing advice on executive remuneration in the UK. Deloitte regularly meets with the Chair of the Committee without management present. The Committee is comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee do not have connections with Prudential that may impair their independence and objectivity. The total fees paid to Deloitte for the provision of independent advice to the Committee in 2018 were £48,400 (2017: £56,000) charged on a time and materials basis. During 2018, Deloitte gave Prudential management advice on remuneration, as well as providing guidance on capital optimisation, digital and technology, taxation, internal audit, real estate, global mobility and other financial, risk and regulatory matters. Remuneration advice is provided by an entirely separate team within Deloitte. As set out in the table above, the Committee reviewed Deloitte's appointment during 2018 and considered Deloitte to be independent.

In addition, management received external advice and data from a number of other providers. This included market data and legal counsel. This advice, and these services, are not considered to be material.

During the year, the Company has complied with the appropriate provisions of the UK Corporate Governance Code regarding Directors' remuneration.

Table of 2018 Executive Director total remuneration (the 'single figure')

				Of which:				
£000s	**2018 salary**	**2018 taxable benefits**[*]	**2018 total bonus**	**Amount paid in cash**	**Amount deferred into Prudential shares**[†]	**2018 LTIP releases**[‡]	**2018 pension benefits**[§]	**Total 2018 remuneration the 'single figure'**[¶]
Mark FitzPatrick	745	89	1,241	745	496	–	186	2,261
John Foley	781	123	1,186	712	474	1,511	195	3,796
Nic Nicandrou[1,6]	1,023	396	1,692	1,015	677	1,433	258	4,802
Anne Richards[2]	249	102	–	–	–	–	62	413
Barry Stowe[3,6]	867	70	4,935	2,961	1,974	2,761	217	8,850
James Turner[4]	521	109	793	476	317	347	130	1,900
Mike Wells[5]	1,126	407	2,133	1,280	853	3,486	282	7,434
Total	**5,312**	**1,296**	**11,980**	**7,189**	**4,791**	**9,538**	**1,330**	**29,456**

[*] Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

[†] The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

[‡] In line with the regulations, the estimated value of the 2018 PLTIP releases has been calculated based on the average share/ADR price over the last three months of 2018 (£15.34/US$39.41) and includes the accumulated dividends delivered in the form of shares/ADRs. The actual value of PLTIPs, based on the share price on the date awards are released, will be shown in the 2019 report. In line with the early adoption of requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, it is estimated that 15.3 per cent of the value of the 2018 LTIP releases is attributable to share price growth over the vesting period as awards were granted using a share/ADR price of £12.99/US$37.29 in 2016. The Committee concluded that no discretion will be applied in determining the remuneration resulting from the 2018 LTIP releases as a result of share price appreciation.

[§] 2018 pension benefits include cash supplements for pension purposes and contributions into DC schemes as outlined on page 147.

[¶] Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 – The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Notes

1. To facilitate Nic Nicandrou's relocation to Hong Kong, Nic's benefits include £267,000 to cover accommodation.
2. Anne Richards stepped down from the Board on 10 August 2018. The remuneration above was paid in respect of her service as an Executive Director.
3. Barry Stowe retired from the Board on 31 December 2018.
4. James Turner was appointed to the Board on 1 March 2018.
5. To facilitate his appointment as Group Chief Executive and move to the UK in 2015, Mike Wells's benefits include £311,000 to cover mortgage interest, which ceased effective 30 November 2018.
6. Barry Stowe and Nic Nicandrou are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

Table of 2017 Executive Director total remuneration (the 'single figure')

				Of which:				
£000s	**2017 salary**	**2017 taxable benefits***	**2017 total bonus**	**Amount paid in cash**	**Amount deferred into Prudential shares†**	**2017 LTIP releases‡**	**2017 pension benefits§**	**Total 2017 remuneration the 'single figure'¶**
Mark FitzPatrick[1]	335	18	1,197	718	479	–	84	1,634
John Foley	765	115	1,283	770	513	2,243	191	4,597
Penny James[2]	478	81	–	–	–	–	119	678
Nic Nicandrou[3,8]	869	303	1,414	848	566	1,901	218	4,705
Anne Richards[4]	400	153	2,400	1,440	960	–	100	3,053
Barry Stowe[5,8]	880	59	5,354	3,212	2,141	3,028	220	9,541
Mike Wells[6]	1,103	493	2,072	1,243	829	4,616	276	8,560
Tony Wilkey[7]	490	456	787	472	315	2,819	123	4,675
Total	**5,320**	**1,678**	**14,507**	**8,703**	**5,803**	**14,607**	**1,331**	**37,443**

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

† The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

‡ In line with the regulations, the estimated value of 2017 LTIP releases has been recalculated based on the actual share/ADR price on the date awards were released, being £17.47/US$49.24 for the March release and a share/ADR price of £18.41/US$49.38 in the June release. The restated value of those awards released in June also reflects dividends paid on those awards in the previous month.

§ 2017 pension benefits include cash supplements for pension purposes and contributions into Defined Contribution (DC) schemes.

¶ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 – The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Notes

1. Mark FitzPatrick was appointed to the Board on 17 July 2017.
2. Penny James stepped down from the Board on 30 September 2017. The remuneration above was paid in respect of her service as an Executive Director.
3. To facilitate Nic Nicandrou's relocation to Hong Kong to take up his new role as Chief Executive, Prudential Corporation Asia, Nic's benefits include relocation support being temporary accommodation of £126,000 and tax and immigration advice of £33,000.
4. To facilitate her appointment as Chief Executive, M&G, in 2016 Anne Richards's benefits include travel costs from Anne's home in Edinburgh to London of £15,000.
5. Barry Stowe's bonus figure excludes a contribution of £16,200 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2017 pension benefits.
6. To facilitate his appointment as Group Chief Executive and move to the UK in 2015, Mike Wells's benefits include £340,000 to cover mortgage interest and £37,000 to cover home leave flights.
7. Tony Wilkey stepped down from the Board on 17 July 2017. The remuneration above was paid in respect of his service as an Executive Director. His benefits include £148,000 for housing, £24,000 for home leave flights and a £235,000 Executive Director Location Allowance. Two of the LTIP releases relate to his previous role, prior to his service as an Executive Director.
8. Barry Stowe, Tony Wilkey and, following his appointment as Chief Executive, Prudential Corporation Asia, Nic Nicandrou are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

Remuneration in respect of performance in 2018

Base salary

Executive Directors' salaries were reviewed in 2017 with changes effective from 1 January 2018. When the Committee took these decisions it considered:

- The salary increase budgets for other employees, which vary across our business units, reflecting local market conditions;
- The performance and experience of each Executive Director;
- The relative size of each Executive Director's role; and
- The performance of the Group.

As reported last year, after careful consideration by the Committee, all Executive Directors received a salary increase of 2 per cent. The 2018 salary increase budgets for other employees across our business units were between 2.5 per cent and 10 per cent. No changes were made to Executive Directors' maximum opportunities under either the annual incentive or the long-term incentive plans.

To provide context for the market review, information was also drawn from the following market reference points:

Executive	*Role*	*Benchmark(s) used to assess remuneration*
Mark FitzPatrick	Chief Financial Officer	— FTSE 40 — International insurance companies
John Foley	Chief Executive, M&GPrudential	— FTSE 40 — International insurance companies
Nic Nicandrou	Chief Executive, Prudential Corporation Asia	— Willis Towers Watson Asian Insurance Survey
Anne Richards	Chief Executive, M&G	— McLagan UK Investment Management Survey — International insurance companies
Barry Stowe	Chairman & CEO, NABU	— Willis Towers Watson US Financial Services Survey — LOMA US Insurance Survey
James Turner[1]	Group Chief Risk Officer	— FTSE 40 — FTSE 50 insurers
Mike Wells	Group Chief Executive	— FTSE 40 — International insurance companies

Note

[1] James Turner was appointed to the role of Group Chief Risk Officer and to the Board on 1 March 2018. His salary was reviewed on appointment.

As a result, Executive Directors received the following salary increases:

Executive Director	**2017 salary**	**2018 salary**
Mark FitzPatrick[1]	£730,000	£745,000
John Foley	£765,000	£781,000
Nic Nicandrou[2]	HK$10,500,000	HK$10,710,000
Anne Richards[3]	£400,000	£408,000
Barry Stowe	US$1,134,000	US$1,157,000
James Turner[4]	N/A	£625,000
Mike Wells	£1,103,000	£1,126,000

Notes

[1] Mark FitzPatrick was appointed Chief Financial Officer on 17 July 2017. The annualised 2017 salary above was paid in respect of his service as Chief Financial Officer.

[2] Nic Nicandrou was appointed Chief Executive, Prudential Corporation Asia on 17 July 2017. The annualised 2017 salary above was paid in respect of his service as Chief Executive, Prudential Corporation Asia.

[3] Anne Richards stepped down from the Board on 10 August 2018. Her employment with the Company ended on 30 November 2018 and her 2018 annualised salary is illustrated above.

[4] James Turner was appointed to the Board on 1 March 2018. The annualised 2018 salary above was paid in respect of his service as Group Chief Risk Officer.

Pension entitlements

Pension provisions in 2018 were:

Executive Director	*2018 pension arrangement*	*Life assurance provision*
Barry Stowe	Pension supplement of 25 per cent of salary, part of which is paid as a contribution to an approved US retirement plan.	Two times salary
Nic Nicandrou	Pension supplement in lieu of pension of 25 per cent of salary and a HK$18,000 employer payment to the Hong Kong Mandatory Provident Fund.	Eight times salary
UK-based executives	Pension contribution to defined contribution plan and/or pension supplement in lieu of pension of 25 per cent of salary.	Up to four times salary plus a dependants' pension

John Foley previously participated in a non-contributory defined benefit scheme that was open at the time he joined the Company. The scheme provided an accrual of 1/60th of final pensionable earnings for each year of pensionable service. John received pension payments of £15,636 per annum which increased to £16,061 per annum from 1 April 2018, in line with the Consumer Prices Index. The pension will continue to be subject to statutory increases in line with the Consumer Prices Index.

Annual bonus outcomes for 2018

Target setting

For the financial AIP metrics which comprise 80 per cent of the bonus opportunity for all Executive Directors apart from the Group Chief Risk Officer, the performance ranges are set by the Committee prior to, or at the beginning of, the performance period. These ranges are based on the annual business plans approved by the Board and reflect the ambitions of the Group and business units, in the context of anticipated market conditions.

Personal objectives comprise 20 per cent of the bonus opportunity for all Executive Directors apart from the Group Chief Risk Officer, for whom this accounts for 50 per cent of the total bonus opportunity. These objectives are established at the start of the year and reflect the Company's Strategic Priorities set by the Board.

In line with the remuneration requirements of Solvency II, functional objectives account for the remaining 50 per cent of the Group Chief Risk Officer's bonus opportunity. These are based on the Group Risk Plan and are developed with input from the Chairman of the Group Risk Committee.

AIP payments are subject to meeting Solvency II minimum capital thresholds which are aligned to the Group and business unit risk framework and appetites (as adjusted for any Group Risk Committee and/or business unit risk committees approved counter-cyclical buffers).

The Committee also seeks advice from the Group Risk Committee on risk management considerations to be applied to remuneration architecture and performance measures. This is to ensure risk management culture and conduct is appropriately reflected in the design and operation of Executive Directors' remuneration.

Executive Directors' 2018 bonuses were determined by the achievement of four Group measures, namely operating profit, free surplus, EEV new business profit and cash flow, which are aligned to the Group's growth and cash generation focus.

In compliance with Solvency II, the weightings of the Group Chief Risk Officer's AIP performance targets relate to a combination of functional and personal measures only.

Performance assessment

The Committee determines the overall value of the bonus, taking account of the inputs described above and any other factors which it considers relevant. The table below illustrates the weighting of performance measures for 2018 and the level of achievement under the AIP. The total bonus outcomes reflect the strong performance during the year as discussed in this section and in the Annual Statement from the Chairman of the Remuneration Committee.

	Weighting of measures (% of total bonus opportunity)			Achievement against performance measures		
Executive Director	**Group financial measures**	**Business unit financial measures**	**Personal/ functional objectives**	**Financial measures (%)**	**Personal/ functional objectives (%)**	**2018 AIP outcome[1] (% of total bonus opportunity)**
Mark FitzPatrick	80%	–	20%	94%	99%	95%
John Foley	20%	60%	20%	82%	92%	84%
Nic Nicandrou	20%	60%	20%	94%	84%	92%
Anne Richards[2]	20%	60%	20%	N/A	N/A	nil
Barry Stowe[3]	80%	–	20%	94%	83%	92%
James Turner	–	–	100%	N/A	95%	95%
Mike Wells	80%	–	20%	94%	96%	95%

Notes

[1] All bonus awards are subject to 40 per cent deferral for three years and the deferred bonus will be paid in Prudential plc shares or ADRs.

[2] Anne Richards stepped down from the Board on 10 August 2018. Her employment with the Company ended on 30 November 2018. No 2018 bonus was awarded.

[3] Barry Stowe retired from the Board on 31 December 2018 and remained eligible to receive his 2018 AIP award. Barry Stowe is also eligible to receive 10 per cent of the Jackson bonus pool.

Financial performance

The Committee reviewed performance against the performance ranges at its meeting in March 2019. 2018 Group operating profit and Group free surplus generation exceeded the stretching targets established by the Board. All of our business units achieved target remittances levels and, although lower than the prior period, we achieved our objective to balance net remittances sufficient to cover the dividend and corporate costs, with reinvestment in profitable opportunities within the business units, and maintained significant cash stock at the centre. The business unit remittances contributed to Group cashflow, which approached the maximum target. Group EEV new business profit was between threshold and plan.

The Committee considered a report from the Group Chief Risk Officer which had been approved by the Group Risk Committee. This report confirmed that the 2018 results were achieved within the Group's and business units' risk framework and appetite. The Group Chief Risk Officer also considered the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The report also confirmed that the Group met Solvency II minimum capital thresholds which were aligned to the Group and business unit risk framework and appetites. The Group Chief Risk Officer's recommendations were taken into account by the Committee when determining AIP outcomes for Executive Directors.

The level of performance required for threshold, plan and maximum payment against the Group's 2018 AIP financial measures and the results achieved are set out below.

2018 AIP measure	**Weighting**	**Threshold** (£m)	**Plan** (£m)	**Maximum** (£m)	**Achievement** (£m)
Group operating profit	35%	3,691	3,991	4,290	4,827
Group free surplus generated	30%	3,235	3,370	3,572	4,047
Group cash flow	20%	(237)	10	93	58
Group EEV new business profit	15%	3,663	3,897	4,053	3,877

The Committee had regard to the achievement against the performance measures and the Group Chief Risk Officer's report and decided not to apply a discretionary adjustment to the arithmetic outcome under the financial element of the 2018 bonus. The Board believes that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

Personal performance

As set out in our Directors' remuneration policy, a proportion of the annual bonus for each Executive Director is based on the achievement of personal objectives including:

- The executive meeting their individual conduct and customer measures;
- The executive's contribution to Group strategy as a member of the Board; and
- Specific goals related to the business or function for which they are responsible and progress on major projects including the demerger.

At the end of the year the Committee considered the performance of each Executive Director against objectives established at the start of the year. At its meeting in March 2019 it concluded that there had been a high level of performance against these 2018 objectives, as summarised below. All executives met their individual conduct measures and there was a high level of individual contribution made by each Executive Director to the achievement of Group strategy during 2018.

Business	***Overview of objectives***	***2018 performance against objectives***
Group Head Office	Objectives included progressing the demerger of the M&GPrudential business from Prudential plc, developing relationships with stakeholders, enhancing external publications, continued development of executive bench strength and leveraging digital opportunities.	— Announced the demerger of M&GPrudential from Prudential plc resulting in two separately-listed companies, each with its own distinct investment prospects in order to further strengthen two already strong businesses for the benefit of customers; — Announced that the Hong Kong Insurance Authority would be the Group-wide supervisor after the demerger of M&GPrudential; — Raised £1.6 billion of subordinated debt, with substitution clauses to be activated on demerger, supporting the capital rebalancing across Prudential plc and M&GPrudential; and — Won the Insurance category of Management Today's 'Britain's Most Admired Companies' award for the second consecutive year.
Prudential Corporation Asia and Africa	Objectives included leveraging digital opportunities, diversifying distribution channels, continued development of executive bench strength, developing Eastspring Investments and growing the Group's Africa footprint.	— Entered a new partnership with Alkanza and built a robo-advice platform to create bespoke portfolios for our wealth management clients in Taiwan; — Launched our innovative and exclusive partnership with Babylon Health to bring a comprehensive set of digital health tools to our customers which is part of our ambition to make healthcare more accessible and affordable in Asia; — Established Eastspring's wholly foreign-owned enterprise in Shanghai and extended our asset management presence to Thailand following the acquisition of TMB Asset Management; — Eastspring Investments named both largest retail asset manager and largest institutional asset manager in Asia, excluding Japan, in the Asia Asset Management annual rankings; — Won top honours in this year's AsianInvestor's Institutional Excellence Awards; and — Extended our long-term partnership with Standard Chartered Bank in Ghana and signed a long-term exclusive partnership with Zambia's largest retail bank, Zambia National Commercial Bank Plc to enable our products to be offered to more than a million new customers across the country.

Business	*Overview of objectives*	*2018 performance against objectives*
North American Business Unit	Objectives included leveraging digital opportunities, developing our product range and focusing on core business areas.	— Launched Jackson's Financial Freedom For Life campaign to encourage Americans to sign up for an annuity that will protect them in retirement; — Collaborated with the Envestnet Insurance Exchange to offer our products on its platform; — Jackson launched MarketProtector and MarketProtector Advisory, two new fixed annuities with index-linked interest to provide consumers with a combination of tax-deferred investment growth, protection from market risk and the flexibility to adapt to changing needs in retirement; — Entered into a key distribution partnership with State Farm, further strengthening our market-leading distribution footprint; and — Won the Contact Centre World Class CX Certification and Highest Customer Service for the Financial Industry awards by The Service Quality Measurement Group, Inc.
M&GPrudential	Objectives included completing the sale of the shareholder annuity portfolio to Rothesay Life Plc, progressing the demerger of the M&GPrudential business from Prudential plc, continuing to build positive relationships with regulators, leveraging digital opportunities, developing our range of products and investment offerings, and continued development of executive bench strength.	— Reinsured £12 billion of UK annuity policies and completed the first stages at the High Court of England and Wales for the transfer of Prudential UK annuities to Rothesay Life Plc; — Established a new M&GPrudential leadership team, implemented a new governance model and built a set of unified corporate support services in preparation for demerger from Prudential plc; — Introduced a new digital service for investment bond customers which has reduced cash withdrawal waiting times by almost 80 per cent; and — Launched the Luxembourg SICAV fund range with £21 billion assets under management as an investment in international growth and to minimise disruption of Brexit for customers.

Functional performance

The Chair of the Group Risk Committee undertakes the assessment of performance against functional objectives for the Group Chief Risk Officer. 2018 achievement is summarised below:

Overview of functional objectives	*2018 performance against objectives*
Defining and maintaining a Group-wide risk policy, appetite and business unit limits and triggers framework, and oversight/controlling of adherence to this framework. Ensuring the Group Risk Function maintains appropriate risk oversight across the Group, and enabling the Group Risk Committee and Board to discharge their responsibilities in respect of risk management. Delivering regulatory requirements, including those required under Solvency II, the Group's Own Risk and Solvency Assessment, and those relating to the Group's designation as a Global Systemically Important Insurer. Providing risk guidance, opinion and assurance on critical transformation activity, including the demerger.	— Successfully enhanced an appropriately defined system of policies, risk appetites and limits. Provided strong oversight of Group-wide adherence in accordance with the requirements of the Group Risk Mandate. — Provided key insight and analysis on emerging issues to the Group Risk Committee and Board throughout the year, facilitating the performance of their respective duties. — Strengthened focus on areas of strategic risk, significantly enhancing Group-wide transformation oversight delivering assurance, risk guidance and opinions on critical transformation activity. — Delivered an extensive set of regulatory deliverables, including the Group's ORSA Report, Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan. Ensured appropriate internal model validation per Solvency II requirements. — Positive engagement with regulatory bodies throughout the year, including proactive engagement with the Hong Kong Insurance Authority as the regulator-elect for the international Group.

2018 Jackson bonus pool

In 2018, the Jackson bonus pool was determined by Jackson National Life Insurance Company's profitability, remittances to Group and advisory sales. Across all these measures Jackson National Life Insurance Company delivered strong performance, and more detail on that performance is set out on pages 26 to 31. The Committee also considered performance in a number of key activities and the delivery against certain non-financial Group requirements. As a result of this assessment, the Committee determined that Barry Stowe's share of the bonus pool was US$4,886,910.

Outcome of bonus assessments

On the basis of the strong performance of the Group and its business units and the Committee's consideration of the total bonus value in light of its view of all relevant circumstances, including the overall contribution of the executive, behavioural, conduct and risk management considerations, the Committee determined the following 2018 AIP awards. Forty per cent of all awards are deferred into shares for three years:

Executive Director	Role	2018 salary[1]	Maximum 2018 AIP (% of salary)	Actual 2018 AIP award (% of maximum opportunity)	2018 bonus award (including cash and deferred elements)
Mark FitzPatrick	Chief Financial Officer	£745,000	175%	95%	£1,241,000
John Foley	Chief Executive, M&GPrudential	£781,000	180%	84%	£1,186,000
Nic Nicandrou	Chief Executive, Prudential Corporation Asia	HK$10,710,000	180%	92%	£1,692,000
Anne Richards[2]	Chief Executive, M&G	£249,000	600%	0%	£nil
Barry Stowe[3]	Chairman & CEO, NABU	US$1,157,000	160%	92%	£4,935,000
James Turner[4]	Group Chief Risk Officer	£521,000	160%	95%	£793,000
Mike Wells	Group Chief Executive	£1,126,000	200%	95%	£2,133,000

Notes

1 Salary paid in respect of services as an Executive Director.

2 Anne Richards stepped down from the Board on 10 August 2018. Her employment with the Company ended on 30 November 2018. The maximum bonus opportunity shown represents her annual opportunity as an Executive Director, but no bonus was paid.

3 In addition to the AIP, Barry Stowe also participates in the Jackson bonus pool.

4 James Turner was appointed to the Board on 1 March 2018. The AIP shown above was awarded in respect of his service as an Executive Director.

Remuneration in respect of performance periods ending in 2018

Prudential Long Term Incentive Plan (PLTIP)

Target setting

Our long-term incentive plans have stretching performance conditions that are aligned to the strategic priorities of the Group. In 2016, all Executive Directors were granted awards under the PLTIP. In determining the targets the Committee had regard to the stretching nature of the three-year Business Plan for operating profit set by the Board.

The weightings of these measures are detailed in the table below.

	Weighting of measures	
Executive Director[1]	Group TSR[2]	Operating profit (Group or business unit)[3]
John Foley	50%	50% (business unit target)
Nic Nicandrou[4]	50%	50% (Group target)
Barry Stowe	50%	50% (business unit target)
James Turner[5]	50%	50% (Group target)
Mike Wells	50%	50% (Group target)

Notes

1 This table includes current Executive Directors with 2016 PLTIP awards. Anne Richards stepped down from the Board on 10 August 2018 and her 2016 PLTIP award lapsed.

2 Group TSR is measured on a ranked basis over three years relative to peers.

3 Operating profit is measured on a cumulative basis over three years.

4 Nic Nicandrou was granted this award when he was in the role of Chief Financial Officer. The performance measures attached to his PLTIP award did not change following his appointment to the role of Chief Executive, Prudential Corporation Asia in 2017.

5 James Turner was granted this award when he was in his previous role of Director of Group Finance. The performance measures attached to his PLTIP award did not change following his appointment to the role of Group Chief Risk Officer on 1 March 2018.

Under the Group TSR measure used for 2016 PLTIP awards, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. The peer group for the 2016 awards is:

Aegon
Allianz
Legal & General
Old Mutual
Swiss Re
Aflac
Aviva
Manulife
Prudential Financial
Zurich Insurance Group
AIA
AXA
MetLife
Standard Life
AIG
Generali
Munich Re
Sun Life Financial

Following the merger of Standard Life and Aberdeen Asset Management during the performance period, the Committee determined that Standard Life would be retained in the peer group for the pre-merger period and the combined entity would be included in the peer group from the date of the merger for all outstanding PLTIP awards. In addition, following the demerger of Quilter from Old Mutual and Old Mutual's delisting from the FTSE on 26 June 2018, the Committee determined that Old Mutual be retained as a TSR peer with no adjustment to its performance during the period prior to its demerger and delisting, and that Old Mutual's TSR performance from the date of its demerger and delisting would track an index of the peers (excluding Prudential plc) for all outstanding PLTIP awards.

Performance assessment

In deciding the proportion of the awards to be released, the Committee considered actual financial results against these performance targets. The Committee also reviewed underlying Company performance to ensure vesting levels were appropriate, including an assessment of whether results were achieved within the Group's and business units' risk framework and appetite. The Directors' remuneration policy contains further details of the design of Prudential's long-term incentive plans.

Prudential's TSR performance during the performance period (1 January 2016 to 31 December 2018) was ranked at median of the peer group. The portion of the awards related to TSR that therefore vested was 25 per cent.

Under the operating profit measure, 25 per cent of the 2016 awards vest for meeting the threshold operating profit target set at the start of the performance period, increasing to full vesting for performance at or above the stretch level. The table below illustrates the cumulative performance achieved over 2016 to 2018 compared to the Group targets set in 2016:

	2016-18 cumulative targets			2016-18 cumulative achievement	Vesting under the operating profit element
Group	**Threshold**	**Plan**	**Maximum**		
Operating profit	£10,837m	£12,041m	£13,245m	£13,782m	100%

The Committee determined that the cumulative operating profit target established for the PLTIP should be expressed using exchange rates consistent with the reported disclosures. Individual business units achieved between 86 per cent and 100 per cent vesting under this element.

Details of business unit operating profit targets have not been disclosed as the Committee considers that these are commercially sensitive and disclosure of targets at such a granular level would put the Company at a disadvantage compared to its competitors. The Committee will keep this disclosure policy under review based on whether, in its view, disclosure would compromise the Company's competitive position.

PLTIP vesting

The Committee considered a report from the Group Chief Risk Officer which had been approved by the Group Risk Committee. This report confirmed that the financial results were achieved within the Group's and business units' risk framework and appetite. On the basis of this report, and the performance of the Group and its business units described above, the Committee decided not to apply a discretionary adjustment to the arithmetic vesting outcome under the 2016 PLTIP awards and determined the vesting of each Executive Director's PLTIP awards as set out below.

Executive Director	Maximum value of award at full vesting[1]	Percentage of the LTIP award vesting	Number of shares/ADRs vesting[2]	Value of shares/ADRs vesting[1]
John Foley	£2,418,213	62.5%	98,525	£1,511,374
Nic Nicandrou	£2,292,486	62.5%	93,402	£1,432,787
Barry Stowe	£4,417,184	62.5%	93,530	£2,760,648
James Turner	£554,771	62.5%	22,602	£346,715
Mike Wells	£5,576,826	62.5%	227,217	£3,485,509

Notes

1 The share price used to calculate the value of the PLTIP awards with performance periods which ended on 31 December 2018 and vest in 2019 was the average share/ADR price for the three months up to 31 December 2018, being £15.34/US$39.41.

2 The number of shares/ADRs vesting includes accrued dividends.

Long-term incentives awarded in 2018

2018 share-based long-term incentive awards

As detailed in the Directors' remuneration policy, approved by shareholders at the 2017 AGM, all long-term incentive awards made to Executive Directors in 2018 were granted under the PLTIP. The vesting of these awards will depend on:

- Relative TSR (25 per cent of award);
- Group or business unit operating profit (50 per cent of award); and
- Balanced scorecard of strategic measures (25 per cent of award).

In line with the remuneration requirements of Solvency II, the weightings of the Group Chief Risk Officer's LTIP performance targets were different to the other Executive Directors and were:

- Relative TSR (50 per cent of award);
- Group operating profit (20 per cent of award); and
- Balanced scorecard of strategic measures (30 per cent of award).

Under the Group TSR measure used for 2018 awards, 25 per cent of the award vests for TSR at the median of the peer group, increasing to full vesting for performance within the upper quartile. The peer group for the 2018 awards is the same as that used for the 2017 awards other than following the merger of Standard Life and Aberdeen Asset Management, the combined entity of Standard Life Aberdeen has been included. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison.

The peer group for the 2018 awards is set out below:

Aegon
Aviva
Manulife
Standard Life Aberdeen
AIA
AXA
MetLife
Sun Life Financial
AIG
Generali
Old Mutual
Zurich Insurance Group
Allianz
Legal & General
Prudential Financial

Under the operating profit measure used for 2018 awards, 25 per cent of the award vests for meeting the threshold operating profit, set at the start of the performance period, increasing to full vesting for performance at or above the stretch level.

Under the balanced scorecard, performance is assessed for each of the four measures, at the end of the three-year performance period. Performance will be assessed on a sliding scale rather than the meet/fail approach adopted for the 2017 scorecard. Each of the measures has equal weighting and the 2018 measures are set out below:

Capital measure:	Cumulative three-year ECap Group operating capital generation relative to plan, less cost of capital (based on the capital position at the start of the performance period).
Vesting basis:	25 per cent vesting for achieving Plan, increasing to full vesting for performance above stretch level. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
Capital measure:	Cumulative three-year Solvency II Group operating capital generation (as captured in published disclosures) relative to plan.
Vesting basis:	25 per cent vesting for achieving Plan, increasing to full vesting for performance above stretch level. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
Conduct measure:	Through appropriate management action, ensure there are no significant conduct/culture/governance issues that result in significant capital add-ons or material fines.
Vesting basis:	25 per cent vesting for partial achievement of the Group's expectations, increasing to full vesting for achieving the Group's expectations.
Diversity measure:	Percentage of the Leadership Team that is female at the end of 2020. The target for this metric is based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female by the end of 2021. For this portion of the 2018 PLTIP awards to vest, at least 28 per cent of our Leadership Team must be female by the end of 2020.
Vesting basis:	25 per cent vesting for meeting the threshold of at least 27 per cent of our Leadership Team being female at the end of 2020, increasing to full vesting for reaching the stretch level of at least 29 per cent being female at that date.

The performance conditions attached to outstanding PLTIP awards may be reviewed at the time of the demerger. Should any performance conditions be revised, the new conditions will be no more or less stretching that those originally attached to the awards and the changes will be disclosed.

The table below shows the awards made to Executive Directors in 2018 under share-based long-term incentive plans and the performance conditions attached to these awards:

Executive Director	Role	Number of shares or ADRs subject to award*	Face value of award†	Percentage of awards released for achieving threshold targets‡	End of performance period	Weighting of performance conditions						
								Operating profit				
						Group TSR	Balanced scorecard	Group	Asia	US	UK	M&G
Mark FitzPatrick	Chief Financial Officer	106,611	£1,862,494	25%	31 December 2020	25%	25%	50%				
John Foley	Chief Executive, M&GPrudential	111,763	£1,952,500	25%	31 December 2020	25%	25%				31%	19%
Nic Nicandrou	Chief Executive, Prudential Corporation Asia	138,846	£2,425,640	25%	31 December 2020	25%	25%		50%			
Anne Richards[1]	Chief Executive, M&G	105,094	£1,835,992	25%	31 December 2020	25%	25%					50%
Barry Stowe	Chairman & CEO, NABU	107,649	US$5,322,167	25%	31 December 2020	25%	25%			50%		
James Turner	Group Chief Risk Officer	89,439	£1,562,499	25%	31 December 2020	50%	30%	20%				
Mike Wells	Group Chief Executive	257,813	£4,503,993	25%	31 December 2020	25%	25%	50%				

* Awards over shares were awarded to all Executive Directors other than Barry Stowe whose awards were over ADRs.

† Awards for Executive Directors are calculated based on the average share price over the three dealing days prior to the grant date, being £17.47 for all Executive Directors other than Barry Stowe and an ADR price of US$49.44 for Barry Stowe.

‡ The percentage of awards released for achieving maximum targets is 100 per cent.

Note

[1] Anne Richards stepped down from the Board on 10 August 2018. This award lapsed at the end of her employment on 30 November 2018.

Update on performance against targets for awards made in 2017 and 2018 under the Prudential Long Term Incentive Plan

TSR Performance

As at 31 December 2018, Prudential's TSR performance during the period 1 January 2017 to 31 December 2018 was ranked between median and upper quartile and during the period 1 January 2018 to 31 December 2018 was ranked below median.

Group operating profit

Prudential's Group operating profit performance between 1 January 2017 and 31 December 2018 was slightly above the stretch target established for 2017 PLTIP awards. The Group's operating profit achievement between 1 January 2018 and 31 December 2018 was slightly above the stretch target adopted for 2018 PLTIP awards.

Balanced scorecard of strategic measures

Between 1 January 2017 and 31 December 2018, the Group also made good progress towards meeting the measures under the sustainability scorecard used for the 2017 and 2018 PLTIP awards:

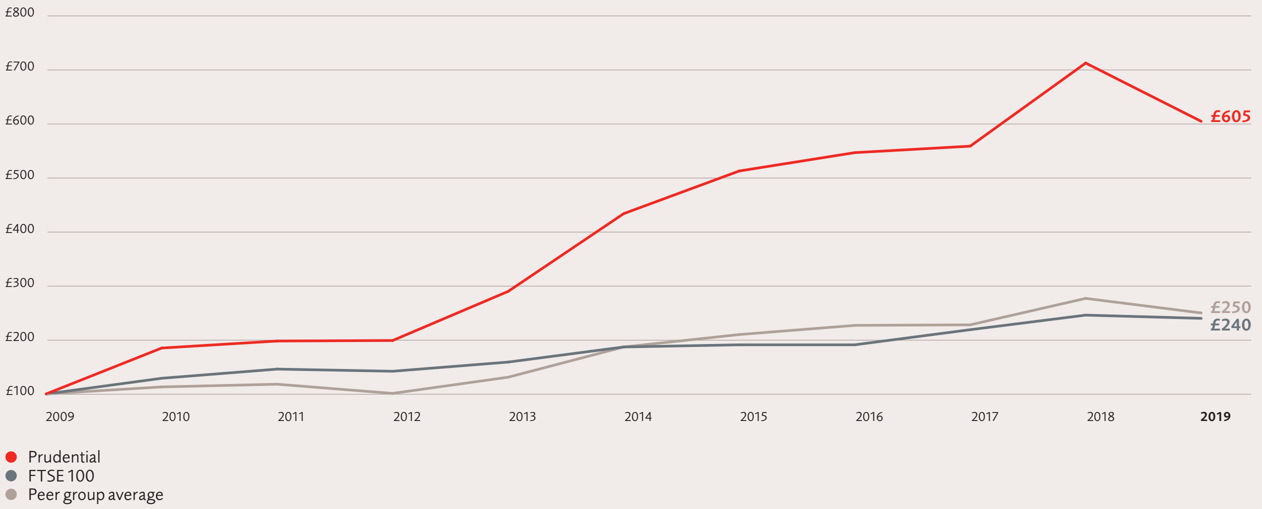
- **Capital measure – Solvency II operating capital generation** The Group's Solvency II operating capital generation between 1 January 2017 to 31 December 2018 was above the Plan level established for 2017 PLTIP awards. The Group's Solvency II operating capital generation between 1 January 2018 and 31 December 2018 was above the Plan level established for 2018 PLTIP awards.
- **Capital measure – E-cap operating capital generation** The Group's E-cap operating capital generation between 1 January 2017 and 31 December 2017 was below the Plan level established for 2017 PLTIP awards.
- **Conduct measure** During 2017 and 2018, there were no significant conduct/culture/governance issues that resulted in significant capital add-ons or material fines.
- **Diversity measure** As at 31 December 2018, 29 per cent of our Leadership Team was female. This represented strong progress towards the target that at least 27 per cent of the Leadership Team be female by the end of 2019 for the 2017 PLTIP award, and the target that 28 per cent of the Leadership Team be female by the end of 2020 for the 2018 PLTIP award.

Pay comparisons

Performance graph and table

The chart below illustrates the TSR performance of Prudential, the FTSE 100 (as the Company has a premium listing on the London Stock Exchange) and the peer group of international insurers used to benchmark the Company's performance for the purposes of the PLTIP.

Prudential TSR vs FTSE 100 and peer group average – total return per cent over 10 years to December 2018



Note

The peer group average represents the average TSR performance of the peer group used for 2018 PLTIP awards (excluding companies not listed at the start of the period).

The information in the table below shows the total remuneration for the Group Chief Executive over the same period:

£000	2009	2009	2010	2011	2012	2013	2014	2015	2015	2016	2017	2018
Group Chief Executive	M Tucker[1]	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam[2]	M Wells	M Wells	M Wells	M Wells
Salary, pension and benefits	1,013	286	1,189	1,241	1,373	1,411	1,458	613	1,992	2,244	1,872	1,815
Annual bonus payment	841	354	1,570	1,570	2,000	2,056	2,122	704	1,244	2,151	2,072	2,133
(As % of maximum)	(92%)	(90%)	(97%)	(97%)	(100%)	(99.8%)	(100%)	(77.3%)	(99.7%)	(99.5%)	(94%)	(95%)
LTIP vesting	1,575	–	2,534	2,528	6,160	5,235	9,838	3,382	4,290	2,975	4,616	3,486
(As % of maximum)	(100%)	–	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(70.8%)	(95.8%)	(62.5%)
Other payments	308	–	–	–	–	–	–	–	–	–	–	–
Group Chief Executive 'single figure' of total remuneration[3]	3,737	640	5,293	5,339	9,533	8,702	13,418	4,699	7,526	7,370	8,560	7,434

Notes

1. Mark Tucker left the Company on 30 September 2009. Tidjane Thiam became Group Chief Executive on 1 October 2009. The figures shown for Tidjane Thiam's remuneration in 2009 relate only to his service as Group Chief Executive.
2. Tidjane Thiam left the Company on 31 May 2015. Mike Wells became Group Chief Executive on 1 June 2015. The figures shown for Mike Wells's remuneration in 2015 relate only to his service as Group Chief Executive.
3. Further detail on the 'single figure' is provided in the 'single figure' table for the relevant year.

Percentage change in remuneration

The table below sets out how the change in remuneration for the Group Chief Executive between 2017 and 2018 compared to a wider employee comparator group:

	Salary	Benefits	Bonus
Group Chief Executive	2%	(17.4)%	2.9%
All UK employees	3%	(1.4)%	8.6%

The employee comparator group used for the purpose of this analysis is all UK employees. This includes employees in M&GPrudential and Group Head Office, and reflects the average change in pay for employees employed in both 2017 and 2018. The salary increase includes uplifts made through the annual salary review, as well as any additional changes in the year; for example to reflect promotions or role changes. The UK workforce has been chosen as the most appropriate comparator group as it reflects the economic environment where the Group Chief Executive is employed.

Group Chief Executive pay compared with employee pay

To further increase transparency of executive remuneration and its alignment with the pay of other employees, we are publishing our CEO pay ratio one year in advance of the disclosure becoming a requirement under the UK Companies (Miscellaneous Reporting) Regulations 2018. The employee comparator group used for the purpose of this analysis is all UK employees. This includes employees in M&GPrudential and Group Head Office in 2018. The table below compares the Group Chief Executive's 'single figure' of total remuneration to that received by three representative UK employees in 2018.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option B	155 : 1	102 : 1	68 : 1

Under the regulations there is a choice of three methods to determine the 25th, median and 75th full-time equivalent remuneration of our UK employees. The Company has chosen to use the 2018 hourly rate gender pay gap information as this method uses data that is aligned with other disclosures made under our gender pay gap reporting ('Option B' in the table above). The employees used in the calculations were selected on 11 January 2019, following the end of the financial year. The Committee determined that the identified employees are reasonably representative since the structure of their remuneration arrangements is in line with that of the majority of UK workforce. The same methodology used for calculating the 'single figure' for the Group Chief Executive has been used for calculating the pay and benefits of the UK employees.

The salary and total remuneration received during 2018 by the indicative employees used in the above analysis are set out below:

Year	25th percentile	Median	75th percentile
2018 salary	£40,000	£55,000	£68,000
Total 2018 remuneration	£48,000	£73,000	£109,000

The Committee believes the median pay ratio is consistent with the pay, reward and progression policies for our UK employees. The base salary and total remuneration levels for the Group Chief Executive and the median representative employee are competitively positioned within the relevant markets and reflect the operation of our remuneration structures which are effective in appropriately incentivising staff, having regard to our risk framework, risk appetites and to rewarding the 'how' as well as the 'what' of performance.

Gender pay gap

The UK business entities have recently reported their 2018 UK gender pay gap data and details can be found on the Group's website at www.prudential.co.uk/responsibility. There has been narrowing of the pay gaps in some areas and modest increases in others. While we have made progress, the gender pay gap cannot be removed overnight. We remain focused and committed to closing it as quickly as possible. We have a policy and carry out procedures to ensure that, where men and women perform similar roles, they are paid equally. However, the gender pay gaps demonstrate the demographic profile of the business (and the financial services sector more widely): there is a greater proportion of males in more senior and front-office roles and a greater proportion of females in more junior, support and back-office non-finance roles. All the Group's businesses are continuing to work on initiatives to increase the proportion of women in senior management and operating roles as part of the Group's strategic focus on diversity and inclusion as described in the diversity and inclusion statement on our website. This important priority is reflected in the Group's reward structure through the diversity measure attached to PLTIP awards granted from 2017 onwards.

Relative importance of spend on pay

The table below sets out the amounts payable in respect of 2017 and 2018 on all employee pay and dividends:

	2017	2018	Percentage change
All employee pay (£m)[1]	1,985	1,838	(7.4)%
Dividends (£m)	1,216	1,279	5.2%

Note

[1] All employee pay as taken from note B2.1 to the financial statements.

Chairman and Non-executive Director remuneration in 2018

Chairman's fees

The Chairman's fee was reviewed by the Committee during 2018 and increased by 2.2 per cent to £750,000 with effect from 1 July 2018 in order to reflect inflation.

Non-executive Directors' fees

The Non-executive Directors' fees were reviewed by the Board during 2018 and the membership fee for the Audit, Remuneration and Risk Committees was increased from £27,500 to £30,000 while the Nomination & Governance Committee member fee increased from £10,000 to £12,500. This is the first time these fees have been increased since 2015. No other fees were increased.

Annual fees	**From 1 July 2017** £	**From 1 July 2018** £
Basic fee	97,000	97,000
Additional fees:		
Audit Committee Chair	75,000	75,000
Audit Committee member	27,500	30,000
Remuneration Committee Chair	60,000	60,000
Remuneration Committee member	27,500	30,000
Risk Committee Chair	75,000	75,000
Risk Committee member	27,500	30,000
Nomination Committee member	10,000	12,500
Senior Independent Director	50,000	50,000

Note
If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.

The resulting fees paid to the Chairman and Non-executive Directors are:

£000s	**2018 fees**	**2017 fees**	**2018 taxable benefits***	**2017 taxable benefits***	**Total 2018 remuneration: the 'single figure'*†**	**Total 2017 remuneration: the 'single figure'*†**
Chairman						
Paul Manduca	742	727	136	122	878	849
Non-executive Directors						
Howard Davies	212	209	–	–	212	209
Ann Godbehere[1]	–	79	–	–	–	79
David Law	212	176	–	–	212	176
Kai Nargolwala[2]	155	151	–	–	155	151
Anthony Nightingale	168	166	–	–	168	166
Philip Remnant[3]	216	211	–	–	216	211
Alice Schroeder[4]	150	124	–	–	150	124
Lord Turner	155	140	–	–	155	140
Thomas Watjen[5]	131	59	–	–	131	59
Fields Wicker-Miurin[6]	41	–	–	–	41	–
Total	2,182	2,042	136	122	2,318	2,164

* Benefits include the cost of providing the use of a car and driver, medical insurance and security arrangements.
† Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act. The Chairman and Non-executive Directors are not entitled to participate in annual bonus plans or long-term incentive plans.

Notes
1 Ann Godbehere stepped down from the Board on 18 May 2017.
2 Kai Nargolwala also received an annual fee of £250,000 in respect of his non-executive chairmanship of Prudential Corporation Asia Limited with effect from 1 February 2016.
3 Philip Remnant stepped down from his non-executive chairmanship of M&G Group Limited with effect from 1 October 2018. He received a fee of £187,500 in respect of his chairmanship during 2018.
4 Alice Schroeder became a member of the Risk Committee on 1 March 2018.
5 Thomas Watjen joined the Board on 11 July 2017 and became a member of the Risk Committee on 1 November 2018.
6 Fields Wicker-Miurin joined the Board and the Remuneration Committee on 3 September 2018.

Statement of Directors' shareholdings

The interests of Directors in ordinary shares of the Company are set out below. 'Beneficial interest' includes shares owned outright, shares acquired under the Share Incentive Plan (SIP) and deferred annual incentive awards, detailed in the 'Supplementary information' section. It is only these shares that count towards the share ownership guidelines.

	1 January 2018 (or on date of appointment)	During 2018		31 December 2018 (or on date of retirement)			Share ownership guidelines	
	Total beneficial interest (number of shares)	**Number of shares acquired**	**Number of shares disposed**	**Total beneficial interest*** (number of shares)	**Number of shares subject to performance conditions†**	**Total interest in shares**	**Share ownership guidelines‡** (% of salary/fee)	**Beneficial interest as a percentage of basic salary/ basic fees§**
Chairman								
Paul Manduca	42,500	–	–	42,500	–	42,500	100%	94%
Executive Directors								
Mark FitzPatrick	81	28,252	–	28,333	207,971	236,304	250%	62%
John Foley	250,116	161,186	81,468	329,834	370,280	700,114	250%	693%
Nic Nicandrou	292,309	142,276	139,500	295,085	384,039	679,124	250%	473%
Anne Richards[1]	86,361	56,447	–	142,808	258,461	401,269	N/A	N/A
Barry Stowe[2]	282,346	285,042	193,860	373,528	737,088	1,110,616	250%	708%
James Turner[3]	9,701	23,798	12,623	20,876	150,495	171,371	250%	55%
Mike Wells[4]	662,623	304,853	155,224	812,252	854,084	1,666,336	400%	1184%
Non-executive Directors								
Howard Davies	9,278	236	–	9,514	–	9,514	100%	161%
David Law	9,066	–	–	9,066	–	9,066	100%	153%
Kai Nargolwala	70,000	–	–	70,000	–	70,000	100%	1185%
Anthony Nightingale	50,000	–	–	50,000	–	50,000	100%	846%
Philip Remnant	6,916	–	–	6,916	–	6,916	100%	117%
Alice Schroeder[5]	8,500	6,000	–	14,500	–	14,500	100%	245%
Lord Turner	6,552	167	–	6,719	–	6,719	100%	114%
Thomas Watjen[6]	5,500	4,840	–	10,340	–	10,340	100%	175%
Fields Wicker-Miurin[7]	–	1,000	–	1,000	–	1,000	100%	17%

* There were no changes of Directors' interests in ordinary shares between 31 December 2018 and 12 March 2019, with the exception of the UK-based Executive Directors due to their participation in the monthly Share Incentive Plan (SIP). Mark FitzPatrick acquired a further 37 shares in the SIP, John Foley acquired a further 38 shares in the SIP, James Turner acquired a further 38 shares in the SIP and Mike Wells acquired a further 38 shares in the SIP during this period.

† Further information on share awards subject to performance conditions are detailed in the 'share-based long-term incentive awards' section of the Supplementary information.

‡ Holding requirement of the Articles of Association (2,500 ordinary shares) must be obtained within one year of appointment to the Board. The increased guidelines for Executive Directors were introduced with effect from January 2013 and increased again in 2017. Executive Directors have five years from this date (or date of joining or role change, if later) to reach the enhanced guideline. The guideline for Non-executive Directors was introduced on 1 July 2011. Non-executive Directors have three years from their date of joining to reach the guideline.

§ Based on the average closing price for the six months to 31 December 2018 (£16.42).

The Company and its Directors, Chief Executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, Directors, Chief Executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of Directors' and Chief Executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Stock Exchange of Hong Kong Limited any disclosure of interests notified to it in the United Kingdom.

Notes

1 Anne Richards stepped down from the Board on 10 August 2018. Total interest in shares is shown as at this date.

2 Barry Stowe stepped down from the Board on 31 December 2018. Total interest in shares is shown at this date. For the 1 January 2018 figure Barry Stowe's beneficial interest in shares is made up of 141,173 ADRs (representing 282,346 ordinary shares), (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 31 December 2018 figure the beneficial interest in shares is made up of 186,764 ADRs (representing 373,528 ordinary shares).

3 James Turner was appointed to the Board on 1 March 2018. Total interest in shares is shown as at this date.

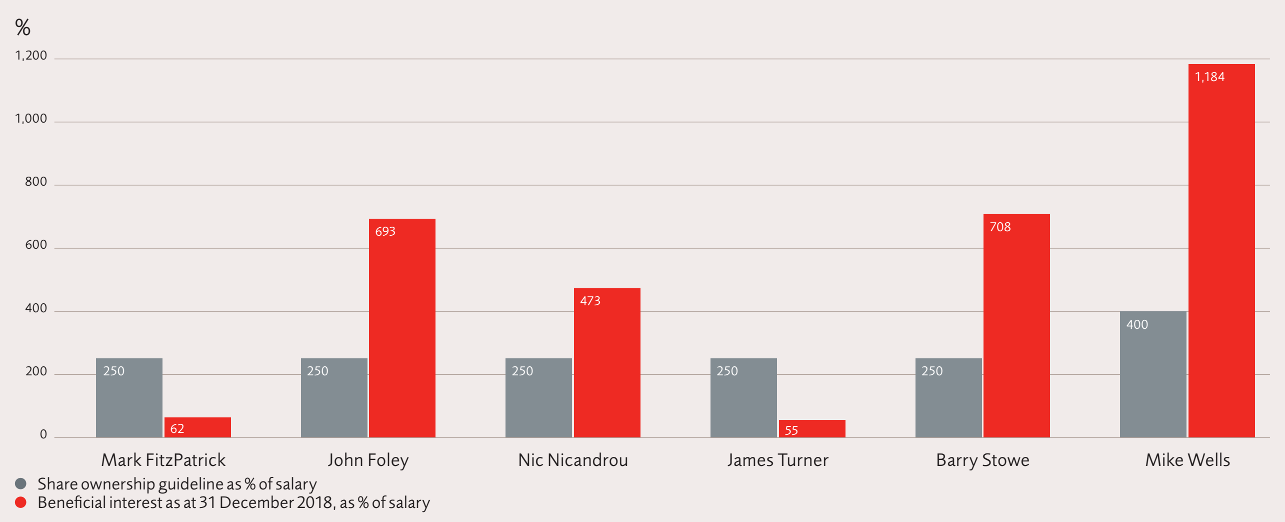
4 For the 1 January 2018 figure Mike Wells's beneficial interest in shares is made up of 249,811 ADRs (representing 499,622 ordinary shares) and 163,001 ordinary shares. For the 31 December 2018 figure his beneficial interest in shares is made up of 297,320 ADRs (representing 594,640 ordinary shares) and 217,612 ordinary shares.

5 For the 1 January 2018 figure Alice Schroeder's beneficial interest in shares is made up of 4,250 ADRs (representing 8,500 ordinary shares). For the 31 December 2018 figure the beneficial interest in shares is made up of 7,250 ADRs (representing 14,500 ordinary shares).

6 For the 1 January 2018 figure Thomas Watjen's beneficial interest in shares is made up of 2,750 ADRs (representing 5,500 ordinary shares). For the 31 December 2018 figure the beneficial interest in shares is made up of 5,170 ADRs (representing 10,340 ordinary shares).

7 Fields Wicker-Miurin was appointed to the Board on 3 September 2018. Total interest in shares is shown from this date.

The bar chart below illustrates the Executive Directors' shareholding as a percentage of base salary versus the share ownership guideline.



Outstanding share options

The following table sets out the share options held by the Executive Directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period.

	Date of grant	Exercise price (pence)	Market price at 31 Dec 2018 (pence)	Exercise period		Number of options						
				Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
Mark FitzPatrick	21 Sep 17	1,455	1,402	01 Dec 22	31 May 23	2,061	–	–	–	–	–	2,061
John Foley	21 Sep 16	1,104	1,402	01 Dec 19	31 May 20	815	–	–	–	–	–	815
John Foley	21 Sep 17	1,455	1,402	01 Dec 20	31 May 21	618	–	–	–	–	–	618
Nic Nicandrou	23 Sep 14	1,155	1,402	01 Dec 19	31 May 20	1,311	–	–	–	–	–	1,311
Nic Nicandrou	21 Sep 16	1,104	1,402	01 Dec 21	31 May 22	1,358	–	–	–	–	–	1,358
Anne Richards	21 Sep 16	1,104	1,402	01 Dec 19	31 May 20	1,630	–	–	–	–	–	1,630
Mike Wells	22 Sep 15	1,111	1,402	01 Dec 18	31 May 19	1,620	–	1,620	–	–	–	–

Notes

1 No gain was made by Directors in 2018 on the exercise of SAYE options.
2 No price was paid for the award of any option.
3 The highest and lowest closing share prices during 2018 were £19.81 and £13.44 respectively.
4 All exercise prices are shown to the nearest pence.
5 Anne Richards participated in the plan during her time as an Executive Director. The column above marked 'End of period' reflects Anne Richards' position as at 10 August 2018, the date at which she stepped down from the Board.
6 Following Nic Nicandrou's appointment as Chief Executive of Prudential Corporation Asia on 17 July 2017, he was able to continue saving under his SAYE option contracts existing at that date but is no longer eligible to participate in future SAYE grants.

Directors' terms of employment and external appointments

Details of the service contracts of each Executive Director are outlined in the table below. The Directors' remuneration policy contains further details of the terms included in Executive Director service contracts.

Subject to the Group Chief Executive's or the Chairman's approval, Executive Directors are able to accept external appointments as non-executive directors of other organisations. Fees payable are retained by the Executive Directors.

	Service contracts			External appointment	
	Date of contract	Notice period to the Company	Notice period from the Company	External appointment during 2018	Fee received in the period the Executive Director was a Group Director
Executive Directors					
Mark FitzPatrick	17 May 2017	12 months	12 months	–	–
John Foley	8 December 2010	12 months	12 months	–	–
Nic Nicandrou	27 April 2009	12 months	12 months	–	–
Anne Richards	4 July 2016	12 months	12 months	–	–
Barry Stowe	18 October 2006	12 months	12 months	–	–
James Turner	1 March 2018	12 months	12 months	Yes	£45,833
Mike Wells	21 May 2015	12 months	12 months	–	–

Directors served on the boards of educational, charitable and cultural organisations without receiving a fee for these services.

Details of changes to the Board of Directors during the year are set out in the Corporate governance report.

Letters of appointment of the Chairman and Non-executive Directors

Details of Non-executive Directors' individual appointments are outlined below. The Directors' remuneration policy contains further details on their letters of appointment.

Chairman/Non-executive Director	Appointment by the Board	Notice period	Time on the Board at 2019 AGM
Chairman			
Paul Manduca	15 October 2010 (Chairman from July 2012)	12 months	8 years 7 months
Non-executive Directors			
Philip Remnant	1 January 2013	6 months	6 years 4 months
Howard Davies	15 October 2010	6 months	8 years 7 months
David Law	15 September 2015	6 months	3 years 8 months
Kai Nargolwala	1 January 2012	6 months	7 years 4 months
Anthony Nightingale	1 June 2013	6 months	5 years 11 months
Alice Schroeder	10 June 2013	6 months	5 years 11 months
Lord Turner	15 September 2015	6 months	3 years 8 months
Thomas Watjen	11 July 2017	6 months	1 years 10 months
Fields Wicker-Miurin	3 September 2018	6 months	8 months

Recruitment arrangements

In making decisions about the remuneration arrangements for those joining the Board, the Committee worked within the Directors' remuneration policy approved by shareholders and was mindful of:

- The skills, knowledge and experience that each new Executive Director brought to the Board;
- The need to support the relocation of executives to enable them to assume their roles; and
- Its commitment to honour legacy arrangements.

Appointing high-calibre executives to the Board and to different roles on the Board is necessary to ensure the Company is well positioned to develop and implement its strategy and deliver long-term value. As the Company operates in an international market place for talent, the best internal and external candidates are sometimes asked to move location to assume their new roles. Where this happens, the Company will offer relocation support. The support offered will depend on the circumstances of each move but may include paying for travel, shipping services, the provision of temporary accommodation and other housing benefits. Executives may receive support with the preparation of tax returns, but no current Executive Director is tax equalised.

James Turner

James Turner was appointed as Group Chief Risk Officer on 1 March 2018. Mr Turner was appointed on a lower salary than his predecessor and has the same incentive opportunities, namely a maximum bonus opportunity of 160 per cent of salary under the AIP and a long-term incentive award of 250 per cent of salary. Mr Turner's bonus will be subject to 40 per cent deferral for three years and the deferred bonus will be paid in Prudential plc shares. His long-term incentive awards will be subject to a two-year holding period at the end of the three-year performance period. Mr Turner will be subject to the same shareholding guidelines of 250 per cent of salary as all other Executive Directors. He will have five years from the date of his appointment to build this level of ownership. There has been no buy-out as Mr Turner was internally promoted to this role and no relocation was paid on him joining the Board. Mr Turner's service contract contains a notice provision under which either party may terminate upon 12 months' notice.

Details of the remuneration he received during 2018 in his role as Group Chief Risk Officer are set out in the 2018 'single figure' table.

Michael Falcon

Michael Falcon succeeded Barry Stowe as Chairman and Chief Executive Officer, Jackson Holdings LLC and joined the Board on 7 January 2019. As set out in the Statement of implementation in 2019, Mr Falcon was appointed on a lower salary than his predecessor with lower incentive opportunities. Mr Falcon's basic salary is US$800,000 per annum. For 2019 he will have a maximum bonus opportunity of 100 per cent of salary under the AIP. He will also be eligible to receive a 10 per cent share of the Jackson bonus pool. Forty per cent of any bonus will be deferred into the Company's ADRs for three years. Long-term incentive awards, granted under the PLTIP, will have a face value on grant of 400 per cent of base salary. He will be subject to the same shareholding guidelines of 250 per cent of salary as all other Executive Directors and will have five years from the date of his appointment to build this level of ownership.

Buy-out awards

In order to facilitate Mr Falcon's appointment, the Company agreed to replace the 2018 bonus and other outstanding awards that Mr Falcon forfeited on leaving his previous employer, J.P. Morgan Asset Management.

2018 bonus

The Committee approved an award under the AIP of US$2,637,179 in order to compensate Mr Falcon for the loss of his 2018 bonus. The amount is the average of the 2016 and 2017 bonuses Mr Falcon received from J.P. Morgan Asset Management. In line with the Directors' remuneration policy, 60 per cent of this will be delivered in cash and 40 per cent deferred into Prudential ADRs with dividend equivalents until the third anniversary of the grant's award date, subject to the rules of the deferred AIP. This bonus payment and AIP award will be made alongside 2018 bonus payments and deferred AIP awards for other Executive Directors.

Outstanding deferred awards

The terms of Mr Falcon's replacement awards were designed to replicate those of his forfeited restricted stock and fund units. At the date of this report the Company is in a Closed Period and these awards will not be granted until we are in an Open Period following the announcement of 2018 results.

A portion of these awards that were due to vest in January 2019 will be compensated by a cash payment of US$1,316,551 to be paid in March 2019 after the date of this report. The date of this payment will be reported in the 2019 Directors' remuneration report.

The remaining awards will be made in the form of nominal cost options over Prudential ADRs, to be released in accordance with the original vesting schedule. The terms of the replacement award were designed to replicate those of the forfeited awards and will therefore not be subject to performance conditions and will accrue dividend equivalents. This award entitles Mr Falcon to receive a cash amount equal to the market value of the specific notional number of Prudential ADRs on the date of exercise, less an award price of 10 pence per ADR. The award will vest on the dates detailed below. The number of Prudential ADRs over which options will be granted has been calculated with reference to the closing stock prices of J.P. Morgan Asset Management and Prudential plc on 19 December 2018, Mr Falcon's last date of employment with his former employer. Further details will be disclosed in stock exchange and website announcements when the grant takes place.

Exercise period	Number of notional ADRs
25 October to 24 November 2019	11,224
30 days commencing on the date of release of Prudential plc's results for 2019	30,938
30 days commencing on the date of release of Prudential plc's results for 2020	14,380

The above replacement awards will be made under rule 9.4.2 of the UKLA Listing Rules, as provided for by the Directors' remuneration policy, as the award could not be effected under any of the Company's existing incentive plans. Mr Falcon is the sole participant in this arrangement and no further awards will be made to Mr Falcon under this plan.

Mr Falcon has not been appointed for a fixed term but his service contract contains a notice provision under which either party may terminate upon 12 months' notice.

Prior to joining the Group, Mr Falcon was based in Hong Kong. The Company will pay to transport Mr Falcon's belongings from Hong Kong to the US and will then support his move within the US in line with our US domestic relocation policy. These benefits will be included in the 2019 Directors' remuneration report.

Payments to past Directors and payments for loss of office

The Committee's approach when exercising its discretion under the policy is to be mindful of the particular circumstance of the departure and the contribution the individual made to the Group.

Anne Richards

Anne Richards stepped down from the Board as Chief Executive, M&G on 10 August 2018 and her employment ended with the Company on 30 November 2018. The Committee applied the Directors' remuneration policy when determining separation terms for Ms Richards.

Ms Richards received £161,976 in respect of salary, benefits and pension between 11 August and 30 November 2018. She will not receive a bonus award for 2018. A portion of Ms Richards' 2016 and 2017 bonuses was deferred for three years in the form of shares. These deferred AIP awards will be released on the original timetable and remain subject to malus and clawback provisions.

All of Ms Richards' outstanding long-term incentive awards and buy-out awards (granted to Ms Richards when she joined Prudential in 2016 in respect of the awards she forfeited on leaving Aberdeen Asset Management) lapsed at the end of her employment and she did not receive a loss of office payment.

Barry Stowe

Barry Stowe retired as Chairman and Chief Executive Officer, NABU on 31 December 2018. He will remain as an adviser to the Group until his employment ends on 31 December 2019. Mr Stowe's base salary, pension benefits and certain other benefits will continue to be paid until the end of his employment.

A portion of Mr Stowe's 2016 and 2017 bonuses was deferred for three years in the form of ADRs. Mr Stowe's unvested awards over a total of 186,764 ADRs under the AIP will be released on the original timetable. They remain subject to malus and clawback provisions and will continue to accumulate dividend equivalents until they are released.

Mr Stowe's outstanding PLTIP awards will vest in line with the original vesting dates, subject to satisfaction of the performance conditions under the plan rules. The 2017 and 2018 PLTIP awards will be pro-rated up to the date on which Mr Stowe retired from the Board, while the 2016 award will not be pro-rated since Mr Stowe served on the Board for the entire performance period. These awards (totalling 253,268 ADRs) will continue to accumulate dividend equivalents until they are released and be subject to the original malus and clawback provisions. The 2017 and 2018 PLTIP awards will remain subject to a two-year holding period following the end of their three-year performance periods.

As discussed under the Annual bonus outcomes for 2018, Mr Stowe has received an annual bonus for 2018 of US$6,588,583. Sixty per cent of this award will be paid in cash in the usual way, and 40 per cent will be deferred into Prudential ADRs (to be released in the spring of 2022). This award will be subject to malus and clawback provisions.

Mr Stowe will not receive a bonus for 2019 and he will not be made a long-term incentive award in 2019 or any subsequent year.

The Committee applied the Directors' remuneration policy when determining separation arrangements for Ms Richards and Mr Stowe.

Tony Wilkey

Tony Wilkey stepped down from the Board on 17 July 2017 and his employment ended with the Group on 17 July 2018. Mr Wilkey received £1,057,343 in respect of salary, benefits and pension between 1 January and 17 July 2018.

As disclosed in the 2017 Directors' remuneration report, the Committee exercised its discretion in accordance with the approved Directors' remuneration policy and determined that Mr Wilkey should be allowed to retain his unvested PLTIP award granted in 2016. This award will vest in accordance with the original timetable, subject to the original performance conditions, remain subject to malus and clawback provisions, and will be pro-rated for service.

As set out in the section 'Remuneration in respect of performance in 2018' the performance conditions attached to Mr Wilkey's 2016 PLTIP awards were partially met and 55.5 per cent of these awards will be released in 2019. The details of Mr Wilkey's award are set out below.

Award	Number of shares vesting[1]	Value of shares vesting[2]
Prudential LTIP	69,891	£1,072,128

Notes

1 The number of shares vesting include accrued dividend shares.
2 The share price used to calculate the value was the average share price for the three months up to 31 December 2018, being £15.34.

Other Directors

A number of former Directors receive retiree medical benefits for themselves and their partner (where applicable). This is consistent with other senior members of staff employed at the same time. A de minimis threshold of £10,000 has been set by the Committee; any payments or benefits provided to a past Director under this amount will not be reported.

Statement of voting at general meeting

At the 2017 Annual General Meeting, shareholders were asked to vote on the current Directors' remuneration policy and at the 2018 Annual General Meeting, shareholders were asked to vote on the 2017 Directors' remuneration report. Each of these resolutions received a significant vote in favour by shareholders and the Committee is grateful for this support and endorsement by our shareholders. The votes received were:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the Directors' remuneration policy (2017 AGM)	1,773,691,171	90.71	181,582,497	9.29	1,955,273,668	45,820,585
To approve the Directors' remuneration report (2018 AGM)	1,944,563,586	94.91	104,204,573	5.09	2,048,768,159	26,571,316

Statement of implementation in 2019

Aligning 2019 pay to performance

Executive Directors' remuneration packages were reviewed in 2018 with changes effective from 1 January 2019. When the Committee took these decisions, it considered the salary increases awarded to other employees in 2018 and the expected increases in 2019. The external market reference points used to provide context to the Committee were identical to those used for 2018 salaries.

All Executive Directors received a salary increase of 2 per cent. The 2019 salary increase budgets for other employees across the Group's business units were between 2 per cent and 8 per cent.

The Executive Directors' bonus opportunities, performance measures and weightings will remain the same as in 2018.

Details of Michael Falcon's recruitment arrangements have been provided under the Recruitment arrangements section. The Committee considered his remuneration package with reference to internal and external reference points and determined that it was appropriate to appoint him on a lower salary and lower incentive opportunities than his predecessor, Barry Stowe, who had served on the Board over the last 12 years. Having joined the Board on 7 January 2019, Michael Falcon will be eligible to receive a full year bonus for the 2019 financial year. He will receive a 2019 long-term incentive award, granted under the PLTIP, with a face value on grant of 400 per cent of base salary.

On 28 February 2019, we announced that John Foley, Chief Executive of M&GPrudential, Nic Nicandrou, Chief Executive of Prudential Corporation Asia, and Michael Falcon, Chairman and Chief Executive Officer, Jackson Holdings LLC, will step down as members of Prudential's Board at the end of the Annual General Meeting on 16 May 2019 as part of our progress towards the demerger of M&GPrudential. They will remain in their executive roles and will continue to be members of the Group Executive Committee. The remuneration of these executives will be managed in line with the approved Directors' remuneration policy and they will not receive any loss of office payment in respect of their service as Directors. Further details will be disclosed in website announcements and in the 2019 Directors' remuneration report.

2019 share-based long-term incentive awards

The Executive Directors' long-term incentive awards will continue to be made under the PLTIP and the opportunity levels remain the same as the 2018 PLTIP awards. However, as highlighted in the Annual statement from the Chairman of the Remuneration Committee at the beginning of this report, changes will be made to the vesting scale and measures under PLTIP for the 2019 awards only. The vesting of these awards will depend on:

- Relative TSR (75 per cent of award); and
- Balanced scorecard of strategic measures (25 per cent of award).

Since these measures are in line with the remuneration requirements of Solvency II, the weightings of the Group Chief Risk Officer's PLTIP performance targets will be the same as that of the other Executive Directors.

Under the Group TSR measure, 20 per cent of the award will vest for TSR at the median of the peer group, increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. A comprehensive review of the TSR peer group has been undertaken for 2019 PLTIP awards as a number of years has passed since the group was last considered in detail. The companies were selected based on organisational size, product mix and geographical footprint.

The peer group for 2019 PLTIP awards is set out below:

Aegon
Great Eastern
Ping An Insurance
AIA
Lincoln National
Principal Financial
AXA Equitable
Manulife
Prudential Financial
China Taiping Insurance
MetLife
Sun Life Financial

The TSR peer group for 2017 and 2018 PLTIP awards remains unchanged.

Under the 2019 balanced scorecard, performance will be assessed for each of the four measures, at the end of the three-year performance period. Performance will be assessed on a sliding scale. Each of the measures has equal weighting and the 2019 measures are set out below:

Capital measure:	Cumulative three-year E-cap Group operating capital generation relative to plan, less cost of capital (based on the capital position at the start of the performance period).
Vesting basis:	20 per cent vesting for achieving Plan, increasing to full vesting for performance above stretch level. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
Capital measure:	Cumulative three-year Solvency II Group operating capital generation (as captured in published disclosures) relative to plan.
Vesting basis:	20 per cent vesting for achieving Plan, increasing to full vesting for performance above stretch level. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
Conduct measure:	Through appropriate management action, ensure there are no significant conduct/culture/governance issues that result in significant capital add-ons or material fines.
Vesting basis:	20 per cent vesting for partial achievement of the Group's expectations, increasing to full vesting for achieving the Group's expectations.
Diversity measure:	Percentage of the Leadership Team that is female at the end of 2021. The target for this metric will be based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female by the end of 2021.
Vesting basis:	20 per cent vests for meeting the threshold of at least 28 per cent of our Leadership Team being female at the end of 2021, increasing to full vesting for reaching the stretch level of at least 32 per cent being female at that date.

Pension entitlements from 2019

Externally-recruited Executive Directors appointed on or after 1 March 2019 will be offered pension benefits of 20 per cent of salary, rather than the current level of 25 per cent of salary. Given evolving practice in this area, pension benefits will be considered again as part of our review of the Directors' remuneration policy.

Demerger and review of the Directors' remuneration policy

During 2018 the Group announced its intention to demerge M&GPrudential from Prudential plc, resulting in two separately listed companies, each with its own distinct investment prospects. In preparation for the demerger process the Committee has established a set of principles to underpin decisions on remuneration relating to the demerger, including:

- Executives should not be advantaged or disadvantaged by the demerger; the value of outstanding awards and their key terms (release dates, holding periods, malus and clawback provisions) should be unaffected;
- Where performance conditions need to be revised, the new conditions should be no more or less stretching that those originally attached to the awards;
- Where the Committee has applied discretion, this will be disclosed clearly; and
- The future arrangements of M&GPrudential will be a matter for the Board, Remuneration Committee and shareholders of the new business. However, until the date of the demerger, the Prudential plc Remuneration Committee will have a responsibility for the remuneration of members of the plc Board and Group Executive Committee members and oversight of those M&GPrudential employees currently within its purview.

The Prudential plc Directors' remuneration policy will continue to apply to all members of the plc Board until the date of the demerger and the Prudential plc Group-wide Remuneration Policy will continue to apply to all Group staff (including those within the M&GPrudential business) until the date of the demerger.

During 2019, we intend to review the Directors' remuneration policy, taking into account the demerger, the views of our shareholders, the new UK Corporate Governance Code, forthcoming changes to accounting standards and the broader regulatory and competitive environment.

Chairman and Non-executive Directors

Fees for the Chairman and Non-executive Directors were reviewed in 2018 with changes effective from 1 July 2018, as set out under the Chairman and Non-executive Director remuneration in 2018 section. The next review will be effective 1 July 2019.

Signed on behalf of the Board of Directors

Anthony Nightingale, CMG SBS JP
Chair of the Remuneration Committee
12 March 2019

Paul Manduca
Chairman
12 March 2019

Supplementary information

Directors' outstanding long-term incentive awards

Share-based long-term incentive awards

	Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2018 (number of shares)	Conditional awards in 2018 (number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares[3] (number of shares released)	Rights exercised in 2018	Rights lapsed in 2018	Conditional share awards outstanding at 31 Dec 2018 (number of shares)	Date of end of performance period
Mark FitzPatrick	PLTIP	2017	101,360		1,828				101,360	31 Dec 19
	PLTIP	2018		106,611	1,750				106,611	31 Dec 20
			101,360	**106,611**		**–**	**–**	**–**	**207,971**	
John Foley	PLTIP	2015	122,808		1,672	10,683	117,693	5,115	–	31 Dec 17
	PLTIP	2016	144,340		1,279				144,340	31 Dec 18
	PLTIP	2017	114,177		1,672				114,177	31 Dec 19
	PLTIP	2018		111,763	1,750				111,763	31 Dec 20
			381,325	**111,763**		**10,683**	**117,693**	**5,115**	**370,280**	
Nic Nicandrou	PLTIP	2015	104,117		1,672	9,057	99,781	4,336	–	31 Dec 17
	PLTIP	2016	136,836		1,279				136,836	31 Dec 18
	PLTIP	2017	108,357		1,672				108,357	31 Dec 19
	PLTIP	2018		138,846	1,750				138,846	31 Dec 20
			349,310	**138,846**		**9,057**	**99,781**	**4,336**	**384,039**	
Barry Stowe[1]	PLTIP	2015	113,940		1,672	9,238	101,788	12,152	–	31 Dec 17
	PLTIP	2015	50,668		1,611.5	7,770	45,264	5,404	–	31 Dec 17
	PLTIP	2016	274,100		1,279				274,100	31 Dec 18
	PLTIP	2017	247,690		1,672				247,690	31 Dec 19
	PLTIP	2018		215,298	1,750				215,298	31 Dec 20
			686,398	**215,298**		**17,008**	**147,052**	**17,556**	**737,088**	
James Turner	PLTIP	2015	18,927		1,672	1,643	18,139	788	–	31 Dec 17
	PLTIP	2015	2,993		1,417.5	261	2,868	125	–	31 Dec 17
	PLTIP	2016	33,116		1,279				33,116	31 Dec 18
	PLTIP	2017	27,940		1,672				27,940	31 Dec 19
	PLTIP	2018		89,439	1,750				89,439	31 Dec 20
			82,976	**89,439**		**1,904**	**21,007**	**913**	**150,495**	
Mike Wells[2]	PLTIP	2015	209,222		1,672	18,198	200,508	8,714	–	31 Dec 17
	PLTIP	2015	30,132		1,611.5	2,658	28,878	1,254	–	31 Dec 17
	PLTIP	2016	332,870		1,279				332,870	31 Dec 18
	PLTIP	2017	263,401		1,672				263,401	31 Dec 19
	PLTIP	2018		257,813	1,750				257,813	31 Dec 20
			835,625	**257,813**		**20,856**	**229,386**	**9,968**	**854,084**	

Notes

1 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

2 The award in 2015 for Mike Wells was made in ADRs (1 ADR = 2 ordinary shares). All of the awards from 2016 onwards were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

3 A dividend equivalent was accumulated on these awards.

Other share awards

The table below sets out Executive Directors' deferred bonus share awards.

	Year of grant	Conditional share awards outstanding at 1 Jan 2018 (number of shares)	Conditionally awarded in 2018 (number of shares)	Dividends accumulated in 2018[3] (number of shares)	Shares released in 2018 (number of shares)	Conditional share awards outstanding at 31 Dec 2018 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Mark FitzPatrick										
Deferred 2017 annual incentive award	2018		27,414	705		28,119	31 Dec 20		1,750	
		–	**27,414**	**705**	**–**	**28,119**				
John Foley										
Deferred 2014 annual incentive award	2015	44,783			44,783	–	31 Dec 17	03 Apr 18	1,672	1,747
Deferred 2015 annual incentive award	2016	67,418		1,736		69,154	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017	31,139		801		31,940	31 Dec 19		1,672	
Deferred 2017 annual incentive award	2018		29,373	755		30,128	31 Dec 20		1,750	
		143,340	**29,373**	**3,292**	**44,783**	**131,222**				
Nic Nicandrou										
Deferred 2014 annual incentive award	2015	30,662			30,662	–	31 Dec 17	03 Apr 18	1,672	1,747
Deferred 2015 annual incentive award	2016	40,121		1,032		41,153	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017	30,269		779		31,048	31 Dec 19		1,672	
Deferred 2017 annual incentive award	2018		30,788	792		31,580	31 Dec 20		1,750	
		101,052	**30,788**	**2,603**	**30,662**	**103,781**				
Barry Stowe[1]										
Deferred 2014 annual incentive award	2015	29,800			29,800	–	31 Dec 17	03 Apr 18	1,672	1,747
Deferred 2015 annual incentive award	2016	114,518		2,934		117,452	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017	138,028		3,536		141,564	31 Dec 19		1,672	
Deferred 2017 annual incentive award	2018		111,652	2,860		114,512	31 Dec 20		1,750	
		282,346	**111,652**	**9,330**	**29,800**	**373,528**				
James Turner										
Deferred 2014 group deferred bonus plan award	2015	3,917			3,917	–	31 Dec 17	03 Apr 18	1,672	1,747
Deferred 2015 group deferred bonus plan award	2016	5,305		135		5,440	31 Dec 18		1,279	
		9,222	**–**	**135**	**3,917**	**5,440**				
Mike Wells[2]										
Deferred 2014 annual incentive award	2015	123,822			123,822	–	31 Dec 17	03 Apr 18	1,672	1,747
Deferred 2015 annual incentive award	2016	109,890		2,830		112,720	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017	52,703		1,357		54,060	31 Dec 19		1,672	
Deferred 2017 annual incentive award	2018		47,443	1,221		48,664	31 Dec 20		1,750	
		286,415	**47,443**	**5,408**	**123,822**	**215,444**				

Notes

1 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

2 The award for Mike Wells in 2015 was made in ADRs (1 ADR = 2 ordinary shares). All of the awards made from 2016 onwards were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

3 A dividend equivalent was accumulated on these awards.

All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive Directors are invited to participate in these plans on the same basis as other staff in their location.

Save As You Earn (SAYE) schemes

UK-based Executive Directors are normally eligible to participate in the HM Revenue and Customs (HMRC) approved Prudential Savings-Related Share Option Scheme. This scheme allows all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price. Since 2014 participants have been able to elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and any other option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant. In anticipation of the demerger of the M&GPrudential business the Company did not operate the SAYE in 2018.

Details of Executive Directors' rights under the SAYE scheme are set out in the 'Outstanding share options' table.

Share Incentive Plan (SIP)

UK-based Executive Directors are also eligible to participate in the Company's Share Incentive Plan (SIP). Since April 2014, all UK-based employees have been able to purchase Prudential plc shares up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded which is purchased by Prudential plc on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the SIP together with matching shares (awarded on a 1:4 basis) and dividend shares.

	Year of initial grant	**Share Incentive Plan awards held in Trust at 1 Jan 2018** (number of shares)	**Partnership shares accumulated in 2018** (number of shares)	**Matching shares accumulated in 2018** (number of shares)	**Dividend shares accumulated in 2018** (number of shares)	**Share Incentive Plan awards held in Trust at 31 Dec 2018** (number of shares)
Mark FitzPatrick	2017	81	104	26	3	214
John Foley	2014	576	103	26	16	721
Nic Nicandrou[1]	2010	1,766	–	–	47	1,813
James Turner[2]	2011	479	172	43	15	709
Mike Wells	2015	408	103	25	12	548

Notes

[1] Following Nic Nicandrou's appointment as Chief Executive of Prudential Corporation Asia on 17 July 2017, he is no longer eligible to participate in the SIP. However, while his shares remain in the SIP Trust he will receive any dividends payable on these shares.

[2] The number of shares for James Turner reflects his SIP holding on his appointment as an Executive Director on 1 March 2018.

Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out Executive Directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some Executive Directors, please see our Annual report on remuneration.

Dilution

Releases from the Prudential Long Term Incentive Plan and the Prudential Agency Long Term Incentive Plan are satisfied using new issue shares rather than by purchasing shares in the open market. Shares relating to options granted under all-employee share plans are also satisfied by new issue shares. The combined dilution from all outstanding shares and options at 31 December 2018 was 1.11 per cent of the total share capital at the time. Deferred bonus awards will continue to be satisfied by the purchase of shares in the open market.

Five highest paid individuals

Of the five individuals with the highest emoluments in 2018, three were Executive Directors whose emoluments are disclosed in this report. The aggregate of the emoluments of the other two individuals for 2018 were as follows:

	2018 £000
Base salaries, allowances and benefits in kind	2,810
Pension contributions	104
Performance related pay	20,993
Total	23,907

Their emoluments were within the following bands:

	Number of five highest paid employees 2018
£7,200,001-£7,300,000	1
£16,600,001-£16,700,000	1

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Consolidated income statement

	Note	2018 £m	2017 £m
Gross premiums earned		47,224	44,005
Outward reinsurance premiums note (i)		(14,023)	(2,062)
Earned premiums, net of reinsurance	B1.4	33,201	41,943
Investment return	B1.4	(10,263)	42,189
Other income note (ii)	B1.4	1,993	2,258
Total revenue, net of reinsurance	B1.4	24,931	86,390
Benefits and claims note (i)	C4.1(a)(iii)	(27,411)	(71,854)
Outward reinsurers' share of benefit and claims note (i)	C4.1(a)(iii)	13,554	2,193
Movement in unallocated surplus of with-profits funds	C4.1(a)(iii)	1,289	(2,871)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	B1.4	(12,568)	(72,532)
Acquisition costs and other expenditure note (ii)	B2	(8,855)	(9,993)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		(410)	(425)
(Loss) gain on disposal of businesses and corporate transactions	D1.1	(80)	223
Remeasurement of the sold Korea life business		–	5
Total charges, net of reinsurance and (loss) gain on disposal of businesses	B1.4	(21,913)	(82,722)
Share of profits from joint ventures and associates, net of related tax	D6	291	302
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (iii)		3,309	3,970
Less tax credit (charge) attributable to policyholders' returns		326	(674)
Profit before tax attributable to shareholders	B1.1	3,635	3,296
Total tax charge attributable to policyholders and shareholders	B4	(296)	(1,580)
Adjustment to remove tax (credit) charge attributable to policyholders' returns		(326)	674
Tax charge attributable to shareholders' returns	B4	(622)	(906)
Profit for the year		3,013	2,390
Attributable to:			
Equity holders of the Company		3,010	2,389
Non-controlling interests		3	1
Profit for the year		3,013	2,390

Earnings per share (in pence)	Note	2018	2017
Based on profit attributable to the equity holders of the Company:	B5		
Basic		116.9p	93.1p
Diluted		116.8p	93.0p

Notes

(i) Outward reinsurance premiums include the £(12,149) million paid during the year in respect of the reinsurance of the UK annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefits and claims and the consequential change to policyholder liabilities is included in benefits and claims. See note D1.1 for further details.

(ii) The 2017 comparative results have been re-presented from those previously published for the deduction of certain expenses against revenue following the adoption of IFRS 15. See note A2.

(iii) 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 with-profits funds after adjusting for taxes borne by policyholders.

Consolidated statement of comprehensive income

	Note	2018 £m	2017 £m
Profit for the year		3,013	2,390
Other comprehensive income (loss):			
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	A1	344	(404)
Cumulative exchange gain of sold Korea life business recycled through profit or loss		–	(61)
Related tax		5	(5)
		349	(470)
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding (losses) gains arising in the year		(1,606)	591
(Deduct net gains) add back net losses included in the income statement on disposal and impairment		(11)	26
Total	C3.2(c)	(1,617)	617
Related change in amortisation of deferred acquisition costs	C5.2	246	(76)
Related tax	C8.1	288	(55)
		(1,083)	486
Total		(734)	16
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Actuarial gains and losses on defined benefit pension schemes		134	200
Related tax		(23)	(33)
		111	167
Deduct amount attributable to UK with-profit funds transferred to unallocated surplus of with-profit funds, net of related tax		(38)	(78)
		73	89
Other comprehensive (loss) income for the year, net of related tax		(661)	105
Total comprehensive income for the year		2,352	2,495
Attributable to:			
Equity holders of the Company		2,348	2,494
Non-controlling interests		4	1
Total comprehensive income for the year		2,352	2,495

Consolidated statement of changes in equity

		Year ended 31 December 2018 £m							
	Note	Share capital C10	Share premium C10	Retained earnings	Translation reserve	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the year		–	–	3,010	–	–	3,010	3	3,013
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		–	–	–	348	–	348	1	349
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	(1,083)	(1,083)	–	(1,083)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of related tax		–	–	73	–	–	73	–	73
Total other comprehensive income (loss)		–	–	73	348	(1,083)	(662)	1	(661)
Total comprehensive income for the year		–	–	3,083	348	(1,083)	2,348	4	2,352
Dividends	B6	–	–	(1,244)	–	–	(1,244)	–	(1,244)
Reserve movements in respect of share-based payments		–	–	69	–	–	69	–	69
Change in non-controlling interests	D1.2	–	–	–	–	–	–	7	7
Movements in respect of option to acquire non-controlling interests	D1.2	–	–	(109)	–	–	(109)	–	(109)
Share capital and share premium									
New share capital subscribed	C10	1	16	–	–	–	17	–	17
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	29	–	–	29	–	29
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	52	–	–	52	–	52
Net increase (decrease) in equity		1	16	1,880	348	(1,083)	1,162	11	1,173
At beginning of year		129	1,948	12,326	840	844	16,087	7	16,094
At end of year		130	1,964	14,206	1,188	(239)	17,249	18	17,267

		Year ended 31 December 2017 £m							
	Note	Share capital C10	Share premium 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 related tax		–	–	89	–	–	89	–	89
Total other comprehensive income (loss)		–	–	89	(470)	486	105	–	105
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

Consolidated statement of financial position

	Note	31 Dec 2018 £m	31 Dec 2017 £m
Assets			
Goodwill	C5.1	1,857	1,482
Deferred acquisition costs and other intangible assets	C5.2	11,923	11,011
Property, plant and equipment	C13	1,409	789
Reinsurers' share of insurance contract liabilities	C4.1(a)(iv)	11,144	9,673
Deferred tax assets	C8.1	2,595	2,627
Current tax recoverable	C8.2	618	613
Accrued investment income	C1	2,749	2,676
Other debtors	C1	4,088	2,963
Investment properties	C14	17,925	16,497
Investment in joint ventures and associates accounted for using the equity method		1,733	1,416
Loans	C3.3	18,010	17,042
Equity securities and portfolio holdings in unit trusts note (i)		214,733	223,391
Debt securities note (i)	C3.2	175,356	171,374
Derivative assets	C3.4	3,494	4,801
Other investments note (i)		6,512	5,622
Deposits		11,796	11,236
Assets held for sale note (ii)		10,578	38
Cash and cash equivalents	C1	12,125	10,690
Total assets	C1	508,645	493,941
Equity			
Shareholders' equity		17,249	16,087
Non-controlling interests		18	7
Total equity		17,267	16,094
Liabilities			
Insurance contract liabilities	C4.1	322,666	328,172
Investment contract liabilities with discretionary participation features	C4.1	67,413	62,677
Investment contract liabilities without discretionary participation features	C4.1	19,222	20,394
Unallocated surplus of with-profits funds	C4.1	15,845	16,951
Core structural borrowings of shareholder-financed businesses	C6.1	7,664	6,280
Operational borrowings attributable to shareholder-financed businesses	C6.2	998	1,791
Borrowings attributable to with-profits businesses	C6.2	3,940	3,716
Obligations under funding, securities lending and sale and repurchase agreements		6,989	5,662
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		11,651	8,889
Deferred tax liabilities	C8.1	4,022	4,715
Current tax liabilities	C8.2	568	537
Accruals, deferred income and other liabilities	C1	15,248	14,185
Provisions	C11	1,078	1,123
Derivative liabilities	C3.4	3,506	2,755
Liabilities held for sale note (ii)		10,568	–
Total liabilities	C1	491,378	477,847
Total equity and liabilities		508,645	493,941

Notes

(i) Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,278 million (31 December 2017: £8,232 million) of lent securities and assets subject to repurchase agreements.

(ii) Assets held for sale of £10,578 million include £10,568 million in respect of the reinsured UK annuity business. A corresponding amount is reflected in liabilities held for sale. See note D1.1 for further details.

The consolidated financial statements on pages 173 to 319 were approved by the Board of Directors on 12 March 2019. They were signed on its behalf:

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Mark FitzPatrick
Chief Financial Officer

Consolidated statement of cash flows

	Note	**2018** £m	**2017** £m
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)		3,309	3,970
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:			
Investments		15,456	(49,771)
Other non-investment and non-cash assets		(3,503)	(968)
Policyholder liabilities (including unallocated surplus)		(17,392)	44,877
Other liabilities (including operational borrowings)		4,344	3,360
Interest income and expense and dividend income included in result before tax		(7,861)	(8,994)
Operating cash items:			
Interest receipts and payments		5,793	6,900
Dividend receipts		2,361	2,612
Tax paid note (iv)		(625)	(915)
Other non-cash items		582	549
Net cash flows from operating activities		2,464	1,620
Cash flows from investing activities			
Purchases of property, plant and equipment	C13	(289)	(134)
Proceeds from disposal of property, plant and equipment		4	–
Acquisition of businesses and intangibles note (v)		(504)	(351)
Sale of businesses note (v)		–	1,301
Net cash flows from investing activities		(789)	816
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed businesses: note (ii)	C6.1		
Issue of subordinated debt, net of costs		1,630	565
Redemption of subordinated debt		(434)	(751)
Fees paid to modify terms and conditions of senior debt note (ii)		(33)	–
Interest paid		(376)	(369)
With-profits businesses: note (iii)	C6.2		
Redemption of subordinated debt		(100)	–
Interest paid		(4)	(9)
Equity capital:			
Issues of ordinary share capital		17	21
Dividends paid		(1,244)	(1,159)
Net cash flows from financing activities		(544)	(1,702)
Net increase in cash and cash equivalents		1,131	734
Cash and cash equivalents at beginning of year		10,690	10,065
Effect of exchange rate changes on cash and cash equivalents		304	(109)
Cash and cash equivalents at end of year		12,125	10,690

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 businesses exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed businesses and other borrowings of shareholder-financed businesses. 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 businesses during 2018 are analysed as follows:

	Cash movements £m				**Non-cash movements** £m		
	Balance at beginning of year	**Issue of debt**	**Redemption of debt**	**Modification of debt***	**Foreign exchange movement**	**Other movements**	**Balance at end of year**
2018	6,280	1,630	(434)	(33)	210	11	7,664
2017	6,798	565	(751)	–	(341)	9	6,280

* The amount in 2018 relates to fees paid to bondholders who participated in the voting process in respect of certain modifications to the terms and conditions of the senior debt. Other than these fees, the modification did not result in an adjustment to the carrying value of the senior debt.

(iii) Interest paid on structural borrowings of with-profits businesses relates 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 UK with-profits fund. These bonds were redeemed in full on 30 June 2018. 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 £134 million (2017: £298 million) paid on profits taxable at policyholder rather than shareholder rates.

(v) Cash flows arising from the 'acquisition of businesses and intangibles' and 'sale of businesses' include amounts paid for distribution rights and cash flows arising from the acquisitions and disposals of businesses (including subsidiaries acquired and disposed by with-profits funds for investment purposes).

A Background and critical accounting policies

A1 Basis of preparation and exchange rates

Prudential plc ('the Company') together with its subsidiaries (collectively, 'the Group' or 'Prudential') is an international financial services group. The Group has operations in Asia, the US, the UK and Europe, and Africa. Prudential offers a wide range of retail financial products and services and asset management services throughout these operations. The retail financial products and services primarily include life insurance, pensions and annuities as well as collective investment schemes. On 14 March 2018, the Company announced its intention to demerge M&GPrudential, its UK and Europe business, from Prudential plc resulting in two separately-listed companies. While it remains the intention to demerge the business, M&GPrudential has not been disclosed separately as available for distribution at 31 December 2018, as the business does not satisfy the criteria of being immediately available for sale under IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations'.

Basis of preparation

These statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS Standards may differ from IFRS Standards issued by the IASB if, at any point in time, new or amended IFRS Standards have not been endorsed by the EU. At 31 December 2018, there were no unendorsed standards effective for the two years ended 31 December 2018 which impact the consolidated financial information of the Group. There were no differences between IFRS Standards endorsed by the EU and IFRS Standards issued by the IASB in terms of their application to the Group. These statements have been prepared on a going concern basis. The parent company statement of financial position prepared in accordance with the UK Generally Accepted Accounting Practice (including Financial Reporting Standard 101 Reduced Disclosure Framework) is presented on page 320.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2017 with the exception of the adoption of the new and amended accounting standards as described in note A2.

Exchange rates

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

Local currency: £	Closing rate at 31 Dec 2018	Average rate for 2018	Closing rate at 31 Dec 2017	Average rate for 2017
Hong Kong	9.97	10.46	10.57	10.04
Indonesia	18,314.37	18,987.65	18,353.44	17,249.38
Malaysia	5.26	5.38	5.47	5.54
Singapore	1.74	1.80	1.81	1.78
China	8.74	8.82	8.81	8.71
India	88.92	91.25	86.34	83.90
Vietnam	29,541.15	30,732.53	30,719.60	29,279.71
Thailand	41.47	43.13	44.09	43.71
US	1.27	1.34	1.35	1.29

Certain notes to the financial statements present 2017 comparative information at constant exchange rates (CER), in addition to the reporting at actual exchange rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. CER results are calculated by translating prior period results using the current period foreign exchange rate, ie current period average rates for the income statement and current period closing rates for the balance sheet.

The exchange movement arising during 2018 recognised in other comprehensive income is:

	2018 £m	**2017** £m
Asia operations*	222	(295)
US operations	329	(477)
UK and Europe operations	–	3
Unallocated to a segment (other funds)†	(207)	304
	344	(465)

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* 2017 included the recycling of the cumulative exchange gain of the sold Korea life business of £61 million to the income statement.

† The exchange rate movement unallocated to a segment mainly reflects the translation of currency borrowings, issued by the Group parent company, that have been designated as a net investment hedge against the currency risk of the Group's investment in the US operations.

A2 New accounting pronouncements in 2018

IFRS 15, 'Revenue from Contracts with Customers'

The Group has adopted IFRS 15, 'Revenue from Contracts with Customers' from 1 January 2018. This standard provides a single framework to recognise revenue for contracts with different characteristics and overrides the revenue recognition requirements previously provided in other standards. The contracts excluded from the scope of this standard include:

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

The main impacts of IFRS 15 for Prudential are to revenue recognition for asset management contracts and investment contracts that do not contain discretionary participating features but do include investment management services.

In accordance with the transition provisions in IFRS 15, the Group has adopted the standard using the full retrospective method for all periods presented. The only impact on the prior periods presented is a minor reclassification in the consolidated income statement to present certain expenses (such as rebates to clients of asset management fees) as a deduction against revenue. Revenue has been reduced by £234 million in 2018 (2017: £172 million) with a corresponding deduction in expenses.

IFRS 9, 'Financial Instruments' and amendments to IFRS 4, 'Insurance Contracts'

The IASB published a complete version of IFRS 9 in July 2014 with the exception of macro hedge accounting and the standard is mandatorily effective for annual periods beginning on or after 1 January 2018.

In September 2016, the IASB published amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17, 'Insurance Contracts'. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect in 2021. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments.

The Group met the eligibility criteria for temporary exemption under the amendments to IFRS 4 from applying IFRS 9 and has accordingly deferred the adoption of IFRS 9. See note A3.2 for further details on IFRS 9, including the disclosures associated with the temporary exemption.

In November 2018, the IASB tentatively decided that the effective date of IFRS 17 should be delayed by one year from periods ending on or after 1 January 2021 to 1 January 2022. The IASB also tentatively decided that IFRS 9 could be delayed for insurers by an additional year to keep the effective date of IFRS 9 and IFRS 17 aligned. These changes are yet to be finalised and the Group continues to monitor developments.

Other new accounting pronouncements

In addition to the above, the following new accounting pronouncements are also effective from 1 January 2018:

- IFRIC 22, 'Foreign Currency Transactions and Advance Consideration';
- Classification and measurement of share-based payment transactions (amendments to IFRS 2, 'Share-based payment');
- Transfers of Investment Property (amendments to IAS 40, 'Investment property'); and
- Annual Improvements to IFRSs 2014–2016 Cycle.

These pronouncements have had no effect on the Group's financial statements.

A3 Accounting policies

A3.1 Critical accounting policies, estimates and judgements

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

The preparation of these financial statements requires Prudential to make estimates and judgements about the amounts of assets, liabilities, revenues and expenses, which are both recognised and unrecognised (eg contingent liabilities) in the primary financial statements. Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets as required. Below are set out those critical accounting policies the application of which requires the Group to make critical estimates and judgements. Also set out are further critical accounting policies affecting the presentation of the Group's results and other items that require the application of critical estimates and judgements.

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

Classification of insurance and investment contracts

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

Impacts £433 billion of reported liabilities, requiring classification.

Judgement is applied in considering whether the material features of a contract gives rise to the transfer of significant insurance risk.

Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. This judgement is made at the point of contract inception and is not revisited.

For the majority of the Group's contracts, classification is based on a readily identifiable scenario that demonstrates a significant difference in cash flows if the covered event occurs (as opposed to does not occur) reducing the level of judgement involved. Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts. Furthermore, some contracts, both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that (i) are likely to be a significant portion of the total contract benefits; (ii) have an amount or timing contractually at the discretion of the insurer; and (iii) are contractually based on asset or fund performance, as discussed in IFRS 4. Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4. Investment contracts without such discretionary participation features are accounted for as financial instruments under IAS 39.

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

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Measurement of policyholder liabilities and unallocated surplus of with-profits

The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4 described above.

Impacts £433 billion of liabilities.

Policyholder liabilities are estimated based on a number of actuarial assumptions (eg mortality, morbidity, policyholder behaviour and expenses).

IFRS 4 permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) for insurance contracts and investment contracts with discretionary participating features.

A modified statutory basis of reporting was adopted by the Group on first time adoption of IFRS in 2005. This was set out in the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP). An exception was for UK regulated with-profits funds which were measured under FRS 27, 'Life Assurance' as discussed below.

FRS 27 and the ABI SORP were withdrawn for the accounting periods beginning in or after 2015. As used in these consolidated financial statements, the terms 'grandfathered' FRS 27 and the 'grandfathered' ABI SORP refer to the requirements of these pronouncements prior to their withdrawal.

For investment contracts that do not contain discretionary participating features, IAS 39 is applied and, where the contract includes an investment management element, IFRS 15, 'Revenue', applies.

The policies applied in each business unit are noted below. When measuring policyholder contract liabilities a number of assumptions are applied to estimate future amounts due to or from the policyholder. The nature of assumption varies by product and among the most significant are assumed rates of policyholders' mortality, particularly in respect of annuities sold in the UK, and policyholder behaviour, particularly in the US. Additional details of valuation methodologies and assumptions applied for material product types are discussed in note C4.2.

Measurement of insurance contract liabilities and investment contract liabilities with discretionary participation features.

Asia insurance operations

The policyholder liabilities for businesses in Asia are generally determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with the modified statutory basis. Refinements to the local reserving methodology are generally treated as changes in estimates, dependent on their nature. In some operations, Taiwan and India, US GAAP principles are applied.

While the basis of valuation of liabilities in this business is in accordance with the requirements of the 'grandfathered' ABI SORP, it may differ from that determined on the modified statutory basis for the UK and Europe insurance operations with the same features.

The sensitivity of Asia insurance operations to variations in key estimates and assumptions, including mortality and morbidity, is discussed in note C7.2.

US insurance operations (Jackson)

The policyholder liabilities for Jackson's conventional protection-type policies are determined under US GAAP principles with locked in assumptions for mortality, interest, policy lapses and expenses along with provisions for adverse deviations. For other policies, the policyholder liabilities include the policyholder account balance.

For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortised cost model to measure the liability. The US has no investment contracts with discretionary participation features.

The sensitivity of US insurance operations to variations in key estimates and assumptions, including policyholder behaviour, is discussed in note C7.3.

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

UK and Europe insurance operations	The UK regulated with-profits funds' liabilities are the realistic basis liabilities in accordance with 'grandfathered' FRS 27. The realistic basis requires the value of liabilities to be calculated as: — A with-profits benefits reserve; plus — Future policy-related liabilities; plus — The realistic current liabilities of the fund. The with-profits benefits reserve is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future policyholder benefits and other charges and expenses. Asset shares broadly reflect the policyholders' share of the with-profits fund assets attributable to their policies. The future policy-related liabilities must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities. The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. Shareholders' share of profit is recognised in line with the distribution of bonuses to policyholders. For the purposes of local regulations, segregated accounts are established for linked business for which policyholder benefits are wholly or partly determined by reference to specific investments or to an investment-related index. The interest rates used in establishing policyholder benefit provisions for pension annuities in the course of payment are adjusted each reporting period and include an allowance for credit risk (see note B3). Mortality rates used in establishing policyholder benefits are based on published mortality tables adjusted to reflect actual experience. The sensitivity of the UK and Europe insurance operations to variations in key estimates and assumptions, including annuitant mortality, is discussed in note C7.4.
Measurement of investment contract liabilities without discretionary participation features.	Investment contracts without discretionary participation features are measured in accordance with IAS 39 to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the financial liability balance. Incremental, directly attributable acquisition costs relating to the investment management element of these contracts are capitalised and amortised in line with the related revenue. If the contracts involve up-front charges, this income is also deferred and amortised through the income statement in line with contractual service provision in accordance with IFRS 15. Investment contracts without fixed and guaranteed terms are classified as financial instruments and designated as fair value through profit or loss because the resulting liabilities are managed and their performance is evaluated on a fair value basis. Where the contract includes a surrender option its carrying value is subject to a minimum carrying value equal to its surrender value. Other investment contracts are measured at amortised cost.
Measurement of unallocated surplus of with-profits funds.	Represents the excess of assets over policyholder liabilities that are determined in accordance with the Group's accounting policies and are based on local GAAP for the Group's with-profits funds in the UK, Hong Kong and Malaysia that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a charge (credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation on investments.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Measurement of policyholder liabilities and unallocated surplus of with-profits continued	
Liability adequacy test.	The Group performs adequacy testing on its insurance liabilities to ensure that the carrying amounts (net of related deferred acquisition costs) and, where relevant, present value of acquired in-force business is sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement. Jackson's liabilities for insurance contracts, which include those for separate accounts (reflecting separate account assets), policyholder account values and guarantees measured as described in note C4.2 and the associated deferred acquisition cost asset are measured under US GAAP and liability adequacy testing is performed in this context. Under US GAAP, most of Jackson's products are accounted for under Accounting Standards Codification Topic 944, Financial Services – Insurance of the Financial Accounting Standards Board (ASC 944) whereby deferred acquisition costs are amortised in line with expected gross profits. Recoverability of the deferred acquisition costs in the balance sheet is tested against the projected value of future profits using current estimates and therefore no additional liability adequacy test is required by IFRS 4. The DAC recoverability test is performed in line with US GAAP requirements which in practice is at a grouped level of those contracts managed together.

(b) Further critical accounting policies

Measurement and presentation of derivatives and debt securities of US insurance operations	
Jackson holds a number of derivative instruments and debt securities. The selection of the accounting approach for these items significantly affects the volatility of IFRS profit before tax. £(2,014) million of the US income statement investment return arises from such derivatives and debt securities.	Jackson enters into derivative instruments to mitigate economic exposures. The Group has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. The key factors considered in this assessment were the complexity of asset and liability matching in Jackson's product range and the difficulty and cost of applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book. The Group has decided that, except for occasional circumstances, applying hedge accounting using IAS 39 to derivative instruments held by Jackson would not improve the relevance or reliability of the financial statements to such an extent that would justify the difficulty and cost of applying these provisions. As a result of this decision, the total income statement results are more volatile as the movements in the fair value of Jackson's derivatives are reflected within it. This volatility is reflected in the level of short-term fluctuations in investment returns, as shown in notes B1.1 and B1.2. Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within other comprehensive income. Impairments are recorded in the income statement.

Presentation of results before tax

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

Profit before tax attributable to shareholders is £3,635 million and compares to profit before tax of £3,309 million.

The total tax charge for the Group reflects tax that, in addition to relating to shareholders' profits, is also attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. Further detail is provided in note B4. Reported profit before the total tax charge is not representative of pre-tax profits attributable to shareholders. Accordingly, in order to provide a measure of pre-tax profits attributable to shareholders the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes between policyholder and shareholder components.

Segmental analysis of results and earnings attributable to shareholders

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

Total segmental adjusted IFRS operating profit based on longer-term investment returns is £5,717 million and is shown in note B1.1.

The basis of calculation of adjusted IFRS operating profit based on longer-term investment returns is disclosed in note B1.3.

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

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

(c) Further critical estimates or judgements

Deferred acquisition costs for insurance contracts

The Group applies judgement in determining qualifying costs that should be capitalised (ie those costs of acquiring new insurance business that meet the criteria under the Group's accounting policy for deferred acquisition costs).

The Group estimates projected future profits/margins to assess whether adjustments to the carrying value or amortisation profile of deferred acquisition cost assets are necessary.

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

£10.1 billion of deferred acquisition costs as per note C5.2(b).

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Deferred acquisition costs for insurance contracts continued

Asia insurance operations	For those business units applying US GAAP to insurance assets and liabilities, as permitted by the 'grandfathered' ABI SORP, principles similar to those set out in the US insurance operations paragraph below are applied to the deferral and amortisation of acquisition costs. For other territories in Asia, the general principles of the 'grandfathered' ABI SORP are applied with, as described above, deferral of acquisition costs being either explicit or implicit through the reserving basis.
US insurance operations	The most material estimates and assumptions applied in the measurement and amortisation of deferred acquisition cost balances relate to the US insurance operations. The Group's US insurance operations apply FASB ASU 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' and capitalise only those incremental costs directly relating to successfully acquiring a contract. For term life business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For fixed and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and lapses (including the related charges), all of which are based on a combination of Jackson's actual experience, industry benchmarking and future expectations. A detailed analysis of actual mortality, lapse and expenses experience is performed using internally developed experience studies. For US variable annuity business, a key assumption is the long-term investment return from the separate accounts. Jackson uses a mean reversion methodology that sets the projected level of return for each of the next five years such that these returns in combination with the actual rates of return for the preceding three years, including the current year, average the assumed long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) over the eight year period. Projected returns after the mean reversion period revert back to the long-term investment return. For further details on current balances, assumptions and sensitivity, refer to note C5.2 (b) and C7.3 (iv). To ensure that the methodology in extreme market movements produces future expected returns that are realistic, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year. Jackson makes certain adjustments to the deferred acquisition costs which are recognised directly in other comprehensive income ('shadow accounting') to match the recognition of unrealised gains or losses on available-for-sale securities causing the adjustments More precisely, shadow deferred acquisition costs adjustments reflect the change in deferred acquisition costs that would have arisen if the assets held in the statement of financial position had been sold, crystallising unrealised gains or losses, and the proceeds reinvested at the yields currently available in the market.
UK and Europe insurance operations	For UK regulated with-profits funds where 'grandfathered' FRS 27 is applied, these costs are expensed as incurred. The majority of the UK shareholder-backed business is individual and group annuity business where the deferral of acquisition costs is negligible.

Financial investments – Valuation

Financial investments held at fair value represent £401.3 billion of the Group's total assets.

Financial investments held at amortised cost represent £13.3 billion of the Group's total assets.

The Group estimates the fair value of financial investments, that are not actively traded, using quotations from independent third parties or internally developed pricing models.

The Group holds the majority of its financial investments at fair value (either through profit and loss or available-for-sale). Information on the inclusion within the income statement of gains/losses arising on debt securities classified as available-for-sale is included in note E1(e)(i). Financial investments held at amortised cost primarily comprise loans and deposits.

Determination of fair value

The Group uses current bid prices to value its investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties as described further in note C3.1. Financial investments measured at fair value are classified into a three-level hierarchy as described in note C3.1(b).

If the market for a financial investment of the Group is not active, the Group establishes fair value by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in note C3.1(d).

Determination of impaired value

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

In estimating any required impairment for US residential mortgage-backed and other asset-backed securities held as available-for-sale, the expected value of future cash flows is determined using a model, the key assumptions of which include how much of the currently delinquent loans will eventually default and assumed loss severity. Further details of the assumptions and estimates applied in assessing impairment of US available-for-sale securities is given in note C3.2(g).

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Financial investments – Determining impairment in relation to financial assets

The Group applies judgement to assess whether factors such as the severity and duration of the decline in fair value, the financial condition and the prospects of the issuer indicate an impairment in value of financial investments classified as 'available-for-sale' or 'at amortised cost'.

If evidence for impairment exists, valuation techniques, including estimates, are then applied in determining the impaired value.

The Group estimates the impaired value of financial investments based on its expectation of discounted future cash flows.

Affects £54.2 billion of assets.

For financial investments classified as 'available-for-sale' or 'at amortised cost,' if a loss event that will have a detrimental effect on cash flows is identified, an impairment loss is recognised in the income statement. The loss recognised is determined as the difference between the book cost and the fair value of the relevant impairment assets. The loss comprises the effect of the expected loss of contractual cash flows and any additional market-price driven temporary reductions in values.

Available-for-sale securities

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

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

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

Assets held at amortised cost

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

Reversal of impairment losses

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

Intangible assets – Carrying value of distribution rights

The Group applies judgement to assess whether factors such as the financial performance of the distribution arrangement, changes in relevant legislation and regulatory requirements indicate impairment of intangible assets representing distribution rights. To determine the impaired value the Group estimates the discounted future expected cash flows arising from distribution rights. Affects £1.7 billion of assets.	Distribution rights relate to bancassurance partnership arrangements for bank distribution of products for the term of the contractual agreement with the bank partner, for which an asset is recognised based on fees paid. Distribution rights impairment testing is conducted when there is an indication of impairment. To assess indicators of impairment, the Group monitors a number of internal and external factors, including indications that the financial performance of the arrangement is likely to be worse than originally expected and changes in relevant legislation and regulatory requirements that could impact the Group's ability to continue to sell new business through the bancassurance channel, and then applies judgement to assess whether these factors indicate impairment has occurred. If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset which is recognised in the income statement. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated.

A3.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective in 2018, including those which have not yet been adopted in the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have a material impact upon the Group's financial statements are discussed.

Accounting pronouncements endorsed by the EU but not yet effective

IFRS 9, 'Financial instruments: Classification and measurement'

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

As discussed in note A2, the Group met the eligibility criteria for temporary exemption under the Amendments to IFRS 4 from applying IFRS 9 in 2018 and has accordingly deferred the adoption of IFRS 9 until IFRS 17, 'Insurance Contracts' is adopted upon its mandatory effective date. The Group is eligible as its activities are predominantly to issue insurance contracts based on the criteria as set out in the amendments to IFRS 4. The disclosure of the fair value of the Group's financial assets, showing the amounts for instruments that meet the 'Solely for Payment of Principal and Interest' (SPPI) criteria separately from all other financial assets, as required for entities applying the temporary exemption is provided below.

When adopted IFRS 9 replaces the existing IAS 39, 'Financial Instruments – Recognition and Measurement', and will affect the following three areas:

— *The classification and the measurement of financial assets and liabilities*
IFRS 9 redefines the classification of financial assets. Based on the way in which the assets are managed in order to generate cash flows and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'), financial assets are classified into one of the following categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). An option is also available at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces accounting mismatches.

Under IAS 39, 85 per cent of the Group's investments are valued at FVTPL and the Group's current expectation is that a significant proportion will continue to be designated as such under IFRS 9.

The existing IAS 39 amortised cost measurement for financial liabilities is largely maintained under IFRS 9. For financial liabilities designated at FVTPL IFRS 9 requires changes in fair value due to changes in entity's own credit risk to be recognised in other comprehensive income.

— *The calculation of the impairment charge relevant for financial assets held at amortised cost or FVOCI*
A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model, resulting in earlier recognition of credit losses compared to IAS 39.

This aspect is the most complex area of IFRS 9 to implement and will involve significant judgements and estimation processes. The Group is currently assessing the scope of assets to which these requirements will apply.

— *The hedge accounting requirements* which are more closely aligned with the risk management activities of the Company. No significant change to the Group's hedge accounting is currently anticipated, but this remains under review.

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective continued

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with the IFRS 17. Further details on IFRS 17 are provided below.

The parent company and a number of non-insurance UK and Asia subsidiaries within the Group have adopted IFRS 9 in 2018 in their individual or separate financial statements where these statements are prepared in accordance with IFRS, including the UK Financial Reporting Standard 101 Reduced Disclosure Framework. In addition, Prudential Pensions Limited, a UK insurance subsidiary has adopted IFRS 9 in its individual financial statements as it did not meet the eligibility criteria for temporary exemption. Prudential Pensions Limited writes mostly unit-linked products that are classified as investment contracts without discretionary participation feature. The results for these entities continue to be accounted for on an IAS 39 basis in these consolidated financial statements.

The 2018 individual financial statements of the UK subsidiaries that include IFRS 9 information relevant to the current year, can be obtained publicly when filed with the UK Registrar of Companies later in the year via the UK Companies House website. These financial statements include those of Prudential Pensions Limited referred to above, the consolidated and individual financial statements of M&G Group Limited and its UK operating subsidiaries and the financial statements of Prudential Capital plc, Prudential Corporation Holdings Limited, Prudential Holdings Limited and M&G Prudential Limited. For the Asia subsidiaries that adopted IFRS 9 in their individual financial statements, the public availability of these statements varies according to the local laws and regulations of each jurisdiction.

The fair value of the Group's directly held financial assets at 31 December 2018 is shown below. Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9 are shown separately. This excludes financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis.

	Financial assets that pass the SPPI test		**All other financial assets, net of derivative liabilities**	
Financial assets on the Group's statement of financial position	**Fair value at 31 Dec 2018** £m	**Movement in the fair value during the year** £m	**Fair value at 31 Dec 2018** £m	**Movement in the fair value during the year** £m
Accrued investment income	2,749	–	–	–
Other debtors	4,088	–	–	–
Loans[1]	11,914	(493)	6,505	(175)
Equity securities and portfolio holdings in unit trusts	–	–	214,733	(16,359)
Debt securities[2]	39,522	(1,574)	135,834	(3,343)
Derivative assets, net of derivative liabilities	–	–	(12)	(941)
Other investments	–	–	6,512	466
Deposits	11,796	–	–	–
Cash and cash equivalents	12,125	–	–	–
Total financial assets, net of derivative liabilities	82,194	(2,067)	363,572	(20,352)

Notes

Further information on the loans and debt securities that pass the SPPI test

(1) The loans that pass the SPPI test in the table above are primarily carried at amortised cost under IAS 39. Further information on these loans is as provided in note C3.3.

(2) The debt securities that pass the SPPI test in the table above are wholly held by Jackson and are classified as available-for-sale under IAS 39. The credit ratings of these securities, analysed on the same basis of those disclosed in note C3.2, are as follows:

	31 Dec 2018 £m						
Jackson	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total fair value**
Debt securities that pass the SPPI test	652	7,252	10,214	14,315	843	6,246	39,522

The underlying financial assets of the Group's joint ventures and associates accounted for using the equity method are analysed below into those which meet the SPPI condition of IFRS 9, excluding any financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis, and all other financial assets. Fair value information for joint ventures and associates is also set out in the table below:

	Financial assets that pass the SPPI test		**All other financial assets, net of derivative liabilities**	
Financial assets held by the Group's joint ventures and associates accounted for using the equity method	**Fair value at 31 Dec 2018** £m	**Movement in the fair value during the year** £m	**Fair value at 31 Dec 2018** £m	**Movement in the fair value during the year** £m
Accrued investment income	131	–	–	–
Other debtors	212	–	–	–
Loans	117	–	–	–
Equity securities and portfolio holdings in unit trusts	–	–	3,677	(281)
Debt securities	–	–	4,247	86
Deposits	355	–	–	–
Cash and cash equivalents	396	–	–	–
Total financial assets, net of derivative liabilities	1,211	–	7,924	(195)

IFRS 16, 'Leases'

In January 2016, the IASB published IFRS 16, 'Leases' effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15, 'Revenue from Contracts with Customers' has also been applied. The new standard brings most leases on-balance-sheet for lessees under a single model, eliminating the distinction between operating and finance leases. For lessee accounting, this has the effect of requiring most of the existing operating leases to be accounted for in a similar manner as finance leases under the existing IAS 17, 'Leases'. The only optional exemptions are for short-term leases and leases of low-value assets. Lessor accounting, however, remains largely unchanged from IAS 17.

IFRS 16 will apply primarily to operating leases of major properties occupied by the Group's businesses where Prudential is a lessee. Under IFRS 16, these leases will be brought onto the Group's statement of financial position with a 'right of use' asset being established and a corresponding liability representing the obligation to make lease payments. The current rental accrual charge in the income statement will be replaced with a depreciation charge for the 'right of use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile compared to IAS 17.

IFRS 16 permits transition to the new standard through a modified retrospective approach or a full retrospective approach. Under the modified retrospective approach, as well as affording a number of simplifications, the Group's comparative information is not restated, but there may be an adjustment to retained earnings at the date of initial application (ie 1 January 2019) depending on the option used to measure 'right-of-use asset'. Under the modified retrospective approach, a lessee has the option to choose, on a lease-by-lease basis, to measure the 'right-of-use' asset at either its carrying amount as if the standard had been applied since the commencement of the lease (referred to as 'modified retrospective approach option A') or an amount equal to the discounted remaining lease payments adjusted by any prepaid or accrued lease payment balance immediately before the date of initial application of the standard (referred to as 'modified retrospective approach option B').

Following the completion of the IFRS 16 implementation project, the Group has adopted IFRS 16 from 1 January 2019 using the modified retrospective approach option B. It is estimated that application of the standard will result in recognition of an additional lease liability amounting to approximately £0.8 billion and a corresponding 'right-of-use' asset to a similar amount as at 1 January 2019. These amounts remain subject to ongoing refinement and verification. Under the modified retrospective approach option B there is no adjustment to the Group's retained earnings at 1 January 2019. For existing finance leases where the Group is a lessee, the carrying amount of the 'right-of-use' asset and lease liability at 1 January 2019 will be determined based on the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

The Group will apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts, which were identified as leases in accordance with IAS 17 and IFRIC 4, 'Determining whether an Arrangement contains a Lease', entered into before 1 January 2019. The Group also will apply the practical expedient to use a single discount rate to a portfolio of leases with reasonably similar characteristics. Accordingly, for such portfolios, the incremental borrowing rates used to discount the future lease payments will be determined based on country specific risk-free rates adjusted with a margin/spread to reflect the Group's credit standing, lease term and the outstanding lease payments.

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective continued

Accounting pronouncements not yet endorsed by the EU

IFRS 17, 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17, 'Insurance Contracts' to replace the existing IFRS 4, 'Insurance Contracts'. The standard, which is subject to endorsement in the EU and other territories, applies to annual periods beginning on or after 1 January 2021. In November 2018, the IASB tentatively decided to delay the effective date of IFRS 17 by one year to periods beginning on or after 1 January 2022 and is considering further amendments to this new standard. Early application is permitted, provided the entity also applies IFRS 9 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. IFRS 17 replaces this with a new measurement model for all insurance contracts.

IFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (CSM) that is equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) such as the Group's with-profits products, the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement. In order to transition to IFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined.

IFRS 17 requires this CSM to be calculated as if the standard had applied retrospectively. However if this is not practical an entity is required to choose either a simplified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

IFRS 17 Implementation Programme

IFRS 17 is expected to have a significant impact as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. The effect of changes required to the Group's accounting policies as a result of implementing these standards are currently uncertain, but these changes can be expected to, among other things, alter the timing of IFRS profit recognition. Given the implementation of this standard is likely to involve significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

The Group has a Group-wide implementation programme underway to implement IFRS 17 and IFRS 9. The programme is responsible for setting Group-wide accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes.

A Group-wide Steering Committee, chaired by the Group Chief Financial Officer with participation from the Group Risk function and the Group's and business units' senior finance managers, provides oversight and strategic direction to the implementation programme. A number of sub-committees are also in place to provide governance over the technical interpretation and accounting policies selected, programme management, design and delivery of the programme.

The Group remains on track to start providing IFRS 17 financial statements in line with the requirements for interim reporting at its effective date, which is currently expected to be 2022.

Other new accounting pronouncements

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

- IFRIC Interpretation 23, 'Uncertainty over income tax treatments', issued in June 2017 and effective from 1 January 2019. This interpretation has been endorsed by the EU;
- Amendments to IAS 28, 'Long-term Interests in Associates and Joint Ventures', issued in October 2017 and effective from 1 January 2019;
- Annual Improvements to IFRSs 2015-2017 cycle issued in December 2017 and effective from January 2019;
- Amendments to IAS 19, 'Plan Amendment, Curtailment or Settlement', issued in February 2018 and effective from 1 January 2019;
- Amendment to IFRS 3, 'Business Combinations', issued in October 2018 and effective from 1 January 2020; and
- Amendments to IAS 1 and IAS 8, 'Definition of material', issued in October 2018 and effective from 1 January 2020.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

		2018 £m	**2017** £m		**2018 vs 2017** %	
	Note		**AER** note (iv)	**CER** note (iv)	**AER** note (iv)	**CER** note (iv)
Asia:						
Insurance operations	B3(i)	1,982	1,799	1,727	10%	15%
Asset management		182	176	171	3%	6%
Total Asia		2,164	1,975	1,898	10%	14%
US:						
Jackson (US insurance operations)		1,911	2,214	2,137	(14)%	(11)%
Asset management		8	10	9	(20)%	(11)%
Total US		1,919	2,224	2,146	(14)%	(11)%
UK and Europe:						
UK and Europe insurance operations:	B3(iii)					
Long-term business		1,138	861	861	32%	32%
General insurance commission note (i)		19	17	17	12%	12%
Total UK and Europe insurance operations		1,157	878	878	32%	32%
UK and Europe asset management note (v)		477	500	500	(5)%	(5)%
Total UK and Europe		1,634	1,378	1,378	19%	19%
Total segment profit		5,717	5,577	5,422	3%	5%
Other income and expenditure:						
Investment return and other income		52	11	11	373%	373%
Interest payable on core structural borrowings		(410)	(425)	(425)	4%	4%
Corporate expenditure note (ii)		(367)	(361)	(355)	(2)%	(3)%
Total other income and expenditure		(725)	(775)	(769)	6%	6%
Restructuring costs		(165)	(103)	(103)	(60)%	(60)%
Adjusted IFRS operating profit based on longer-term investment returns		4,827	4,699	4,550	3%	6%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(558)	(1,563)	(1,514)	64%	63%
Amortisation of acquisition accounting adjustments note (iii)		(46)	(63)	(61)	27%	25%
(Loss) gain on disposal of businesses and corporate transactions	D1.1	(588)	223	218	n/a	n/a
Profit before tax		3,635	3,296	3,193	10%	14%
Tax charge attributable to shareholders' returns	B4	(622)	(906)	(876)	31%	29%
Profit for the year		3,013	2,390	2,317	26%	30%
Attributable to:						
Equity holders of the Company		3,010	2,389	2,316	26%	30%
Non-controlling interests		3	1	1	200%	200%

B1 Analysis of performance by segment continued

B1.1 Segment results – profit before tax continued

Basic earnings per share (in pence)	Note	2018	2017 AER note (iv)	2017 CER note (iv)	2018 vs 2017 % AER note (iv)	2018 vs 2017 % CER note (iv)
Based on adjusted IFRS operating profit based on longer-term investment returns note (vi)	B5	156.6p	145.2p	140.4p	8%	12%
Based on profit for the year	B5	116.9p	93.1p	90.0p	26%	30%

Notes

(i) The majority of the general insurance commission is not expected to recur in future years.

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

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

(iv) 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 £73 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.

(v) UK and Europe asset management adjusted IFRS operating profit based on longer-term investment returns:

	2018 £m	2017 £m
Asset management fee income	1,098	1,027
Other income	2	7
Staff costs*	(384)	(400)
Other costs*	(270)	(202)
Underlying profit before performance-related fees	446	432
Share of associate results	16	15
Performance-related fees	15	53
Total UK and Europe asset management adjusted IFRS operating profit based on longer-term investment returns	477	500

* Staff and other costs include £27 million of charges incurred preparing for Brexit.

(vi) Tax charges have been reflected as operating and non-operating in the same way as for the pre-tax items. Further details on tax charges are provided in note B4.

B1.2 Short-term fluctuations in investment returns on shareholder-backed business

	2018 £m	2017 £m
Asia operations note (i)	(512)	(1)
US operations note (ii)	(100)	(1,568)
UK and Europe operations note (iii)	34	(14)
Other operations note (iv)	20	20
Total	(558)	(1,563)

Notes

(i) *Asia operations*
In Asia, the negative short-term fluctuations of £(512) million (2017: negative £(1) million) principally reflect net value movements on assets and related liabilities following increases in bond yields and falls in equity markets during the year, especially in those countries where policyholder liabilities use a valuation interest rate which does not reflect all movements in interest rates in the period.

(ii) *US operations*
The short-term fluctuations in investment returns for US insurance operations are reported net of the related charge for amortisation of deferred acquisition costs of £(114) million as shown in note C5.2(a) (2017: credit of £462 million) and comprise amounts in respect of the following items:

	2018 £m	2017 £m
Net equity hedge result note (a)	(58)	(1,490)
Other than equity-related derivatives note (b)	(64)	(36)
Debt securities note (c)	(31)	(73)
Equity-type investments: actual less longer-term return	38	12
Other items	15	19
Total	(100)	(1,568)

Notes

(a) Net equity hedge result
The net equity hedge result relates to the accounting effect of market movements on both the 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. The level of fees recognised in non-operating profit is determined by reference to that allowed for within the reserving basis. The variable annuity guarantees are valued in accordance with either Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (formerly FAS 157) or ASC Topic 944, Financial Services – Insurance (formerly SOP 03-01) depending on the type of guarantee. Both approaches require an entity to determine the total fee ('the fee assessment') that is expected to fund future projected benefit payments arising using the assumptions applicable for that method. The method under FAS 157 requires this fee assessment to be fixed at the time of issue. As the fees included within the initial fee assessment are earned, they are included in non-operating profit to match the corresponding movement in the guarantee liability. 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 do not represent the 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 amortisation in accordance with the policy that DAC is amortised in line with emergence of margins) can be summarised as follows:

	2018 £m	**2017** £m
Fair value movements on equity hedge instruments[*]	299	(1,871)
Accounting value movements on the variable and fixed index annuity guarantee liabilities[†]	(894)	(99)
Fee assessments net of claim payments	537	480
Total	(58)	(1,490)

[*] Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options.

[†] 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. Actuarial assumptions include consideration of persistency, mortality and the expected utilisation of certain features attaching to variable annuity contracts. Assumptions are updated annually via a comparison to experience and after applying expert judgement for how experience may change in the future. Routine updates in 2018 reduced profit before tax (after allowing related changed to DAC amortisation) by £143 million (2017: £382 million).

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

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

The free-standing, other than equity-related derivatives are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

(c) Short-term fluctuations related to debt securities

	2018 £m	**2017** £m
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(4)	(3)
Bond write-downs	(4)	(2)
Recoveries/reversals	19	10
Total credits in the year	11	5
Risk margin allowance deducted from adjusted IFRS operating profit based on longer-term investment returns[*]	77	86
	88	91
Interest-related realised (losses) gains:		
Losses arising in the year	(8)	(43)
Amortisation of gains and losses arising in current and prior years to adjusted IFRS operating profit based on longer-term investment returns	(116)	(140)
	(124)	(183)
Related amortisation of deferred acquisition costs	5	19
Total short-term fluctuations related to debt securities	(31)	(73)

[*] 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 adjusted IFRS operating profit based on longer-term investment returns 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 adjusted IFRS operating profit based on longer-term investment returns of Jackson for 2018 is based on an average annual risk margin reserve of 18 basis points (2017: 21 basis points) on average book values of US$57.1 billion (2017: US$55.3 billion) as shown below:

	2018				**2017**			
	Average book value	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**	
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	US$m	%	US$m	£m	US$m	%	US$m	£m
A3 or higher	29,982	0.10	(31)	(23)	27,277	0.12	(33)	(25)
Baa1, 2 or 3	25,814	0.21	(55)	(40)	26,626	0.22	(58)	(45)
Ba1, 2 or 3	1,042	0.98	(10)	(8)	1,046	1.03	(11)	(8)
B1, 2 or 3	289	2.64	(8)	(6)	318	2.70	(9)	(7)
Below B3	11	3.69	–	–	23	3.78	(1)	(1)
Total	57,138	0.18	(104)	(77)	55,290	0.21	(112)	(86)
Related amortisation of deferred acquisition costs (see below)			22	15			21	15
Risk margin reserve charge to adjusted IFRS operating profit for longer-term credit-related losses			(82)	(62)			(91)	(71)

Consistent with the basis of measurement of insurance assets and liabilities for Jackson's IFRS results, the charges and credits to adjusted IFRS 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 charge of £(1,371) million for net unrealised losses on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2017: credit of £541 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).

(iii) *UK and Europe operations*

The positive short-term fluctuations in investment returns for the UK and Europe operations of £34 million (2017: negative £14 million) mainly arises from unrealised gains on equity options held to hedge the value of future shareholder transfers from the with-profits fund partially offset by losses on corporate bonds backing capital to support the remaining annuity business, given the increase in interest rates and credit spreads in 2018.

(iv) *Other operations*

The positive short-term fluctuations in investment returns for other operations of £20 million (2017: positive £20 million) include unrealised value movements on financial instruments held outside of the main life operations.

B1 Analysis of performance by segment continued

B1.3 Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating segments for financial reporting are defined and presented in accordance with IFRS 8, 'Operating Segments', on the basis of the management reporting structure and its financial management information.

Under the Group's management and reporting structure its chief operating decision maker is the Group Executive Committee (GEC). In the management structure, responsibility is delegated to the Chief Executive Officers of Prudential Corporation Asia, the North American Business Unit and M&GPrudential 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 aligns with these three business segments. These operating segments derive revenue from both long-term insurance and asset management activities.

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. Prudential Capital and Africa operations do not form part of any operating segment under the structure, and their assets and liabilities and profit or 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'.

Performance measure

The performance measure of operating segments utilised by the Company is adjusted IFRS operating profit attributable to shareholders based on longer-term investment returns, as described below. This measurement basis distinguishes adjusted IFRS operating profit based on longer-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
- Gain or loss on corporate transactions, such as disposals undertaken in the year.

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

(a) General principles

(i) UK-style with-profits business

The adjusted IFRS operating profit based on longer-term investment 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 adjusted IFRS operating profit based on longer-term investment returns.

(ii) Unit-linked business

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the adjusted IFRS operating profit 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 whose fair value movements pass through the income statement each period. The principles for determination of the adjusted IFRS operating profit based on longer-term investment returns and short-term fluctuations are 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 business units 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 adjusted IFRS operating profit based on longer-term investment 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 adjusted IFRS operating profit based on longer-term investment returns 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 adjusted IFRS operating profit based on longer-term investment returns.

(v) Other shareholder-financed business

For long-term insurance business, where assets and liabilities are held for the long term, the accounting basis for insurance liabilities under current IFRS can lead to profits that include the effects of short-term fluctuations in market conditions, which may not be representative of trends in underlying performance. Therefore, the following key elements are applied to the results of the Group's shareholder-financed businesses to determine adjusted IFRS operating profit based on longer-term investment returns.

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) adjusted IFRS 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 adjusted IFRS operating profit based on longer-term investment returns is reflected in short-term fluctuations in investment returns; and
- The amortisation of interest-related realised gains and losses to adjusted IFRS operating profit based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 31 December 2018, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £629 million (2017: £855 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 businesses 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 adjusted IFRS operating profit based on longer-term investment returns. The exception is where the derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in adjusted IFRS operating profit based on longer-term investment returns. The principal example of derivatives whose value movements are excluded from adjusted IFRS operating profit based on longer-term investment returns 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. Consequently, for these products, the charge for policyholder benefits in the adjusted IFRS operating profit based on longer-term investment returns reflects 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 adjusted IFRS operating profit based on longer-term investment returns.

(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 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 business amounted to £2,146 million as at 31 December 2018 (31 December 2017: £1,759 million). The rates of return applied in 2018 ranged from 5.3 per cent to 17.6 per cent (2017: 4.3 per cent to 17.2 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.

B1 Analysis of performance by segment continued

B1.3 Determining operating segments and performance measure of operating segments continued

(c) US insurance operations

(i) Separate account business

For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the adjusted IFRS operating profit 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 adjusted IFRS operating profit based on longer-term investment returns. See note B1.2 note (ii):

- Fair value movements for equity-based derivatives;
- Fair value movements for guaranteed benefit options 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.

Guaranteed benefit options for the 'not for life' portion of GMWB and equity index options for the fixed index annuity business

The 'not for life' portion of GMWB guaranteed benefit option 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. The equity index option for fixed index annuity business is measured under the US GAAP basis applied for IFRS in a manner consistent with IAS 39 under which the projected future growth is based on current swap rates.

Guaranteed benefit option for variable annuity guarantee minimum income benefit

The GMIB liability, which is substantially reinsured, subject to a deductible and annual claim limits, is accounted for using 'grandfathered' US GAAP. This accounting basis substantially does not recognise the effects of market movements. The corresponding reinsurance asset is measured under the 'grandfathered' US GAAP basis applied for IFRS in a manner consistent with 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 adjusted IFRS operating profit based on longer-term investment returns, 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 product options .

(iv) Other US shareholder-financed business

Debt securities

The distinction between impairment losses and interest-related realised gains and losses is of particular relevance to Jackson. 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) 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 note (ii)(c).

Equity-type securities

As at 31 December 2018, the equity-type securities for US insurance non-separate account operations amounted to £1,359 million (31 December 2017: £946 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:

	2018	**2017**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.7% to 7.2%	6.1% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.7% to 9.2%	8.1% 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 'adjusted IFRS operating profit 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 adjusted IFRS operating profit 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 adjusted IFRS operating profit based on longer-term investment returns, 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 and therefore the adjusted IFRS operating profit based on longer-term investment returns is not determined on the basis described above. Instead, realised gains and losses are generally included in adjusted IFRS operating profit based on longer-term investment returns with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, realised gains and losses on derivatives and other financial instruments are amortised to adjusted IFRS operating profit based on longer-term investment returns over a time period that reflects the underlying economic substance of the arrangements.

B1 Analysis of performance by segment continued

B1.4 Segmental income statement

	2018 £m					
	Asia	**US**	**UK and Europe**	**Total segment**	**Unallocated to a segment (other operations)** note (ix)	**Group total**
Gross premiums earned note (iv)	16,469	17,656	13,061	47,186	38	47,224
Outward reinsurance premiums note (i)	(575)	(309)	(13,137)	(14,021)	(2)	(14,023)
Earned premiums, net of reinsurance	15,894	17,347	(76)	33,165	36	33,201
Other income note (ii),(iii)	309	50	1,595	1,954	39	1,993
Total external revenue note (v),(vi)	16,203	17,397	1,519	35,119	75	35,194
Intra-group revenue	42	50	3	95	(95)	–
Interest income note (vii)	1,086	2,016	3,039	6,141	51	6,192
Other investment return note B1.5	(3,240)	(6,804)	(6,476)	(16,520)	65	(16,455)
Total revenue, net of reinsurance	14,091	12,659	(1,915)	24,835	96	24,931
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance note (i),(iv)	(8,736)	(8,790)	4,977	(12,549)	(19)	(12,568)
Acquisition costs and other operating expenditure note B2, note (iii),(iv)	(3,866)	(2,077)	(2,360)	(8,303)	(552)	(8,855)
Interest on core structural borrowings	–	(15)	–	(15)	(395)	(410)
Loss on disposal of businesses and corporate transactions note D1.1	(11)	(38)	–	(49)	(31)	(80)
Total charges, net of reinsurance and loss on disposal of businesses	(12,613)	(10,920)	2,617	(20,916)	(997)	(21,913)
Share of profit from joint ventures and associates, net of related tax	239	–	52	291	–	291
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* note (viii)	1,717	1,739	754	4,210	(901)	3,309
Tax (charge) credit attributable to policyholders' returns	(80)	–	406	326	–	326
Profit (loss) before tax attributable to shareholders	1,637	1,739	1,160	4,536	(901)	3,635
Analysis of profit (loss) before tax						
Adjusted IFRS operating profit (loss) based on longer-term investment returns	2,164	1,919	1,634	5,717	(890)	4,827
Short-term fluctuations in investment returns on shareholder-backed business	(512)	(100)	34	(578)	20	(558)
Amortisation of acquisition accounting adjustments	(4)	(42)	–	(46)	–	(46)
Loss on disposal of businesses and corporate transactions note D1.1	(11)	(38)	(508)	(557)	(31)	(588)
	1,637	1,739	1,160	4,536	(901)	3,635

	2017 £m					
	Asia	**US**	**UK and Europe**	**Total segment**	**Unallocated to a segment (other operations)** note (ix)	**Group total**
Gross premiums earned	15,688	15,164	13,126	43,978	27	44,005
Outward reinsurance premiums	(656)	(352)	(1,050)	(2,058)	(4)	(2,062)
Earned premiums, net of reinsurance	15,032	14,812	12,076	41,920	23	41,943
Other income note (ii),(iii)	307	669	1,234	2,210	48	2,258
Total external revenue note (v),(vi)	15,339	15,481	13,310	44,130	71	44,201
Intra-group revenue	40	64	5	109	(109)	–
Interest income note (vii)	932	2,085	3,413	6,430	67	6,497
Other investment return note B1.5	8,063	16,448	11,171	35,682	10	35,692
Total revenue, net of reinsurance	24,374	34,078	27,899	86,351	39	86,390
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(18,291)	(31,205)	(23,025)	(72,521)	(11)	(72,532)
Acquisition costs and other operating expenditure note B2, note(iii)	(4,053)	(2,257)	(3,206)	(9,516)	(477)	(9,993)
Interest on core structural borrowings	–	(16)	–	(16)	(409)	(425)
Gain on disposal of businesses and corporate transactions note D1.1	61	162	–	223	–	223
Re-measurement of the sold Korea life business	5	–	–	5	–	5
Total charges, net of reinsurance and gain on disposal of business	(22,278)	(33,316)	(26,231)	(81,825)	(897)	(82,722)
Share of profit from joint ventures and associates, net of related tax	181	–	121	302	–	302
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* note (viii)	2,277	762	1,789	4,828	(858)	3,970
Tax charge attributable to policyholders' returns	(249)	–	(425)	(674)	–	(674)
Profit (loss) before tax attributable to shareholders	2,028	762	1,364	4,154	(858)	3,296
Analysis of profit (loss) before tax						
Adjusted IFRS operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	5,577	(878)	4,699
Short-term fluctuations in investment returns on shareholder-backed business	(1)	(1,568)	(14)	(1,583)	20	(1,563)
Amortisation of acquisition accounting adjustments	(7)	(56)	–	(63)	–	(63)
Gain on disposal of businesses and corporate transactions note D1.1	61	162	–	223	–	223
	2,028	762	1,364	4,154	(858)	3,296

Notes

(i) Outward reinsurance premiums of £(14,023) million includes the £(12,149) million paid during the year in respect of the reinsurance of the UK annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefits and claims and the consequential change in policyholder liabilities is included in benefits and claims. See note D1.1 for further details.

(ii) Included within other income is revenue from the Group's asset management business of £1,489 million (2017: £1,371 million). The remaining other income includes revenue from external customers. Other income also includes £20 million (2017: £7 million) relating to financial instruments that are not held at fair value through profit or loss. The 2017 comparative also included amounts for broker-dealer fees generated by the US broker-dealer network which was disposed of in August 2017, amounting to £542 million.

(iii) Following the adoption of IFRS 15, the 2017 comparative results have been re-presented as described in note A2.

(iv) In October 2018, Jackson entered into a 100 per cent reinsurance agreement with John Hancock Life Insurance Company (John Hancock USA) to acquire a closed block of group payout annuity business. The transaction resulted in an addition to gross premiums earned of £3.7 billion and a corresponding increase in benefits and claims of £4.1 billion for the increase in policyholder liabilities and a decrease in other operating expenditure for negative ceding commissions of £0.4 billion at the inception of the contract. There was no material impact on adjusted IFRS operating profit based on longer-term investment returns or total profit as a result of the transaction.

(v) In Asia, external revenue from no one individual market exceeds 10 per cent of the Group total except for Hong Kong in both 2018 and 2017. Total external revenue of Hong Kong is £7,719 million (2017: £7,269 million).

(vi) Total external revenue shown in the tables above is all from external customers except for £166 million within the 2018 amount for UK and Europe of £1,519 million. The £166 million represents the insurance recoveries recognised in respect of costs associated with the review of past annuity sales as described further in note C11.

(vii) Interest income includes £4 million (2017: £3 million) accrued in respect of impaired securities.

(viii) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.

(ix) Unallocated to a segment includes central operations (Group and Asia Regional Head Offices and Group borrowings), Prudential Capital and Africa operations. In addition, this column includes intra-group eliminations, including the elimination of the intra-group reinsurance contract between the UK with-profits and Asia with-profits businesses.

(x) Due to the nature of the business of the Group, there is no reliance on any major customers.

B1 Analysis of performance by segment continued

B1.5 Other investment return

	2018 £m	2017 £m
Realised and unrealised (losses) gains on securities at fair value through profit or loss	(19,665)	33,121
Realised and unrealised (losses) on derivatives at fair value through profit or loss	(941)	(1,624)
Realised gains (losses) on available-for-sale securities, previously recognised in other comprehensive income*	11	(26)
Realised (losses) gains on loans	(4)	9
Dividends	2,362	2,654
Other investment income	1,782	1,558
Other investment return	(16,455)	35,692

* Including impairment.

Realised gains and losses on the Group's investments for 2018 recognised in the income statement amounted to a net gain of £8.2 billion (2017: a net gain of £5.7 billion).

B1.6 Additional analysis of performance by segment components

B1.6(a) Asia

	2018 £m				2017 £m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance	15,894	–	–	15,894	15,032
Other income	99	210	–	309	307
Total external revenue	15,993	210	–	16,203	15,339
Intra-group revenue	–	158	(116)	42	40
Interest income	1,083	3	–	1,086	932
Other investment return	(3,240)	–	–	(3,240)	8,063
Total revenue, net of reinsurance	13,836	371	(116)	14,091	24,374
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(8,736)	–	–	(8,736)	(18,291)
Acquisition costs and other expenditure note B2	(3,732)	(250)	116	(3,866)	(4,053)
(Loss) gain on disposal of businesses and corporate transactions note D1.1	(11)	–	–	(11)	61
Remeasurement of the sold Korea life business note D1.1	–	–	–	–	5
Total charges, net of reinsurance and (loss) gain on disposal of businesses	(12,479)	(250)	116	(12,613)	(22,278)
Share of profit from joint ventures and associates, net of related tax	178	61	–	239	181
Profit before tax (being tax attributable to shareholders' and policyholders' returns)	1,535	182	–	1,717	2,277
Tax charge attributable to policyholders' returns	(80)	–	–	(80)	(249)
Profit before tax attributable to shareholders	1,455	182	–	1,637	2,028
Analysis of profit (loss) before tax					
Adjusted IFRS operating profit based on longer-term investment returns	1,982	182	–	2,164	1,975
Short-term fluctuations in investment returns on shareholder-backed business	(512)	–	–	(512)	(1)
Amortisation of acquisition accounting adjustments	(4)	–	–	(4)	(7)
(Loss) gain on disposal of businesses and corporate transactions note D1.1	(11)	–	–	(11)	61
	1,455	182	–	1,637	2,028

B1.6(b) US

	2018 £m				2017 £m
	Insurance	**Asset management** note (i)	**Eliminations**	**Total**	**Total**
Earned premiums, net of reinsurance note (ii)	17,347	–	–	17,347	14,812
Other income	5	45	–	50	669
Total external revenue	17,352	45	–	17,397	15,481
Intra-group revenue	–	118	(68)	50	64
Interest income	2,016	–	–	2,016	2,085
Other investment return	(6,784)	(20)	–	(6,804)	16,448
Total revenue, net of reinsurance	12,584	143	(68)	12,659	34,078
Benefits and claims note (ii)	(8,790)	–	–	(8,790)	(31,205)
Interest on core structural borrowings	(15)	–	–	(15)	(16)
Acquisition costs and other operating expenditure note B2	(2,010)	(135)	68	(2,077)	(2,257)
(Loss) gain on disposal of businesses and corporate transactions note D1.1	–	(38)	–	(38)	162
Total charges, net of reinsurance and gain on disposal of businesses	(10,815)	(173)	68	(10,920)	(33,316)
Profit before tax	1,769	(30)	–	1,739	762
Analysis of profit (loss) before tax					
Adjusted IFRS operating profit based on longer-term investment returns	1,911	8	–	1,919	2,224
Short-term fluctuations in investment returns on shareholder-backed business	(100)	–	–	(100)	(1,568)
Amortisation of acquisition accounting adjustments	(42)	–	–	(42)	(56)
(Loss) gain on disposal of businesses and corporate transactions note D1.1	–	(38)	–	(38)	162
	1,769	(30)	–	1,739	762

Notes

(i) In 2017, the US total revenue and total charges included NPH broker dealer fees of £542 million within other income and other operating expenditure, respectively. The Group disposed of its US independent broker-dealer network in August 2017.

(ii) In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group payout annuity business. The transaction resulted in an addition to gross premiums earned of £3.7 billion and a corresponding increase in benefits and claims of £4.1 billion for the increase in policyholder liabilities and a decrease in other operating expenditure for negative ceding commissions of £0.4 billion at the inception of the contract. There was no material impact on adjusted IFRS operating profit based on longer-term investment returns or total profit as a result of the transaction.

B1 Analysis of performance by segment continued

B1.6 Additional analysis of performance by segment components continued

B1.6(c) UK and Europe

	2018 £m				2017 £m
	Insurance	**Asset management** note (i)	**Eliminations**	**Total**	**Total**
Earned premiums, net of reinsurance note (iii)	(76)	–	–	(76)	12,076
Other income note (ii)	347	1,248	–	1,595	1,234
Total external revenue	271	1,248	–	1,519	13,310
Intra-group revenue	–	167	(164)	3	5
Interest income	3,038	1	–	3,039	3,413
Other investment return	(6,459)	(17)	–	(6,476)	11,171
Total revenue, net of reinsurance	(3,150)	1,399	(164)	(1,915)	27,899
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance note (iii)	4,977	–	–	4,977	(23,025)
Acquisition costs and other operating expenditure note (ii), note B2	(1,571)	(953)	164	(2,360)	(3,206)
Total charges, net of reinsurance	3,406	(953)	164	2,617	(26,231)
Share of profit from joint ventures and associates, net of related tax	36	16	–	52	121
Profit before tax (being tax attributable to shareholders' and policyholders' returns)	292	462	–	754	1,789
Tax credit (charge) attributable to policyholders' returns	406	–	–	406	(425)
Profit before tax	698	462	–	1,160	1,364
Analysis of profit (loss) before tax					
Adjusted IFRS operating profit based on longer-term investment returns	1,157	477	–	1,634	1,378
Short-term fluctuations in investment returns on shareholder-backed business	49	(15)	–	34	(14)
Loss on disposal of businesses and corporate transactions note D1.1	(508)	–	–	(508)	–
	698	462	–	1,160	1,364

Notes

(i) The revenue for UK and Europe asset management of £1,102 million (2017: £1,087 million), comprising the amounts for asset management fee income, investment return and other income and performance-related fees shown in note B1.1(v), is different to the amount of £1,399 million shown in the table above. This is because the £1,102 million (2017: £1,087 million) is after deducting commissions which would have been included as charges in the table above. The difference in the presentation of commission is aligned with how management reviews the business. For further information see note B1.1.

(ii) Following the adoption of IFRS 15, the 2017 comparative results have been re-presented as described in note A2.

(iii) Earned premiums net of reinsurance includes outward reinsurance premiums of £(12,149) million paid during the year in respect of the reinsurance of the UK annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefits and claims and the consequential change in policyholder liabilities is included in benefits and claims. See note D1.1 for further details.

B2 Acquisition costs and other expenditure

	2018 £m	**2017** £m
Acquisition costs incurred for insurance policies	(3,438)	(3,712)
Acquisition costs deferred less amortisation of acquisition costs	59	911
Administration costs and other expenditure*	(5,380)	(6,208)
Movements in amounts attributable to external unit holders of consolidated investment funds	(96)	(984)
Total acquisition costs and other expenditure	(8,855)	(9,993)

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* Following the adoption of IFRS 15, the 2017 comparative results have been re-presented as described in note A2. The 2018 administration costs and other expenditure includes a credit of £0.4 billion for the negative ceding commissions arising from the group payout annuity business reinsurance agreement entered into by Jackson with John Hancock Life during the year.

Total acquisition costs and other expenditure includes:

(a) Total depreciation and amortisation expense of £(1,136) million (2017: £(288) million) is included in 'Administration costs and other expenditure' and 'Acquisition costs deferred less amortisation of acquisition costs' and relates primarily to amortisation of deferred acquisition costs of insurance contracts and asset management contracts.

(b) The charge for non-deferred acquisition costs and the amortisation of those costs that were previously deferred was £(3,379) million (2017: £(2,801) million).These amounts comprise £(3,367) million and £(12) million for insurance and investment contracts respectively (2017: £(2,772) million and £(29) million respectively).

(c) Movements in amounts attributable to external unit holders are in respect of those OEICs and unit trusts which are required to be consolidated and comprise a credit of £201 million (2017: charge of £(719) million) for the UK and Europe insurance operations and a charge of £(297) million (2017: £(265) million) for Asia insurance operations.

(d) All fee expenses relating to financial liabilities held at amortised cost in 2018 and 2017 are part of the determination of the effective interest rate and are included in 'Administration costs and other expenditure' above.

(e) The segmental analysis of interest expense (other than interest expense in core structural borrowings) and depreciation and amortisation included within total acquisition costs and other expenditure was as follows:

	Other interest expense		**Depreciation and amortisation**	
	2018 £m	**2017** £m	**2018** £m	**2017** £m
Asia operations:				
Insurance	–	–	(228)	(230)
Asset management	–	–	(4)	(3)
US operations:				
Insurance	(159)	(116)	(830)	20
Asset management	–	–	(6)	(7)
UK and Europe operations:				
Insurance	(94)	(85)	(61)	(59)
Asset management	–	–	(5)	(7)
Total segment	(253)	(201)	(1,134)	(286)
Unallocated to a segment (other operations)	(29)	(39)	(2)	(2)
Group total	(282)	(240)	(1,136)	(288)

B2.1 Staff and employment costs

The average number of staff employed by the Group during the years shown was:

	2018	**2017**
Asia operations	16,798	15,477
US operations	4,285	4,564
UK and Europe operations*	7,123	7,110
Total	28,206	27,151

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* The UK and Europe staff numbers include staff from central operations and Africa which are unallocated to a segment.

B2 Acquisition costs and other expenditure continued

B2.1 Staff and employment costs continued

The costs of employment were:

	2018 £m	2017 £m
Wages and salaries	1,656	1,774
Social security costs	116	129
Defined benefit schemes*	(29)	(3)
Defined contribution schemes	95	85
Total	1,838	1,985

* The (credit) incorporates the effect of actuarial gains and losses.

B2.2 Share-based payment

(a) Description of the plans

The Group operates a number of share award and share option plans that provides Prudential plc shares, or ADRs, to participants upon vesting. The plans in operation include the Prudential Long Term Incentive Plan (PLTIP), Annual Incentive Plan (AIP), savings-related share option schemes, share purchase plans and deferred bonus plans. Some of these plans are participated in by Executive Directors, the details of which are described in the Directors' remuneration report. In addition, the following information is provided.

Share scheme	*Description*
Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and on a year-by-year basis determined by Prudential's full year financial results and the employee's contribution to the business. Awards vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are made in Prudential shares, or ADRs, except for countries where share awards are not feasible due to securities and/or tax reasons, where awards will be replaced by the cash value of the shares that would otherwise have vested.
Prudential Agency Long-Term Incentive Plan	Certain agents in Asia are eligible to be granted awards under the Prudential Agency Long-Term Incentive Plan. These awards are structured in a similar way to the PCA LTIP described above.
Restricted Share Plan (RSP)	The Company operates the RSP for certain employees. Awards under this plan are discretionary, and the vesting of awards may be subject to performance conditions. All awards are made in Prudential shares or ADRs.
Deferred bonus plans	The Company operates a number of deferred bonus schemes including the Group Deferred Bonus Plan (GDBP), the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP), the Prudential Capital Deferred Bonus Plan (PruCap DBP) and other arrangements. There are no performance conditions attached to deferred share awards made under these arrangements.
Savings-related share option schemes	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC-approved Save As You Earn (SAYE) share option scheme in the UK. Eligible employees participate in the International Savings-Related Share Option Scheme while eligible agents based in certain regions of Asia can participate in the International Savings-Related Share Option Scheme for Non-Employees.
Share purchase plans	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC-approved UK SIP, which allows the purchase of Prudential plc shares. Staff based in Ireland are eligible to participate in the Share Participation Plan. Staff based in Asia are eligible to participate in the Prudential Corporation Asia All Employee Share Purchase Plan.

(b) Outstanding options and awards

The following table shows movement in outstanding options and awards under the Group's share-based compensation plans at 31 December:

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans	
	2018		2017		2018	2017
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	
Beginning of year	6.4	11.74	7.1	10.74	33.6	30.2
Granted	0.3	13.94	1.4	14.55	10.7	12.7
Exercised	(1.4)	10.85	(1.7)	10.07	(8.7)	(7.3)
Forfeited	(0.1)	12.25	(0.1)	10.83	(2.6)	(1.3)
Cancelled	(0.2)	12.43	(0.2)	11.19	–	(0.1)
Lapsed/Expired	(0.1)	12.60	(0.1)	10.86	(0.2)	(0.6)
End of year	4.9	12.10	6.4	11.74	32.8	33.6
Options immediately exercisable, end of year	0.8	10.37	0.4	11.06		

The weighted average share price of Prudential plc for the year ended 31 December 2018 was £17.36 compared to £17.51 for the year ended 31 December 2017.

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding at 31 December:

	Outstanding						Exercisable			
	Number outstanding (millions)		Weighted average remaining contractual life (years)*		Weighted average exercise prices £		Number exercisable (millions)		Weighted average exercise prices £	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Between £6 and £7	–	–	–	0.4	–	6.29	–	–	–	6.29
Between £9 and £10	0.3	0.5	0.4	1.4	9.01	9.01	0.3	–	9.01	–
Between £11 and £12	3.0	4.5	1.6	2.2	11.19	11.21	0.5	0.4	11.11	11.55
Between £13 and £14	0.3	–	4.1	–	13.94	–	–	–	–	–
Between £14 and £15	1.3	1.4	2.6	3.9	14.55	14.55	–	–	–	–
	4.9	6.4	2.1	2.5	12.10	11.74	0.8	0.4	10.37	11.06

* The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

(c) Fair value of options and awards

The fair value amounts estimated on the date of grant relating to all options and awards were determined by using the following assumptions:

	2018			2017		
	Prudential LTIP (TSR)	SAYE options	Other awards	Prudential LTIP/RSP (TSR)	SAYE options	Other awards
Dividend yield (%)	–	2.52	–	–	2.85	–
Expected volatility (%)	24.03	21.09	–	23.17	20.15	–
Risk-free interest rate (%)	1.19	0.97	–	0.62	0.56	–
Expected option life (years)	–	3.94	–	–	3.49	–
Weighted average exercise price (£)	–	13.94	–	–	14.55	–
Weighted average share price at grant date (£)	17.46	16.64	–	16.80	17.74	–
Weighted average fair value at grant date (£)	6.64	3.29	17.04	8.30	3.29	16.12

B2 Acquisition costs and other expenditure continued

B2.2 Share-based payment continued

The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than those which have TSR performance conditions attached (some Prudential LTIP and RSP awards) for which the Group uses a Monte Carlo model in order to allow for the impact of these conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

For all options and awards, the expected volatility is based on the market implied volatilities as quoted on Bloomberg. The Prudential specific at-the-money implied volatilities are adjusted to allow for the different terms and discounted exercise price on SAYE options by using information on the volatility surface of the FTSE 100.

Risk-free interest rates are taken from government bond spot rates with projections for two-year, three-year and five-year terms to match corresponding vesting periods. Dividend yields are determined as the average yield over a period of 12 months up to and including the date of grant. For awards with a TSR condition, volatilities and correlations between Prudential and a basket of 15 competitor companies is required. For grants in 2018, the average volatility for the basket of competitors was 21.32 per cent. Correlations for the basket are calculated for each pairing from the log of daily TSR returns for the three years prior to the valuation date. Market implied volatilities are used for both Prudential and the basket of competitors. Changes to the subjective input assumptions could materially affect the fair value estimate.

(d) Share-based payment expense charged to the income statement

Total expense recognised in the year in the consolidated financial statements relating to share-based compensation is as follows:

	2018 £m	**2017** £m
Share-based compensation expense	143	158
Amount accounted for as equity-settled	143	158

The Group has no liabilities outstanding at the year end relating to awards which are settled in cash.

B2.3 Key management remuneration

Key management constitutes the Directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group.

Total key management remuneration is analysed in the following table:

	2018 £m	**2017** £m
Salaries and short-term benefits	16.2	17.9
Post-employment benefits	1.3	1.3
Share-based payments	14.5	14.1
	32.0	33.3

The share-based payments charge comprises £9.7 million (2017: £8.3 million), which is determined in accordance with IFRS 2, 'Share-based Payment' (see note B2.2) and £4.8 million (2017: £5.8 million) of deferred share awards.

Total key management remuneration includes total Directors' remuneration of £31.8 million (2017: £40.2 million) less LTIP releases of £9.5 million (2017: £15.2 million) as shown in the Directors' remuneration table and related footnotes in the Directors' remuneration report. Further information on Directors' remuneration is given in the Directors' remuneration report.

B2.4 Fees payable to the auditor

	2018 £m	**2017** £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.1	2.1
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	9.2	8.3
Audit-related assurance services*	4.7	4.3
Other assurance services	1.1	1.5
Services relating to corporate finance transactions	0.2	0.4
All other services	1.0	0.7
Total fees paid to the auditor	18.3	17.3

* Of the audit-related assurance service fees of £4.7 million in 2018, £1.4 million relates to services that are required by law.

In addition, there were fees incurred by pension schemes of £0.2 million (2017: £0.1 million) for audit services.

B3 Effect of changes and other accounting matters on insurance assets and liabilities

The following matters are relevant to the determination of the 2018 results:

(i) Asia insurance operations

In 2018, the adjusted IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £94 million (2017: £75 million) representing a small number of items that are not expected to reoccur, including the non-recurring impact of a refinement to the run-off of the allowance for prudence within technical provisions within Singapore.

(ii) 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.

(iii) UK and Europe insurance operations

Annuity and other shareholder-backed business

Allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowance 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 40 basis points at 31 December 2018 (31 December 2017: 42 basis points). The allowance represented 22 per cent of the bond spread over swap rates (31 December 2017: 28 per cent).

The reserves for credit risk allowance at 31 December 2018 for the UK shareholder-backed business were £0.9 billion (31 December 2017: £1.6 billion). The 2018 credit risk allowance information is after reflecting the impact of the reinsurance of £12.0 billion of the UK shareholder-backed annuity portfolio to Rothesay Life entered into in March 2018. See note D1.1 for further details.

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 2018 was a credit of £437 million (2017: credit of £173 million). This included, among other items, a benefit to adjusted IFRS operating profit based on longer-term investment returns of £441 million (2017: £204 million), relating to changes to annuitant mortality assumptions to reflect current mortality experience, which has shown a slowdown in life expectancy improvements in recent periods, and the adoption of the Continuous Mortality Investigation (CMI) 2016 model (2017: adoption of 2015 model). Further information on changes to mortality assumptions is given in note C4.1(d).

Longevity reinsurance and other management actions

Aside from the aforementioned reinsurance agreement with Rothesay Life, no new longevity reinsurance transactions were undertaken in 2018 (2017: longevity reinsurance transactions covering £0.6 billion of IFRS annuity liabilities contributed £31 million to profit). Other management actions generated profits of £58 million (2017: £245 million).

With-profits sub-fund

For the with-profits sub-fund, the aggregate effect of assumption and other non-recurring changes in 2018 was a net gain to unallocated surplus of £394 million (2017: net charge of £58 million) including the effect of mortality assumption changes.

B4 Tax charge

(a) Total tax charge by nature of expense

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

	2018 £m			2017 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Attributable to shareholders:				
Asia operations	(199)	(78)	(277)	(253)
US operations	(87)	(168)	(255)	(508)
UK and Europe	(255)	39	(216)	(267)
Other operations	125	1	126	122
Tax charge attributable to shareholders' returns	(416)	(206)	(622)	(906)
Attributable to policyholders:				
Asia operations	(92)	12	(80)	(249)
UK and Europe	(188)	594	406	(425)
Tax (charge) credit attributable to policyholders' returns	(280)	606	326	(674)
Total tax charge	(696)	400	(296)	(1,580)

The principal reason for the decrease in the tax charge attributable to shareholders' returns is the inclusion in 2017 of 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 following the enactment of the US tax reform package, the Tax Cuts and Jobs Act. The movement from a charge of £674 million to a credit of £326 million in the tax charge attributable to policyholders' returns mainly reflects a decrease in the deferred tax liabilities on unrealised gains on investments in the with-profits funds of the UK and Europe and of Asia compared to 2017.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in (b) below. The tax credit attributable to policyholders of £326 million above is equal to the loss before tax attributable to policyholders of £326 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after-tax basis.

The total tax charge comprises:

	2018 £m	2017 £m
Current tax expense:		
Corporation tax	(677)	(746)
Adjustments in respect of prior years	(19)	50
Total current tax charge	(696)	(696)
Deferred tax arising from:		
Origination and reversal of temporary differences	385	(531)
Impact of changes in local statutory tax rates	8	(353)
Credit in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	7	–
Total deferred tax credit (charge)	400	(884)
Total tax charge	(296)	(1,580)

The current tax charge of £696 million (2017: £696 million) includes £65 million (2017: £59 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for both years on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

The total deferred tax charge arises as follows:

	2018 £m	2017 £m
Unrealised gains and losses on investments	667	(185)
Short-term temporary differences	(198)	(526)
Balances relating to investment and insurance contracts	(91)	(156)
Unused tax losses	23	(12)
Capital allowances	(1)	(5)
Deferred tax credit (charge)	400	(884)

The movement in unrealised gains and losses in investments from a charge of £185 million in 2017 to a credit of £667 million in 2018 reflects adverse stock market movements in 2018. The principal reason for the reduction in the tax charge attributable to short-term temporary differences from £526 million in 2017 to £198 million in 2018 is the remeasurement of US deferred tax balances in 2017 from 35 per cent to 21 per cent.

In 2018, a tax charge of £270 million (2017: charge of £93 million) has been taken through other comprehensive income.

(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.

	2018 £m					
	Asia operations	**US operations** note (i)	**UK and Europe**	**Other operations***	**Total attributable to shareholders**	**Percentage impact on ETR**
Adjusted IFRS operating profit (loss) based on longer-term investment returns	2,164	1,919	1,634	(890)	4,827	
Non-operating loss	(527)	(180)	(474)	(11)	(1,192)	
Profit (loss) before tax	1,637	1,739	1,160	(901)	3,635	
Expected tax rate	22%	21%	19%	19%	21%	
Tax at the expected rate	360	365	220	(171)	774	21.3%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(34)	(17)	(6)	(2)	(59)	(1.6)%
Deductions not allowable for tax purposes	39	3	15	10	67	1.8%
Items related to taxation of life insurance businesses note (ii)	(13)	(83)	(2)	–	(98)	(2.7)%
Deferred tax adjustments	(11)	–	2	(30)	(39)	(1.1)%
Effect of results of joint ventures and associates note (iii)	(63)	–	(3)	2	(64)	(1.8)%
Irrecoverable withholding taxes note (iv)	–	–	–	47	47	1.3%
Other	(3)	–	3	3	3	0.1%
Total	(85)	(97)	9	30	(143)	(4.0)%
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	–	(17)	(11)	14	(14)	(0.4)%
Movements in provisions for open tax matters note (v)	2	4	(2)	1	5	0.2%
Total	2	(13)	(13)	15	(9)	(0.2)%
Total actual tax charge (credit)	277	255	216	(126)	622	17.1%
Analysed into:						
Tax on adjusted IFRS operating profit based on longer-term investment returns	308	301	313	(130)	792	
Tax on non-operating profit	(31)	(46)	(97)	4	(170)	
Actual tax rate:						
Adjusted IFRS operating profit based on longer-term investment returns:						
Including non-recurring tax reconciling items	14%	16%	19%	15%	16%	
Excluding non-recurring tax reconciling items	14%	16%	20%	16%	16%	
Total profit	17%	15%	19%	14%	17%	

* Other operations include restructuring costs.

B4 Tax charge continued

Notes

(i) *Impact of US tax reform*
The 2018 tax charge for US operations reflects the full impact of the US tax reform package, the Tax Cuts and Jobs Act, which was enacted in December 2017 and took effect from 1 January 2018. The expected tax rate of 21 per cent reflects the reduced US corporate income tax rate compared to 35 per cent for 2017. The benefit of the dividend received deduction (shown in Items related to the taxation of life insurance businesses) is lower in 2018 than 2017 reflecting the changes to how this deduction is computed. In 2017, the reduction in the US corporate income tax rate gave rise to a £445 million unfavourable reconciling item in US operations relating to the remeasurement of the net deferred tax asset attributable to shareholders and a £134 million benefit recognised in other comprehensive income.

(ii) *Items related to taxation of life insurance businesses*
The £83 million (2017: £238 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. The principal reason for the reduction in the Asia operations reconciling items from £92 million at 2017 to £13 million at 2018 reflects non-operating investment losses in Hong Kong which do not attract tax relief offsetting the benefit of operating profits due to the taxable profit being computed as 5 per cent of net insurance premiums.

(iii) *Effects of results of joint ventures and associates*
Profit before tax includes Prudential's share of profits after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item in the table above.

(iv) *Irrecoverable withholding taxes*
The £47 million (2017: £54 million) adverse reconciling items reflects local 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.

(v) *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 31 December 2017	**(139)**
Movements in the current period included in:	
Tax charge attributable to shareholders	**(5)**
Other movements*	**(5)**
At 31 December 2018	**(149)**

* 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.

	2017 £m					
	Asia operations	**US operations**	**UK and Europe**	**Other operations***	**Total attributable to shareholders**	**Percentage impact on ETR**
Adjusted IFRS operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	(878)	4,699	
Non-operating profit (loss)	53	(1,462)	(14)	20	(1,403)	
Profit (loss) before tax	2,028	762	1,364	(858)	3,296	
Expected tax rate	21%	35%	19%	19%	24%	
Tax at the expected rate	426	267	259	(163)	789	23.9%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(64)	(11)	(2)	(14)	(91)	(2.8)%
Deductions not allowable for tax purposes	26	6	13	10	55	1.7%
Items related to taxation of life insurance businesses	(92)	(238)	(2)	–	(332)	(10.1)%
Deferred tax adjustments	11	17	(1)	(5)	22	0.7%
Effect of results of joint ventures and associates	(52)	–	(3)	–	(55)	(1.7)%
Irrecoverable withholding taxes	–	–	–	54	54	1.6%
Other	(10)	–	6	(1)	(5)	(0.1)%
Total	(181)	(226)	11	44	(352)	(10.7)%
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	(3)	(15)	(3)	(3)	(24)	(0.7)%
Movements in provisions for open tax matters	19	25	–	–	44	1.3%
Impact of US tax reform	–	445	–	–	445	13.5%
Adjustments in relation to business disposals	(8)	12	–	–	4	0.1%
Total	8	467	(3)	(3)	469	14.2%
Total actual tax charge (credit)	253	508	267	(122)	906	27.4%
Analysed into:						
Tax on adjusted IFRS 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:						
Adjusted IFRS 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.

B5 Earnings per share

		2018					
	Note	**Before tax** £m B1.1	**Tax** £m B4	**Non-controlling interests** £m	**Net of tax and non-controlling interests** £m	**Basic earnings per share** Pence	**Diluted earnings per share** Pence
Based on adjusted IFRS operating profit based on longer-term investment returns		4,827	(792)	(3)	4,032	156.6p	156.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(558)	53	–	(505)	(19.7)p	(19.7)p
Amortisation of acquisition accounting adjustments		(46)	9	–	(37)	(1.4)p	(1.4)p
Loss on disposal of businesses and corporate transactions	D1.1	(588)	108	–	(480)	(18.6)p	(18.6)p
Based on profit for the year		3,635	(622)	(3)	3,010	116.9p	116.8p

		2017					
	Note	**Before tax** £m B1.1	**Tax** £m B4	**Non-controlling interests** £m	**Net of tax and non-controlling interests** £m	**Basic earnings per share** Pence	**Diluted earnings per share** Pence
Based on adjusted IFRS 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		61	–	–	61	2.4p	2.4p
Profit attaching to the disposal of businesses	D1.1	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

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:

	2018	**2017**
Weighted average number (in millions) of shares for calculation of:		
Basic earnings per share	2,575	2,567
Shares under option at end of year	5	6
Number of shares that would have been issued at fair value on assumed option price	(4)	(5)
Diluted earnings per share	2,576	2,568

B6 Dividends

	2018		2017	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
First interim ordinary dividend	15.67p	406	14.50p	375
Second interim ordinary dividend	33.68p	873	32.50p	841
Total	49.35p	1,279	47.00p	1,216
Dividends paid in reporting year:				
Current year first interim ordinary dividend	15.67p	404	14.50p	373
Second interim ordinary dividend for prior year	32.50p	840	30.57p	786
Total	48.17p	1,244	45.07p	1,159

Dividend per share

For the year ended 31 December 2017 the second interim ordinary dividend of 32.50 pence per ordinary share was paid to eligible shareholders on 18 May 2018. The 2018 first interim ordinary dividend of 15.67 pence per ordinary share was paid to eligible shareholders on 27 September 2018.

The second interim ordinary dividend for the year ended 31 December 2018 of 33.68 pence per ordinary share will be paid on 17 May 2019 in sterling to shareholders on the UK register and the Irish branch register on 29 March 2019 (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 24 May 2019. The second interim ordinary dividend will be paid on or about 24 May 2019 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 12 March 2019. 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 UK register and Irish branch register are eligible to participate in a Dividend Reinvestment Plan.

C Balance sheet notes

C1 Analysis of Group statement of financial position by segment

		31 Dec 2018 £m					
By operating segment	Note	**Asia** C2.1	**US** C2.2	**UK and Europe** C2.3	**Unallocated to a segment (central operations)** note (iv)	**Elimination of intra-group debtors and creditors**	**Group total**
Assets							
Goodwill	C5.1	498	–	1,359	–	–	1,857
Deferred acquisition costs and other intangible assets	C5.2	2,937	8,747	195	44	–	11,923
Property, plant and equipment		129	246	1,031	3	–	1,409
Reinsurers' share of insurance contract liabilities		2,777	6,662	2,812	2	(1,109)	11,144
Deferred tax assets	C8.1	119	2,295	126	55	–	2,595
Current tax recoverable	C8.2	26	311	244	118	(81)	618
Accrued investment income note (i)		664	498	1,511	76	–	2,749
Other debtors note (i)		2,978	238	4,189	1,968	(5,285)	4,088
Investment properties		5	6	17,914	–	–	17,925
Investment in joint ventures and associates accounted for using the equity method	D6	991	–	742	–	–	1,733
Loans	C3.3	1,377	11,066	5,567	–	–	18,010
Equity securities and portfolio holdings in unit trusts		32,150	128,657	53,810	116	–	214,733
Debt securities	C3.2	45,839	41,594	85,956	1,967	–	175,356
Derivative assets		296	574	2,513	111	–	3,494
Other investments		–	927	5,585	–	–	6,512
Deposits		1,224	92	10,320	160	–	11,796
Assets held for sale*		–	–	10,578	–	–	10,578
Cash and cash equivalents note (ii)		2,189	3,005	4,749	2,182	–	12,125
Total assets		94,199	204,918	209,201	6,802	(6,475)	508,645
Total equity		6,428	5,624	8,700	(3,485)	–	17,267
Liabilities							
Insurance contract liabilities	C4.1	72,349	182,432	68,957	37	(1,109)	322,666
Investment contract liabilities with discretionary participation features	C4.1	375	–	67,038	–	–	67,413
Investment contract liabilities without discretionary participation features	C4.1	492	3,168	15,560	2	–	19,222
Unallocated surplus of with-profits funds	C4.1	2,511	–	13,334	–	–	15,845
Core structural borrowings of shareholder-financed businesses	C6.1	–	196	–	7,468	–	7,664
Operational borrowings attributable to shareholder-financed businesses	C6.2	61	328	106	503	–	998
Borrowings attributable to with-profits businesses	C6.2	19	–	3,921	–	–	3,940
Obligations under funding, securities lending and sale and repurchase agreements		–	5,765	1,224	–	–	6,989
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,617	–	9,013	21	–	11,651
Deferred tax liabilities	C8.1	1,257	1,688	1,061	16	–	4,022
Current tax liabilities	C8.2	133	115	326	75	(81)	568
Accruals, deferred income and other liabilities note (iii)		7,641	5,324	6,442	1,126	(5,285)	15,248
Provisions	C11	251	23	743	61	–	1,078
Derivative liabilities	C3.4	65	255	2,208	978	–	3,506
Liabilities held for sale*		–	–	10,568	–	–	10,568
Total liabilities		87,771	199,294	200,501	10,287	(6,475)	491,378
Total equity and liabilities		94,199	204,918	209,201	6,802	(6,475)	508,645

* Assets held for sale of £10,578 million includes £10,568 million in respect of the reinsured UK annuity business. The corresponding policyholder and other liabilities of £10,568 million is reflected in liabilities held for sale. (see note D1.1).

C1 Analysis of Group statement of financial position by segment continued

		31 Dec 2017 £m					
By operating segment	Note	**Asia** C2.1	**US** C2.2	**UK and Europe** C2.3	**Unallocated to a segment (central operations)** note (iv)	**Elimination of intra-group debtors and creditors**	**Group total**
Assets							
Goodwill	C5.1	305	–	1,177	–	–	1,482
Deferred acquisition costs and other intangible assets	C5.2	2,540	8,219	210	42	–	11,011
Property, plant and equipment		125	214	447	3	–	789
Reinsurers' share of insurance contract liabilities		1,960	6,424	2,521	3	(1,235)	9,673
Deferred tax assets	C8.1	112	2,300	157	58	–	2,627
Current tax recoverable	C8.2	58	298	244	93	(80)	613
Accrued investment income note (i)		595	492	1,558	31	–	2,676
Other debtors note (i)		2,675	248	3,118	2,121	(5,199)	2,963
Investment properties		5	5	16,487	–	–	16,497
Investment in joint ventures and associates accounted for using the equity method	D6	912	–	504	–	–	1,416
Loans	C3.3	1,317	9,630	5,986	109	–	17,042
Equity securities and portfolio holdings in unit trusts		29,976	130,630	62,670	115	–	223,391
Debt securities	C3.2	40,982	35,378	92,707	2,307	–	171,374
Derivative assets		113	1,611	2,954	123	–	4,801
Other investments		–	848	4,774	–	–	5,622
Deposits		1,291	43	9,540	362	–	11,236
Assets held for sale	D1	–	–	38	–	–	38
Cash and cash equivalents note (ii)		1,934	1,658	5,808	1,290	–	10,690
Total assets		84,900	197,998	210,900	6,657	(6,514)	493,941
Total equity		5,926	5,248	8,245	(3,325)	–	16,094
Liabilities							–
Insurance contract liabilities	C4.1	63,468	177,728	88,180	31	(1,235)	328,172
Investment contract liabilities with discretionary participation features	C4.1	337	–	62,340	–	–	62,677
Investment contract liabilities without discretionary participation features	C4.1	328	2,996	17,069	1	–	20,394
Unallocated surplus of with-profits funds	C4.1	3,474	–	13,477	–	–	16,951
Core structural borrowings of shareholder-financed businesses	C6.1	–	184	–	6,096	–	6,280
Operational borrowings attributable to shareholder-financed businesses	C6.2	50	508	148	1,085	–	1,791
Borrowings attributable to with-profits businesses	C6.2	10	–	3,706	–	–	3,716
Obligations under funding, securities lending and sale and repurchase agreements		–	4,304	1,358	–	–	5,662
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,631	–	5,243	15	–	8,889
Deferred tax liabilities	C8.1	1,152	1,845	1,703	15	–	4,715
Current tax liabilities	C8.2	122	47	377	71	(80)	537
Accruals, deferred income and other liabilities note (iii)		6,069	5,109	6,609	1,597	(5,199)	14,185
Provisions	C11	254	24	784	61	–	1,123
Derivative liabilities	C3.4	79	5	1,661	1,010	–	2,755
Total liabilities		78,974	192,750	202,655	9,982	(6,514)	477,847
Total equity and liabilities		84,900	197,998	210,900	6,657	(6,514)	493,941

Notes

(i) *Accrued investment income and other debtors*

	31 Dec 2018 £m	31 Dec 2017 £m
Interest receivable	1,744	1,789
Other	1,005	887
Total accrued investment income	2,749	2,676
Other debtors comprises:		
Amounts due from		
Policyholders	452	408
Intermediaries	3	4
Reinsurers	218	134
Other	3,415	2,417
Total other debtors	4,088	2,963
Total accrued investment income and other debtors	**6,837**	5,639
Analysed as:		
Expected to be settled within one year	6,151	4,957
Expected to be settled after one year	686	682
Total accrued investment income and other debtors	**6,837**	5,639

(ii) *Cash and cash equivalents*

	31 Dec 2018 £m	31 Dec 2017 £m
Cash	5,759	6,623
Cash equivalents	6,366	4,067
Total cash and cash equivalents	**12,125**	10,690
Analysed as:		
Held centrally and available for general use by the Group	349	328
Other funds not available for general use by the Group, including funds held for the benefit of policyholders	11,776	10,362
Total cash and cash equivalents	**12,125**	10,690

The Group's cash and cash equivalents are held in the following currencies: pounds sterling 32 per cent, US dollars 38 per cent, Euro 15 per cent and other currencies 15 per cent (2017: pounds sterling 31 per cent, US dollars 28 per cent, Euro 24 per cent and other currencies 17 per cent).

(iii) *Accruals, deferred income and other liabilities*

	31 Dec 2018 £m	31 Dec 2017 £m
Accruals and deferred income	1,700	1,233
Other creditors	7,074	7,289
Creditors arising from direct insurance and reinsurance operations	2,363	2,296
Interest payable	117	100
Funds withheld under reinsurance of the REALIC business	2,941	2,664
Other items	1,053	603
Total accruals, deferred income and other liabilities	**15,248**	14,185

(iv) *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 2018 £m							31 Dec 2017 £m
		Insurance							
	Note	With-profits business*	Unit-linked assets and liabilities	Other business	Total	Asset management	Eliminations	Total	Total
Assets									
Goodwill		–	–	251	251	247	–	498	305
Deferred acquisition costs and other intangible assets		56	–	2,870	2,926	11	–	2,937	2,540
Property, plant and equipment		90	–	34	124	5	–	129	125
Reinsurers' share of insurance contract liabilities		63	–	2,714	2,777	–	–	2,777	1,960
Deferred tax assets		–	1	108	109	10	–	119	112
Current tax recoverable		–	2	23	25	1	–	26	58
Accrued investment income		254	51	327	632	32	–	664	595
Other debtors		1,676	730	535	2,941	77	(40)	2,978	2,675
Investment properties		–	–	5	5	–	–	5	5
Investment in joint ventures and associates accounted for using the equity method		–	–	827	827	164	–	991	912
Loans	C3.3	792	–	585	1,377	–	–	1,377	1,317
Equity securities and portfolio holdings in unit trusts		17,165	12,804	2,146	32,115	35	–	32,150	29,976
Debt securities	C3.2	27,204	3,981	14,583	45,768	71	–	45,839	40,982
Derivative assets		201	4	91	296	–	–	296	113
Deposits		250	455	458	1,163	61	–	1,224	1,291
Cash and cash equivalents		870	326	874	2,070	119	–	2,189	1,934
Total assets		48,621	18,354	26,431	93,406	833	(40)	94,199	84,900
Total equity		–	–	5,868	5,868	560	–	6,428	5,926
Liabilities									
Insurance contract liabilities		40,389	15,876	16,084	72,349	–	–	72,349	63,468
Investment contract liabilities with discretionary participation features	C4.1(b)	375	–	–	375	–	–	375	337
Investment contract liabilities without discretionary participation features	C4.1(b)	–	492	–	492	–	–	492	328
Unallocated surplus of with-profits funds		2,511	–	–	2,511	–	–	2,511	3,474
Operational borrowings attributable to shareholder-financed businesses		–	50	11	61	–	–	61	50
Borrowings attributable to with-profits businesses		19	–	–	19	–	–	19	10
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		1,242	1,024	351	2,617	–	–	2,617	3,631
Deferred tax liabilities		812	21	422	1,255	2	–	1,257	1,152
Current tax liabilities		27	–	93	120	13	–	133	122
Accruals, deferred income and other liabilities		3,138	889	3,475	7,502	179	(40)	7,641	6,069
Provisions		57	–	115	172	79	–	251	254
Derivative liabilities		51	2	12	65	–	–	65	79
Total liabilities		48,621	18,354	20,563	87,538	273	(40)	87,771	78,974
Total equity and liabilities		48,621	18,354	26,431	93,406	833	(40)	94,199	84,900

* 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 2018 £m						31 Dec 2017 £m
		Insurance						
	Note	Variable annuity separate account assets and liabilities	Fixed annuity, GICs and other business	Total	Asset management	Eliminations	Total	Total
Assets								
Goodwill		–	–	–	–	–	–	–
Deferred acquisition costs and other intangible assets		–	8,747	8,747	–	–	8,747	8,219
Property, plant and equipment		–	243	243	3	–	246	214
Reinsurers' share of insurance contract liabilities		–	6,662	6,662	–	–	6,662	6,424
Deferred tax assets		–	2,271	2,271	24	–	2,295	2,300
Current tax recoverable		–	309	309	2	–	311	298
Accrued investment income		–	493	493	5	–	498	492
Other debtors		–	230	230	76	(68)	238	248
Investment properties		–	6	6	–	–	6	5
Loans	C3.3	–	11,066	11,066	–	–	11,066	9,630
Equity securities and portfolio holdings in unit trusts		128,220	433	128,653	4	–	128,657	130,630
Debt securities	C3.2	–	41,594	41,594	–	–	41,594	35,378
Derivative assets		–	574	574	–	–	574	1,611
Other investments		–	926	926	1	–	927	848
Deposits		–	–	–	92	–	92	43
Cash and cash equivalents		–	2,976	2,976	29	–	3,005	1,658
Total assets		128,220	76,530	204,750	236	(68)	204,918	197,998
Total equity		–	5,584	5,584	40	–	5,624	5,248
Liabilities								
Insurance contract liabilities		128,220	54,212	182,432	–	–	182,432	177,728
Investment contract liabilities without discretionary participation features	C4.1(c)	–	3,168	3,168	–	–	3,168	2,996
Core structural borrowings of shareholder-financed businesses		–	196	196	–	–	196	184
Operational borrowings attributable to shareholder-financed businesses		–	328	328	–	–	328	508
Obligations under funding, securities lending and sale and repurchase agreements		–	5,765	5,765	–	–	5,765	4,304
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		–	–	–	–	–	–	–
Deferred tax liabilities		–	1,688	1,688	–	–	1,688	1,845
Current tax liabilities		–	114	114	1	–	115	47
Accruals, deferred income and other liabilities		–	5,197	5,197	195	(68)	5,324	5,109
Provisions		–	23	23	–	–	23	24
Derivative liabilities		–	255	255	–	–	255	5
Total liabilities		128,220	70,946	199,166	196	(68)	199,294	192,750
Total equity and liabilities		128,220	76,530	204,750	236	(68)	204,918	197,998

C2 Analysis of segment statement of financial position by business type continued

C2.3 UK and Europe

		31 Dec 2018 £m							31 Dec 2017 £m
		Insurance							
			Other funds and subsidiaries						
	Note	With-profits business*	Unit-linked assets and liabilities	Annuity and other long-term business	Total	Asset management	Eliminations	Total	Total
Assets									
Goodwill		206	–	–	206	1,153	–	1,359	1,177
Deferred acquisition costs and other intangible assets		83	–	94	177	18	–	195	210
Property, plant and equipment		895	–	39	934	97	–	1,031	447
Reinsurers' share of insurance contract liabilities		1,131	115	1,566	2,812	–	–	2,812	2,521
Deferred tax assets		61	–	45	106	20	–	126	157
Current tax recoverable		58	6	174	238	6	–	244	244
Accrued investment income		1,010	116	378	1,504	7	–	1,511	1,558
Other debtors		2,102	575	641	3,318	1,011	(140)	4,189	3,118
Investment properties		15,635	618	1,661	17,914	–	–	17,914	16,487
Investment in joint ventures and associates accounted for using the equity method		705	–	–	705	37	–	742	504
Loans	C3.3	3,853	–	1,714	5,567	–	–	5,567	5,986
Equity securities and portfolio holdings in unit trusts		41,090	12,477	20	53,587	223	–	53,810	62,670
Debt securities	C3.2	53,798	10,512	21,646	85,956	–	–	85,956	92,707
Derivative assets		1,957	1	555	2,513	–	–	2,513	2,954
Other investments		5,573	10	1	5,584	1	–	5,585	4,774
Deposits		8,530	1,101	689	10,320	–	–	10,320	9,540
Assets held for sale		10	–	10,568	10,578	–	–	10,578	38
Cash and cash equivalents		3,520	190	688	4,398	351	–	4,749	5,808
Total assets		140,217	25,721	40,479	206,417	2,924	(140)	209,201	210,900
Total equity		–	–	6,540	6,540	2,160	–	8,700	8,245
Liabilities									
Insurance contract liabilities	C4.1(d)	43,775	5,219	19,963	68,957	–	–	68,957	88,180
Investment contract liabilities with discretionary participation features	C4.1(d)	67,018	–	20	67,038	–	–	67,038	62,340
Investment contract liabilities without discretionary participation features	C4.1(d)	2	15,498	60	15,560	–	–	15,560	17,069
Unallocated surplus of with-profits funds		13,334	–	–	13,334	–	–	13,334	13,477
Operational borrowings attributable to shareholder-financed businesses		–	4	102	106	–	–	106	148
Borrowings attributable to with-profits businesses		3,921	–	–	3,921	–	–	3,921	3,706
Obligations under funding, securities lending and sale and repurchase agreements		999	–	225	1,224	–	–	1,224	1,358
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		4,349	4,643	21	9,013	–	–	9,013	5,243
Deferred tax liabilities		892	–	147	1,039	22	–	1,061	1,703
Current tax liabilities		29	–	269	298	28	–	326	377
Accruals deferred income and other liabilities		4,601	354	1,141	6,096	486	(140)	6,442	6,609
Provisions		32	–	484	516	227	–	743	784
Derivative liabilities		1,265	3	939	2,207	1	–	2,208	1,661
Liabilities held for sale		–	–	10,568	10,568	–	–	10,568	–
Total liabilities		140,217	25,721	33,939	199,877	764	(140)	200,501	202,655
Total equity and liabilities		140,217	25,721	40,479	206,417	2,924	(140)	209,201	210,900

* Includes the Scottish Amicable Insurance Fund which, at 31 December 2018, had total assets and liabilities of £4,844 million (2017: £5,768 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 UK with-profits fund includes £9.5 billion (2017: £10.6 billion) of non-profits annuities liabilities.

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

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

Financial instruments at fair value

	31 Dec 2018 £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	–	–	1,703	1,703
Equity securities and portfolio holdings in unit trusts	52,320	5,447	488	58,255
Debt securities	31,210	48,981	811	81,002
Other investments (including derivative assets)	143	3,263	4,325	7,731
Derivative liabilities	(85)	(1,231)	–	(1,316)
Total financial investments, net of derivative liabilities	83,588	56,460	7,327	147,375
Percentage of total	57%	38%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	152,987	505	9	153,501
Debt securities	4,766	9,727	–	14,493
Other investments (including derivative assets)	6	3	6	15
Derivative liabilities	(2)	(3)	–	(5)
Total financial investments, net of derivative liabilities	157,757	10,232	15	168,004
Percentage of total	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	–	–	3,050	3,050
Equity securities and portfolio holdings in unit trusts	2,957	2	18	2,977
Debt securities	17,687	61,803	371	79,861
Other investments (including derivative assets)	61	1,258	941	2,260
Derivative liabilities	(2)	(1,760)	(423)	(2,185)
Total financial investments, net of derivative liabilities	20,703	61,303	3,957	85,963
Percentage of total	24%	71%	5%	100%
Group total analysis, including other financial liabilities held at fair value				
Loans	–	–	4,753	4,753
Equity securities and portfolio holdings in unit trusts	208,264	5,954	515	214,733
Debt securities	53,663	120,511	1,182	175,356
Other investments (including derivative assets)	210	4,524	5,272	10,006
Derivative liabilities	(89)	(2,994)	(423)	(3,506)
Total financial investments, net of derivative liabilities	262,048	127,995	11,299	401,342
Investment contract liabilities without discretionary participation features held at fair value	–	(16,054)	–	(16,054)
Borrowings attributable to with-profits businesses	–	–	(1,606)	(1,606)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(6,852)	(3,811)	(988)	(11,651)
Other financial liabilities held at fair value	–	(2)	(3,404)	(3,406)
Total financial instruments at fair value	255,196	108,128	5,301	368,625
Percentage of total	70%	29%	1%	100%

	31 Dec 2017 £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	–	–	2,023	2,023
Equity securities and portfolio holdings in unit trusts	57,347	4,470	351	62,168
Debt securities	29,143	45,602	348	75,093
Other investments (including derivative assets)	68	3,638	3,540	7,246
Derivative liabilities	(68)	(615)	–	(683)
Total financial investments, net of derivative liabilities	86,490	53,095	6,262	145,847
Percentage of total	60%	36%	4%	100%
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				
Loans	–	–	4,837	4,837
Equity securities and portfolio holdings in unit trusts	218,083	4,937	371	223,391
Debt securities	55,579	115,141	654	171,374
Other investments (including derivative assets)	87	5,912	4,424	10,423
Derivative liabilities	(68)	(2,175)	(512)	(2,755)
Total financial investments, net of derivative liabilities	273,681	123,815	9,774	407,270
Investment contract liabilities without discretionary participation features held at fair value	–	(17,397)	–	(17,397)
Borrowings attributable to with-profits businesses	–	–	(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%

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £40,849 million (31 December 2017: £35,293 million) of debt securities classified as available-for-sale.

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

Investment properties at fair value

	31 Dec £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
2018	–	–	17,925	17,925
2017	–	–	16,497	16,497

Assets and liabilities at amortised cost and their fair value

The table below shows the assets and liabilities carried at amortised cost on the statement of financial position and their fair value. The assets and liabilities that are carried at amortised cost but where the carrying value approximates the fair value, are excluded from the analysis below.

	31 Dec 2018 £m				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs		
Assets					
Loans note (i)	–	2,898	10,768	13,666	13,257
Liabilities					
Investment contract liabilities without discretionary participation features	–	–	(3,157)	(3,157)	(3,168)
Core structural borrowings of shareholder-financed businesses note (ii)	–	(7,847)	–	(7,847)	(7,664)
Operational borrowings attributable to shareholder-financed businesses	–	(994)	(4)	(998)	(998)
Borrowings attributable to the with-profits funds	–	(2,035)	(68)	(2,103)	(2,334)
Obligations under funding, securities lending and sale and repurchase agreements	–	(1,258)	(5,750)	(7,008)	(6,989)

	31 Dec 2017 £m				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs		
Assets					
Loans note (i)	–	2,756	10,183	12,939	12,205
Liabilities					
Investment contract liabilities without discretionary participation features	–	–	(3,032)	(3,032)	(2,997)
Core structural borrowings of shareholder-financed businesses note (ii)	–	(7,023)	–	(7,023)	(6,280)
Operational borrowings attributable to shareholder-financed businesses	–	(1,788)	(3)	(1,791)	(1,791)
Borrowings attributable to the with-profits funds	–	(1,761)	(71)	(1,832)	(1,829)
Obligations under funding, securities lending and sale and repurchase agreements	–	(1,410)	(4,318)	(5,728)	(5,662)

Notes

(i) The carrying value of loans and receivables are reported net of allowance for loan losses of £46 million (31 December 2017: £28 million).

(ii) As at 31 December 2018, £376 million (31 December 2017: £312 million) of convertible bonds were included in debt securities and £981 million (31 December 2017: £1,311 million) were included in borrowings.

The fair value of the assets and liabilities in the table above, with the exception of the subordinated and senior debt issued by the parent company, has been estimated from the discounted cash flows expected to be received or paid. Where appropriate, the observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities.

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

(c) Valuation approach for level 2 fair valued assets and liabilities

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

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 £120,511 million at 31 December 2018 (31 December 2017: £115,141 million), £15,425 million are valued internally (31 December 2017: £13,910 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.

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

(d) Fair value measurements for level 3 fair valued assets and liabilities

Reconciliation of movements in level 3 assets and liabilities measured at fair value

The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2018 to that presented at 31 December 2018.

Financial instruments at fair value

	£m									
2018	**At 1 Jan**	**Total net gains (losses) in income statement***	**Total gains (losses) recorded as other comprehensive income**	**Purchases**	**Sales**	**Settled**	**Issued**	**Transfers into level 3**	**Transfers out of level 3**	**At 31 Dec**
Loans	4,837	(78)	162	62	(178)	(331)	279	–	–	4,753
Equity securities and portfolio holdings in unit trusts	371	38	8	125	(35)	–	–	8	–	515
Debt securities	654	(7)	–	666	(131)	–	–	–	–	1,182
Other investments (including derivative assets)	4,424	405	54	1,202	(813)	–	–	–	–	5,272
Derivative liabilities	(512)	27	(1)	–	–	–	–	–	63	(423)
Total financial investments, net of derivative liabilities	9,774	385	223	2,055	(1,157)	(331)	279	8	63	11,299
Borrowings attributable to with-profits businesses	(1,887)	(23)	–	–	–	304	–	–	–	(1,606)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(413)	67	31	–	–	57	(697)	–	(33)	(988)
Other financial liabilities	(3,031)	5	(170)	–	–	273	(481)	–	–	(3,404)
Total financial instruments at fair value	4,443	434	84	2,055	(1,157)	303	(899)	8	30	5,301
2017										
Loans	2,699	17	(235)	2,129	–	(311)	236	302	–	4,837
Equity securities and portfolio holdings in unit trusts	722	11	(5)	186	(468)	(6)	–	1	(70)	371
Debt securities	942	51	(11)	216	(522)	–	–	–	(22)	654
Other investments (including derivative assets)	4,480	73	(133)	727	(725)	–	–	2	–	4,424
Derivative liabilities	(516)	4	–	–	–	–	–	–	–	(512)
Total financial investments, net of derivative liabilities	8,327	156	(384)	3,258	(1,715)	(317)	236	305	(92)	9,774
Borrowings attributable to with-profits businesses	–	(13)	–	–	–	115	(1,989)	–	–	(1,887)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(883)	(559)	–	(13)	–	1,276	(234)	–	–	(413)
Other financial liabilities	(2,851)	14	250	–	–	252	(311)	(385)	–	(3,031)
Total financial instruments at fair value	4,593	(402)	(134)	3,245	(1,715)	1,326	(2,298)	(80)	(92)	4,443

* Of the total net gains and (losses) in the income statement of £434 million (2017: £(402) million), £398 million (2017: £(139) million) relates to net unrealised gains and losses of financial instruments still held at the end of the year, which can be analysed as follows:

	2018 £m	**2017** £m
Loans	(71)	20
Equity securities	38	(12)
Debt securities	(16)	(5)
Other investments	370	(22)
Derivative liabilities	27	4
Borrowings attributable to with-profits businesses	(23)	(13)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	67	(123)
Other financial liabilities	6	12
Total	398	(139)

Other assets at fair value – investment properties

	£m							
	At 1 Jan	Total gains in income statement*	Total (losses) in other comprehensive income	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec
2018	16,497	97	–	1,509	(178)	–	–	17,925
2017	14,646	415	(21)	2,048	(591)	–	–	16,497

* Of the total net gains in the income statement of £97 million (2017: £415 million), £149 million (2017: £394 million) relates to net unrealised gains of investment properties still held at the end of the year.

Valuation approach for level 3 fair valued assets and liabilities

Financial instruments at fair value

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity. The valuation techniques used include comparison to recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

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

In 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 2018, the Group held £5,301 million (31 December 2017: £4,443 million) of net financial instruments at fair value within level 3. This represents 1 per cent (31 December 2017: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities. The principal financial assets, net of corresponding liabilities, classified as fair value within level 3 as of 31 December 2018 are described below:

(i) £1,702 million of loans (31 December 2017: £1,983 million) and a corresponding £1,606 million (31 December 2017: £1,887 million) of borrowings are 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.

(ii) Loans of £2,783 million at 31 December 2018 (31 December 2017: £2,512 million), measured as the loan outstanding balance, plus accrued investment income, attached to acquired REALIC business and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,941 million at 31 December 2018 (31 December 2017: £2,664 million) is also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

(iii) Excluding the above, the level 3 fair valued financial assets net of financial liabilities are £5,363 million (31 December 2017: £4,499 million). Of this amount, a net liability of £(298) million (31 December 2017: net liability of £(117) million) is internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (31 December 2017: 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 £582 million (31 December 2017: £500 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 £512 million (31 December 2017: £217 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 are principally held by consolidated investment funds that are managed on behalf of third parties.

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

(d) Fair value measurements for level 3 fair valued assets and liabilities continued

(c) Equity release mortgage loan investments of £268 million and a corresponding loan liability backed by these investments of £(354) million (31 December 2017: £302 million loan investments and a corresponding liability of £(385) million) which are valued internally using the discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values.

(d) Liabilities of £(898) million (31 December 2017: £(403) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.

(e) Derivative liabilities of £(423) million (31 December 2017: £(512) million) which are valued internally using the discounted cash flow method in line with standard market practices but are subject to independent assessment against external counterparties' valuations.

(f) Other sundry individual financial investments of £15 million (31 December 2017: £164 million).

Of the internally valued net liability referred to above of £(298) million (31 December 2017: net liability of £(117) million):

- A net liability of £(53) million (31 December 2017: net asset £67 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; and
- A net liability of £(245) million (31 December 2017: £(184) million) is held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally decreased by 10 per cent, the change in valuation would be £24 million (31 December 2017: £18 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 adjusted IFRS operating profit based on longer-term investment returns.

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. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

During the year, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £908 million and transfers from level 2 to level 1 of £976 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, the transfers into level 3 during the year were £8 million and the transfers out of level 3 were £30 million. These transfers were primarily between levels 3 and 2 for derivative liabilities.

(f) Valuation processes applied by the Group

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

C3.2 Debt securities

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

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

(a) Credit rating

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. For the US, NAIC ratings have also been used where relevant. 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'.

	31 Dec 2018 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
Asia							
With-profits	2,873	12,379	4,142	3,760	1,747	2,303	27,204
Unit-linked	817	100	492	1,431	426	715	3,981
Non-linked shareholder-backed	1,034	3,552	3,717	2,934	2,202	1,144	14,583
Asset management	11	–	60	–	–	–	71
US							
Non-linked shareholder-backed	678	7,383	10,286	14,657	1,429	7,161	41,594
UK and Europe							
With-profits	6,890	9,332	11,779	14,712	2,891	8,194	53,798
Unit-linked	1,041	2,459	2,215	3,501	395	901	10,512
Non-linked shareholder-backed	3,007	6,413	4,651	1,515	158	5,902	21,646
Other operations	619	1,089	151	41	49	18	1,967
Total debt securities	16,970	42,707	37,493	42,551	9,297	26,338	175,356

	31 Dec 2017 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
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

The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, 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 of an investment or security and should not be relied on as investment advice.

C3 Assets and liabilities continued

C3.2 Debt securities continued

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

	31 Dec 2018 £m	31 Dec 2017 £m
Asia – non-linked shareholder-backed		
Internally rated:		
Government bonds	36	25
Corporate bonds – rated as investment grade by local external ratings agencies	978	959
Other	130	69
Total Asia non-linked shareholder-backed	1,144	1,053

	31 Dec 2018 £m			31 Dec 2017 £m
	Mortgage-backed securities	Other securities	Total	Total
US				
Implicit ratings of other US debt securities based on NAIC* valuations (see below)				
NAIC 1	2,148	2,858	5,006	3,918
NAIC 2	2	2,116	2,118	1,794
NAIC 3-6	2	35	37	57
Total US†	2,152	5,009	7,161	5,769

* 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.

† Mortgage-backed securities totalling £1,947 million at 31 December 2018 have credit ratings issued by Standard & Poor's of BBB- or above and hence are designated as investment grade. Other securities totalling £4,974 million at 31 December 2018 with NAIC ratings 1 or 2 are also designated as investment grade.

	31 Dec 2018 £m	31 Dec 2017 £m
UK and Europe		
Government		
AAA to A-	8,150	7,994
BBB to B-	3,034	3,141
Below B- or unrated	3,813	2,436
Total UK and Europe	14,997	13,571

(b) Additional analysis of US insurance operations debt securities

	31 Dec 2018 £m	31 Dec 2017 £m
Corporate and government security and commercial loans:		
Government	5,465	4,835
Publicly traded and SEC Rule 144A securities*	26,196	22,849
Non-SEC Rule 144A securities	6,329	4,468
Asset-backed securities (see note (e))	3,604	3,226
Total US debt securities†	41,594	35,378

* 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:

	31 Dec 2018 £m	31 Dec 2017 £m
Available-for-sale	40,849	35,293
Fair value through profit or loss	745	85
Total US debt securities	41,594	35,378

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 £1,205 million to a net unrealised loss of £414 million as analysed in the table below.

	2018	Reflected as part of movement in other comprehensive income: Foreign exchange translation	Reflected as part of movement in other comprehensive income: Changes in unrealised appreciation†	2017
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	25,330			6,325
Unrealised gain (loss)	(925)	(43)	(776)	(106)
Fair value (as included in statement of financial position)	24,405			6,219
Assets fair valued at or above book value				
Book value*	15,933			27,763
Unrealised gain (loss)	511	41	(841)	1,311
Fair value (as included in statement of financial position)	16,444			29,074
Total				
Book value*	41,263			34,088
Net unrealised gain (loss)	(414)	(2)	(1,617)	1,205
Fair value (as included in the footnote above in the overview table and the statement of financial position)	40,849			35,293

* Book value represents cost/amortised cost of the debt securities.
† Translated at the average rate of US$1.3352:£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 fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	31 Dec 2018 £m: Fair value	31 Dec 2018 £m: Unrealised loss	31 Dec 2017 £m: Fair value	31 Dec 2017 £m: Unrealised loss
Between 90% and 100%	23,662	(809)	6,170	(95)
Between 80% and 90%	707	(104)	36	(6)
Below 80%:				
Other asset-backed securities	–	–	10	(4)
Corporate bonds	36	(12)	3	(1)
	36	(12)	13	(5)
Total	24,405	(925)	6,219	(106)

(ii) Unrealised losses by maturity of security

	31 Dec 2018 £m	31 Dec 2017 £m
1 year to 5 years	(72)	(7)
5 years to 10 years	(436)	(41)
More than 10 years	(372)	(39)
Mortgage-backed and other debt securities	(45)	(19)
Total	(925)	(106)

C3 Assets and liabilities continued

C3.2 Debt securities continued

(iii) Age analysis of unrealised losses for the periods indicated

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:

	31 Dec 2018 £m			**31 Dec 2017** £m		
	Non-investment grade	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	(20)	(141)	(161)	(4)	(31)	(35)
6 months to 1 year	(22)	(440)	(462)	(1)	(4)	(5)
1 year to 2 years	(10)	(142)	(152)	–	(49)	(49)
2 years to 3 years	–	(123)	(123)	(1)	(6)	(7)
More than 3 years	(2)	(25)	(27)	–	(10)	(10)
Total	(54)	(871)	(925)	(6)	(100)	(106)

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

	31 Dec 2018 £m		**31 Dec 2017** £m	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Less than 3 months	32	(10)	2	–
3 months to 6 months	2	(1)	1	(1)
More than 6 months	2	(1)	10	(4)
Total	36	(12)	13	(5)

(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 are as follows:

	31 Dec 2018 £m	**31 Dec 2017** £m
Shareholder-backed business		
Asia operations note (i)	121	118
US operations note (ii)	3,604	3,226
UK and Europe operations (2018: 42% AAA, 13% AA) note (iii)	1,406	1,070
Other operations note (iv)	445	589
	5,576	5,003
With-profits business		
Asia operations note (i)	235	233
UK and Europe operations (2018: 66% AAA, 12% AA) note (iii)	5,270	5,658
	5,505	5,891
Total	11,081	10,894

Notes

(i) *Asia operations*
The Asia operations' exposure to asset-backed securities is primarily held by the with-profits businesses. Of the £235 million (31 December 2017: £233 million), 99.8 per cent (2017: 98.2 per cent) are investment grade.

(ii) *US operations*
US operations' exposure to asset-backed securities at 31 December comprises:

	31 Dec 2018 £m	**31 Dec 2017** £m
RMBS		
Sub-prime (2018: 1% AAA, 6% AA, 2% A)	96	112
Alt-A (2018: 3% AAA, 42% A)	105	126
Prime including agency (2018: 14% AAA, 62% AA, 10% A)	441	440
CMBS (2018: 80% AAA, 15% AA, 2% A)	1,945	1,579
CDO funds (2018: 13% AA, 24% A), including £nil exposure to sub-prime	13	28
Other ABS (2018: 20% AAA, 14% AA, 49% A), including £77 million exposure to sub-prime	1,004	941
Total	3,604	3,226

(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 businesses, £1,823 million (31 December 2017: £1,913 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 £445 million, 99 per cent (31 December 2017: 96 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 are analysed as follows:

Exposure to sovereign debts

	31 Dec 2018 £m		**31 Dec 2017** £m	
	Shareholder-backed business	**With-profits funds**	**Shareholder-backed business**	**With-profits funds**
Italy	–	57	58	63
Spain	36	18	34	18
France	–	50	23	38
Germany*	239	281	693	301
Other Eurozone	103	34	82	31
Total Eurozone	378	440	890	451
United Kingdom	3,226	3,013	5,918	3,287
United States†	5,647	11,858	5,078	10,156
Other, including Asia	5,142	2,745	4,638	2,143
Total	14,393	18,056	16,524	16,037

* Including bonds guaranteed by the federal government.
† The exposure to the United States sovereign debt comprises holdings of the US, the UK and Europe and Asia insurance operations.

C3 Assets and liabilities continued

C3.2 Debt securities continued

Exposure to bank debt securities

	31 Dec 2018 £m							31 Dec 2017 £m
	Senior debt			Subordinated debt				
Shareholder-backed business	**Covered**	**Senior**	**Total**	**Tier 1**	**Tier 2**	**Total**	**Total**	Total
Spain	42	64	106	–	–	–	106	68
France	20	119	139	14	3	17	156	86
Germany	30	–	30	6	89	95	125	117
Netherlands	–	69	69	3	1	4	73	71
Other Eurozone	15	2	17	–	–	–	17	15
Total Eurozone	107	254	361	23	93	116	477	357
United Kingdom	550	623	1,173	9	164	173	1,346	1,382
United States	–	2,614	2,614	1	52	53	2,667	2,619
Other, including Asia	–	759	759	109	369	478	1,237	1,163
Total	657	4,250	4,907	142	678	820	5,727	5,521
With-profits funds								
Italy	–	38	38	–	–	–	38	31
Spain	–	17	17	–	–	–	17	16
France	6	250	256	1	95	96	352	286
Germany	140	46	186	14	29	43	229	180
Netherlands	–	253	253	12	1	13	266	199
Other Eurozone	–	74	74	–	–	–	74	27
Total Eurozone	146	678	824	27	125	152	976	739
United Kingdom	909	850	1,759	2	433	435	2,194	1,938
United States	–	2,418	2,418	1	311	312	2,730	2,518
Other, including Asia	575	1,459	2,034	339	452	791	2,825	2,531
Total	1,630	5,405	7,035	369	1,321	1,690	8,725	7,726

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

(g) Impairment of US available-for-sale debt securities and other financial assets

In accordance with the Group's accounting policy set out in note A3.1, impairment reviews were performed for available-for-sale securities and loans and receivables.

During the year ended 31 December 2018, a credit for recoveries net of impairment of £13 million (2017: credit of £1 million) was recognised. This includes £15 million (2017: £8 million) for available-for-sale securities held by Jackson, offset by a charge of £2 million (2017: £7 million) for loans and receivables held across the Group.

Jackson, with the support of internal credit analysts, regularly monitors and reports on the credit quality of its holdings of debt securities. In addition, there is a periodic review of its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment. Investments in structured securities are subject to a review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments (both interest and principal). Impairment charges are recorded on structured securities when the Company forecasts a contractual payment shortfall. Situations where such a shortfall would not lead to a recognition of a loss are rare. The impairment loss reflects the difference between the fair value and book value.

In 2018, the Group realised gross losses on sales of available-for-sale securities of £43 million (2017: £155 million) with 49 per cent (2017: 97 per cent) of these losses related to the disposal of fixed maturity securities of the top 10 individual issuers, which were disposed of to limit future credit loss exposure. Of the £43 million (2017: £155 million), £4 million (2017: £3 million) relates to losses on sales of impaired and deteriorating securities.

The effect of changes in the key assumptions that underpin the assessment of whether impairment has taken place depends on the factors described in note A3.1. A key indicator of whether such impairment may arise in future, and the potential amounts at risk, is the profile of gross unrealised losses for fixed maturity securities accounted for on an available-for-sale basis by reference to the time periods by which the securities have been held continuously in an unrealised loss position and by reference to the maturity date of the securities concerned.

For 2018, the amount of gross unrealised losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealised loss position was £925 million (2017: £106 million). Note B1.2 provides further details on the impairment charges and unrealised losses of Jackson's available-for-sale securities.

C3.3 Loans portfolio

(a) Overview of loans portfolio

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

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

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

	31 Dec 2018 £m				**31 Dec 2017** £m			
	Mortgage loans[*]	**Policy loans**[†]	**Other loans**[‡]	**Total**	**Mortgage loans**[*]	**Policy loans**[†]	**Other loans**[‡]	**Total**
Asia								
With-profits	–	727	65	792	–	613	112	725
Non-linked shareholder-backed	156	226	203	585	177	216	199	592
US								
Non-linked shareholder-backed	7,385	3,681	–	11,066	6,236	3,394	–	9,630
UK and Europe								
With-profits	2,461	3	1,389	3,853	2,441	4	1,823	4,268
Non-linked shareholder-backed	1,655	–	59	1,714	1,681	–	37	1,718
Other operations	–	–	–	–	–	–	109	109
Total loans securities	11,657	4,637	1,716	18,010	10,535	4,227	2,280	17,042

[*] All mortgage loans are secured by properties.

[†] In the US £2,783 million (31 December 2017: £2,512 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.

(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 average loan size is £14.0 million (2017: £12.6 million). The portfolio has a current estimated average loan to value of 53 per cent (2017: 55 per cent).

Jackson had no mortgage loans where the contractual terms of the agreements had been restructured at the end of both 2018 and 2017.

(c) Additional information on UK mortgage loans

The UK with-profits fund invests 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, £1,237 million of the £1,655 million (31 December 2017: £1,267 million of £1,681 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 33 per cent (31 December 2017: 31 per cent).

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information

C3.4(a) Financial risk

(i) Liquidity analysis

Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts that are separately presented. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

	31 Dec 2018 £m								
	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total
Financial liabilities									
Core structural borrowings of shareholder-financed businesses[C6.1]	7,664	298	1,759	1,526	1,843	1,070	6,573	2,924	15,993
Operational borrowings attributable to shareholder-financed businesses[C6.2]	998	839	91	68	–	–	–	–	998
Borrowings attributable to with-profits funds[C6.2]	3,940	701	1,246	719	274	142	2,086	–	5,168
Obligations under funding, securities lending and sale and repurchase agreements	6,989	6,989	–	–	–	–	–	–	6,989
Accruals, deferred income and other liabilities	15,248	10,844	470	71	90	109	352	3,535	15,471
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	11,651	11,651	–	–	–	–	–	–	11,651
Total	46,490	31,322	3,566	2,384	2,207	1,321	9,011	6,459	56,270

	31 Dec 2017 £m								
	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total
Financial liabilities									
Core structural borrowings of shareholder-financed businesses[C6.1]	6,280	473	784	1,350	1,389	576	3,324	3,160	11,056
Operational borrowings attributable to shareholder-financed businesses[C6.2]	1,791	1,130	597	69	–	–	–	–	1,796
Borrowings attributable to with-profits funds[C6.2]	3,716	905	922	32	29	29	1,810	104	3,831
Obligations under funding, securities lending and sale and repurchase agreements	5,662	5,662	–	–	–	–	–	–	5,662
Accruals, deferred income and other liabilities	14,185	10,088	469	68	85	106	320	3,267	14,403
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	8,889	8,889	–	–	–	–	–	–	8,889
Total	40,523	27,147	2,772	1,519	1,503	711	5,454	6,531	45,637

Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with a maturity profile of the net derivative position:

	Carrying value of net derivative £m			Maturity profile of net derivative position £m				
	Derivative assets	**Derivative liabilities**	**Net derivative position**	**1 year or less**	**After 1 year to 3 years**	**After 3 years to 5 years**	**After 5 years**	**Total**
2018	3,494	(3,506)	(12)	292	(8)	(4)	30	310
2017	4,801	(2,755)	2,046	2,359	(16)	(9)	(1)	2,333

The majority of derivative assets and liabilities have been included at fair value within the one year or less column, representing the basis on which they are managed (ie to manage principally asset or liability value exposures). The Group has no cash flow hedges and, in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments. The only exception is certain identified interest rate swaps which are expected to be held until maturity for the purposes of matching cash flows on separately held assets and liabilities. For these instruments the undiscounted cash flows (including contractual interest amounts) due to be paid under the swap contract assuming conditions are consistent with those at year end are included in the column relating to the contractual maturity of the derivative.

Maturity analysis of investment contracts

The table below shows the maturity profile for investment contracts on undiscounted cash flow projections of expected benefit payments.

	£ billion							
	1 year or less	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**Total undis-counted value**	**Total carrying value**
31 Dec 2018	8	31	29	20	12	17	117	87
31 Dec 2017	8	29	27	19	13	14	110	83

The undiscounted cash flow in maturity profile above excludes certain corporate unit-linked business with gross policyholder liabilities with a carrying value of £11 billion (31 December 2017: £12 billion) which have no stated maturity but which are repayable on demand.

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean these are unlikely to be exercised in practice and the more useful information is to present information on expected payment.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long term. Much of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets.

For the reasons provided above, an analysis of the Group's assets by contractual maturity is not considered meaningful to evaluate the nature and extent of the Group's liquidity risk.

(ii) Credit risk

The Group's maximum exposure to credit risk of financial instruments before any allowance for collateral or allocation of losses to policyholders is represented by the carrying value of financial instruments on the balance sheet that have exposures to credit risk comprising cash and cash equivalents, deposits, debt securities, loans and derivative assets, and other debtors, the carrying value of which are disclosed at the start of this note and note C3.4(b) below for derivative assets. The collateral in place in relation to derivatives is described in note C3.4(c) below. Note C3.3 describes the security for the loans held by the Group. The Group's exposure to credit risk is further discussed in note C7 below.

Of the total loans and receivables held, £27 million (31 December 2017: £23 million) are past their due date but are not impaired. Of the total past due but not impaired, £22 million are less than one year past their due date (31 December 2017: £17 million). The Group expects full recovery of these loans and receivables.

Financial assets that would have been past due or impaired had the terms not been renegotiated amounted to £23 million (31 December 2017: £22 million).

In addition, during 2018 and 2017 the Group did not take possession of any other collateral held as security.

Further details of collateral and pledges are provided in note C3.4(c) below.

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information continued

C3.4(a) Financial risk continued

(iii) Foreign exchange risk

As at 31 December 2018, the Group held 26 per cent (31 December 2017: 24 per cent) and 13 per cent (31 December 2017: 16 per cent) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and Euro, other than the functional currency of the relevant business unit.

Of these financial assets, 49 per cent (31 December 2017: 52 per cent) are held by the UK with-profits fund, allowing the fund to obtain exposure to foreign equity markets.

Of these financial liabilities, 28 per cent (31 December 2017: 28 per cent) are held by the UK with-profits fund, mainly relating to foreign currency borrowings.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts (note C3.4(b) below).

The amount of exchange gain recognised in the income statement in 2018, except for those arising on financial instruments measured at fair value through profit or loss, is £281 million (2017: £112 million loss mainly arising on investments of the UK with-profits fund).

C3.4(b) Derivatives and hedging

Derivatives

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of some Asia transactions, are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

Under Article 11 of the European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories ('EMIR') and Commission Delegated Regulation (EU) 2016/2251 supplementing EMIR, market participants transacting in non-cleared OTC derivatives are required to exchange collateral to cover variation and initial margin. However, trades between counterparties belonging to the same group are exempt from these margin requirements subject to certain criteria.

Prudential Capital plc (Legal Entity Identifier reference ('LEI') CHW8NHK268SFPTV63Z64) has entered into such derivative agreements with the following six entities in the Group. These counterparty pairings meet the criteria to be eligible for intra-group exemptions to the margin requirements and have been approved by the Financial Conduct Authority:

	31 Dec 2018			
Counterparty	**Legal Entity Identifier (LEI)**	**Relationship between parties**	**Type of exemption**	**Aggregate notional of OTC derivatives contract £m**
Prudential plc	5493001Z3ZE83NGK8Y12	Part of the same group holding company	Full	3,633
Prudential Holdings Limited	549300JVAI8CZD4HD451	Part of the same group holding company	Full	56
Prudential (US HoldCo 1) Limited	549300JNYGDP2XOLWR47	Part of the same group holding company	Full	2,717
Prudential Corporation Holdings Limited	549300KDOPLFHAW51H26	Part of the same group holding company	Full	927
Prudential Lifetime Mortgages Limited	5493001GSK4HF84IOB02	Part of the same group holding company	Full	37
Prudential Distribution Limited	549300I8LYOK91HBX439	Part of the same group holding company	Full	7

Derivatives are used for efficient portfolio management to obtain cost effective management of exposure to various markets in accordance with the Group's investment strategies and to manage exposure to interest rate, currency, credit and other business risks. The Group also uses interest rate derivatives to reduce exposure to interest rate volatility. In particular:

- UK with-profits funds use derivatives for efficient portfolio management or reduction in investment risks. For UK annuity business derivatives are used to assist with asset and liability cash flow matching;
- US operations and some of the UK and Europe operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. These businesses have purchased some swaptions to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets; and
- Some products, especially in the US, have guarantee features linked to equity indices. A mismatch between guaranteed product liabilities and the performance of the underlying assets exposes the Group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to better match asset performance with liabilities under equity-indexed products.

Hedging

The Group has formally assessed and documented the effectiveness of the following net investment hedges under IAS 39. At 31 December 2018, the Group has designated perpetual subordinated capital securities totalling US$3.7 billion (31 December 2017: US$4.3 billion) as a net investment hedge to hedge the currency risks related to the net investment in Jackson. The carrying value of the subordinated capital securities was £2,909 million as at 31 December 2018 (31 December 2017: £3,140 million). The foreign exchange loss of £199 million (2017: gain of £325 million) on translation of the borrowings to pounds sterling at the statement of financial position date is recognised in the translation reserve in shareholders' equity. This net investment hedge was 100 per cent effective.

The Group has no cash flow hedges or fair value hedges in place.

C3.4(c) Derecognition, collateral and offsetting

Securities lending and reverse repurchase agreements

The Group has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. Typically, the value of collateral assets granted to the Group in these transactions is in excess of the value of securities lent, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The loaned securities are not removed from the Group's consolidated statement of financial position, rather they are retained within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit.

At 31 December 2018, the Group has £8,278 million (31 December 2017: £8,232 million) of lent securities and assets subject to repurchase agreements, of which £8,245 million (31 December 2017: £8,182 million) related to the UK with-profits fund. The cash and securities collateral held or pledged under such agreements were £8,750 million (31 December 2017: £8,733 million) of which £8,662 million (31 December 2017: £8,679 million) was held by the UK with-profits fund.

At 31 December 2018, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £10,633 million (31 December 2017: £10,550 million).

Collateral and pledges under derivative transactions

At 31 December 2018, the Group had pledged £3,265 million (31 December 2017: £2,302 million) for liabilities and held collateral of £2,012 million (31 December 2017: £3,958 million) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

The Group has entered into collateral arrangements in relation to over-the-counter derivative transactions, which permit sale or re-pledging of underlying collateral. During the year, the Group has not sold any collateral held (2017: nil). As of 31 December 2018, the value of collateral re-pledged by the Group amounted to £698 million (31 December 2017: £852 million). All over-the-counter derivative transactions, with the exception of some Asia transactions, are conducted under standardised International Swaps and Derivatives Association (ISDA) master agreements. The collateral management for these transactions is conducted under the usual and customary terms and conditions set out in the Credit Support Annex to the ISDA master agreement.

Other collateral

At 31 December 2018, the Group had pledged collateral of £2,793 million (31 December 2017: £3,412 million) in respect of other transactions. This principally arises from Jackson's membership of the Federal Home Loan Bank of Indianapolis primarily for the purpose of participating in the bank's collateralised loan advance programme with short-term and long-term funding facilities.

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information continued

C3.4(c) Derecognition, collateral and offsetting continued

Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the consolidated balance sheets.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

	31 Dec 2018 £m				
	Gross amount included in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			Net amount
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	
Financial assets:					
Derivative assets	3,229	(1,261)	(1,687)	(166)	115
Reverse repurchase agreements	11,597	–	–	(11,606)	(9)
Total financial assets	14,826	(1,261)	(1,687)	(11,772)	106
Financial liabilities:					
Derivative liabilities	(3,189)	1,261	710	1,058	(160)
Securities lending and repurchase agreements	(1,258)	–	34	1,205	(19)
Total financial liabilities	(4,447)	1,261	744	2,263	(179)

	31 Dec 2017 £m				
	Gross amount included in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			Net amount
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	
Financial assets:					
Derivative assets	4,718	(946)	(2,641)	(984)	147
Reverse repurchase agreements	10,280	–	–	(10,270)	10
Total financial assets	14,998	(946)	(2,641)	(11,254)	157
Financial liabilities:					
Derivative liabilities	(2,301)	946	420	893	(42)
Securities lending and repurchase agreements	(1,410)	–	52	1,332	(26)
Total financial liabilities	(3,711)	946	472	2,225	(68)

Notes

(i) The Group has not offset any of the amounts included in the consolidated statement of financial position.

(ii) Represents the amount that could be offset under master netting or similar arrangements where the Group does not satisfy the full criteria to offset on the consolidated statement of financial position.

(iii) Excludes initial margin amounts for exchange-traded derivatives.

In the tables above, the amounts of assets or liabilities included in the consolidated statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables.

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

	Asia £m note C4.1(b)	**US** £m note C4.1(c)	**UK and Europe** £m note C4.1(d)	**Total** £m
At 1 January 2017	62,784	177,626	169,304	409,714
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position note (i)	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 note (ii)	6,401	–	–	6,401
Premiums	11,863	15,219	14,810	41,892
Surrenders	(3,079)	(10,017)	(6,939)	(20,035)
Maturities/deaths	(1,909)	(2,065)	(7,135)	(11,109)
Net flows	6,875	3,137	736	10,748
Shareholders' transfers post-tax	(54)	–	(233)	(287)
Investment-related items and other movements	8,182	16,251	11,146	35,579
Foreign exchange translation differences	(3,948)	(16,290)	113	(20,125)
At 31 December 2017/1 January 2018	73,839	180,724	181,066	435,629
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position note (i) *(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 note (ii)	7,467	–	–	7,467
Reclassification of reinsured UK annuity contracts as held for sale note (iii)	–	–	(10,858)	(10,858)
Premiums	13,187	13,940	14,011	41,138
Surrenders	(2,793)	(12,141)	(6,780)	(21,714)
Maturities/deaths	(1,978)	(2,012)	(6,796)	(10,786)
Net flows	8,416	(213)	435	8,638
Addition for closed block of group payout annuities in the US note (iv)	–	4,143	–	4,143
Shareholders' transfers post-tax	(65)	–	(259)	(324)
Investment-related items and other movements	(2,784)	(9,999)	(5,481)	(18,264)
Foreign exchange translation differences	3,357	10,945	(14)	14,288
At 31 December 2018	82,763	185,600	164,889	433,252
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position note (i) *(excludes £39 million classified as unallocated to a segment)*	72,107	185,600	151,555	409,262
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,511	–	13,334	15,845
– Group's share of policyholder liabilities of joint ventures and associate note (ii)	8,145	–	–	8,145
Average policyholder liability balances note (v)				
2018	75,309	182,126	162,287	419,722
2017	65,241	179,175	162,622	407,038

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

C4.1(a) Group overview continued

Notes

(i) The policyholder liabilities of the Asia insurance operations of £72,107 million (31 December 2017: £62,898 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,109 million (31 December 2017: £1,235 million) to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £73,216 million (31 December 2017: £64,133 million).

(ii) The Group's investments in joint ventures and associate 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.

(iii) The reclassification as held for sale of the reinsured UK annuity business that will be transferred to Rothesay life once the Part VII process is complete reflects the value of policyholder liabilities held at 1 January 2018.

(iv) In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group payout annuity business. The transaction resulted in an increase to policyholder liabilities of Jackson £4.1 billion at the inception of the contract.

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

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

	Asia £m	**US** £m	**UK and Europe** £m	**Total** £m
At 1 January 2017	32,851	177,626	56,158	266,635
Premiums	6,064	15,219	2,283	23,566
Surrenders	(2,755)	(10,017)	(2,433)	(15,205)
Maturities/deaths	(1,008)	(2,065)	(2,571)	(5,644)
Net flows note (i)	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 2017/1 January 2018	**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
Reclassification of reinsured UK annuity contracts as held for sale note (ii)	–	–	(10,858)	(10,858)
Premiums	6,752	13,940	1,486	22,178
Surrenders	(2,455)	(12,141)	(2,016)	(16,612)
Maturities/deaths	(1,046)	(2,012)	(2,244)	(5,302)
Net flows note (i)	3,251	(213)	(2,774)	264
Addition for closed block of group payout annuities in the US note (iii)	–	4,143	–	4,143
Investment-related items and other movements	(1,204)	(9,999)	(1,975)	(13,178)
Foreign exchange translation differences	1,148	10,945	–	12,093
At 31 December 2018	**40,597**	**185,600**	**40,760**	**266,957**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes £39 million classified as unallocated to a segment)	32,452	185,600	40,760	258,812
– Group's share of policyholder liabilities relating to joint ventures and associate	8,145	–	–	8,145

Notes

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

(ii) The reclassification as held for sale of the reinsured UK annuity business that will be transferred to Rothesay life once the Part VII process is complete reflects those policyholder liabilities held at 1 January 2018.

(iii) In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group payout annuity business. The transaction resulted in an increase to policyholder liabilities of Jackson £4.1 billion at the inception of the contract.

(iii) Movement in insurance contract liabilities and unallocated surplus of with-profits funds

Further analysis of the movement in the year of the Group's insurance contract liabilities, gross and reinsurance share, investment contracts and unallocated surplus of with-profits funds (excluding those held by joint ventures and associate) is provided below:

	Insurance contract liabilities			
	Gross £m	**Reinsurers' share** note (ii) £m	**Investment contracts** note (iii) £m	**Unallocated surplus of with-profits funds** £m
At 1 January 2017	(316,436)	10,051	(72,560)	(14,317)
Income and expense included in the income statement	(31,106)	365	(11,179)	(2,871)
Other movements including amounts included in other comprehensive income note (i)	(35)	–	374	(78)
Foreign exchange translation differences	19,405	(743)	294	315
At 31 December 2017/1 January 2018	(328,172)	9,673	(83,071)	(16,951)
Income and expense included in the income statement	8,994	11,440	(4,009)	1,289
Other movements including amounts included in other comprehensive income note (ii)	10,502	(10,502)	643	(38)
Foreign exchange translation differences	(13,990)	533	(198)	(145)
At 31 December 2018	(322,666)	11,144	(86,635)	(15,845)

Notes

(i) Other movements include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the statement of financial position in accordance with IAS 39, changes in the unallocated surplus of with-profits funds resulting from actuarial gains and losses on the Group's defined benefit pension schemes, which are recognised directly in other comprehensive income and balance sheet reallocations which totalled £10,502 million in 2018 (2017: £(35) million). The 2018 amount represents the reclassification of the reinsured UK annuity business as held for sale value as at 31 December 2018.

(ii) Includes reinsurers' share of claims outstanding of £1,005 million (2017: £953 million).

(iii) This comprises investment contracts with discretionary participation features of £67,413 million (2017: £62,677 million) and investment contracts without discretionary participation features of £19,222 million (2017: £20,394 million).

The total charge for benefit and claims shown in the income statement comprises the amounts shown as 'income and expense included in the income statement' in the table above together with claims paid of £32,396 million in the period (2017: £29,497 million) net of amounts attributable to reinsurers of £2,114 million (2017: £1,828 million). In 2017, the income statement charge also included the change in reserves for the held for sale Korea business of £72 million.

(iv) Reinsurers' share of insurance contract liabilities

	31 Dec 2018 £m					31 Dec 2017 £m
	Asia	**US**	**UK and Europe**	**Unallocated to a segment**	**Total**	**Total**
Insurance contract liabilities	2,675	5,910	1,554	–	10,139	8,720
Claims outstanding	102	752	149	2	1,005	953
Total	2,777	6,662	1,703	2	11,144	9,673

The Group cedes certain business to other insurance companies. Although the ceding of insurance does not relieve the Group from its liability to its policyholders, the Group participates in such agreements for the purpose of managing its loss exposure. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk from similar geographic regions, activities or economic characteristics of the reinsurers to minimise its exposure from reinsurer insolvencies. Of the reinsurers' share of insurance contract liabilities balance of £11,144 million at 31 December 2018 (31 December 2017: £9,673 million), 86 per cent (31 December 2017: 97 per cent) of the balance were from reinsurers with Standard & Poor's rating A- and above.

The reinsurers' share of insurance contract liabilities for Asia primarily relates to protection business written in Hong Kong.

The reinsurance asset for Jackson as shown in the table above primarily relates to certain fully collateralised former REALIC business retained by Swiss Re through 100 per cent reinsurance agreements. Apart from the reinsurance of REALIC business, the principal reinsurance ceded by Jackson outside the Group is on term-life insurance, direct and assumed accident and health business and GMIB variable annuity guarantees. Net commissions received on ceded business and claims incurred ceded to external reinsurers totalled £7 million and £489 million respectively during 2018 (2017: £28 million and £526 million respectively). There were no deferred gains or losses on reinsurance contracts in either 2018 or 2017.

Further information on the reinsurance agreement with Rothesay Life entered into by the Group's UK and Europe insurance business in 2018 and longevity reinsurance transactions on certain aspects of the UK's annuity business in 2017 is provided in notes D1.1 and B3 (iii). The gains and losses recognised in profit or loss for the other reinsurance contracts written in the year were immaterial.

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

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 business £m note (vi)	**Unit-linked liabilities** £m	**Other business** £m	**Total** £m
At 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 note (i)	–	3,218	3,183	6,401
Premiums				
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 (ii)	(324)	(2,288)	(467)	(3,079)
Maturities/deaths	(901)	(150)	(858)	(1,909)
Net flows note (iii)	4,574	497	1,804	6,875
Shareholders' transfers post-tax	(54)	–	–	(54)
Investment-related items and other movements	4,385	2,830	967	8,182
Foreign exchange translation differences note (v)	(2,401)	(807)	(740)	(3,948)
At 31 December 2017/1 January 2018	**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 note (i)	**–**	**3,764**	**3,703**	**7,467**
Premiums				
New business	**1,155**	**1,426**	**1,085**	**3,666**
In-force	**5,280**	**1,767**	**2,474**	**9,521**
	6,435	**3,193**	**3,559**	**13,187**
Surrenders note (ii)	**(338)**	**(1,904)**	**(551)**	**(2,793)**
Maturities/deaths	**(932)**	**(140)**	**(906)**	**(1,978)**
Net flows note (iii)	**5,165**	**1,149**	**2,102**	**8,416**
Shareholders' transfers post-tax	**(65)**	**–**	**–**	**(65)**
Investment-related items and other movements note (iv)	**(1,580)**	**(1,425)**	**221**	**(2,784)**
Foreign exchange translation differences note (v)	**2,209**	**431**	**717**	**3,357**
At 31 December 2018	**42,166**	**20,182**	**20,415**	**82,763**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	**39,655**	**16,368**	**16,084**	**72,107**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,511**	**–**	**–**	**2,511**
– Group's share of policyholder liabilities relating to joint ventures and associate note (i)	**–**	**3,814**	**4,331**	**8,145**
Average policyholder liability balances note (vii)				
2018	**36,309**	**20,105**	**18,895**	**75,309**
2017	30,115	18,767	16,359	65,241

Notes

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

(ii) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 6.6 per cent in 2018 (2017: 8.4 per cent).

(iii) Net flows have increased by £1,541 million to £8,416 million in 2018 predominantly reflecting continued growth of the in-force book.

(iv) Investment-related items and other movements for 2018 primarily represent unrealised investments losses following unfavourable equity markets in the year and rising interest rates.

(v) 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.

(vi) The policyholder liabilities of the with-profits business of £39,655 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,109 million to the Hong Kong with-profits business (31 December 2017: £1,235 million). Including this amount the Asia with-profits policyholder liabilities are £40,764 million (31 December 2017: £34,198 million).

(vii) Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

(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, taking account of expected future premiums and investment returns:

	31 Dec 2018 £m	**31 Dec 2017** £m
Policyholder liabilities	72,107	62,898
	31 Dec 2018 %	**31 Dec 2017** %
Expected maturity:		
0 to 5 years	20	21
5 to 10 years	19	19
10 to 15 years	15	16
15 to 20 years	12	12
20 to 25 years	10	10
Over 25 years	24	22

(iii) Summary policyholder liabilities (net of reinsurance) and unallocated surplus

At 31 December 2018, the policyholder liabilities and unallocated surplus for Asia operations excluding joint ventures and after deducting intra-group reinsurance liabilities ceded by UK and Europe of £74,618 million (2017: £66,372 million), net of external reinsurance of £2,777 million (2017: £1,960 million), comprised the following:

	2018 £m	**2017** £m
Hong Kong	34,545	29,411
Indonesia	3,680	3,762
Malaysia	5,447	5,014
Singapore	18,154	17,432
Taiwan	4,203	3,729
Other operations	5,812	5,064
Total Asia operations	71,841	64,412

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

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 annuity separate account liabilities £m	Fixed annuity, GICs and other business £m	Total £m
At 1 January 2017	120,411	57,215	177,626
Premiums	11,529	3,690	15,219
Surrenders	(6,997)	(3,020)	(10,017)
Maturities/deaths	(1,026)	(1,039)	(2,065)
Net flows note (ii)	3,506	(369)	3,137
Transfers from general to separate account	2,096	(2,096)	–
Investment-related items and other movements	15,956	295	16,251
Foreign exchange translation differences note (i)	(11,441)	(4,849)	(16,290)
At 31 December 2017/1 January 2018	130,528	50,196	180,724
Premiums	10,969	2,971	13,940
Surrenders	(8,797)	(3,344)	(12,141)
Maturities/deaths	(1,085)	(927)	(2,012)
Net flows note (ii)	1,087	(1,300)	(213)
Addition for closed block of group payout annuities in the US note (iii)	–	4,143	4,143
Transfers from general to separate account	530	(530)	–
Investment-related items and other movements note (iv)	(11,561)	1,562	(9,999)
Foreign exchange translation differences note (i)	7,636	3,309	10,945
At 31 December 2018	128,220	57,380	185,600
Average policyholder liability balances note (v)			
2018	129,374	52,752	182,126
2017	125,469	53,706	179,175

Notes

(i) Movements in the year have been translated at an average rate of US$1.34: £1.00 (2017: US$1.29: £1.00). The closing balances have been translated at closing rate of US$1.27: £1.00 (2017: US$1.35: £1.00). Differences upon retranslation are included in foreign exchange translation differences.

(ii) Net outflows were £213 million (2017: inflows £3,137 million), with positive inflows to variable annuities business as new business exceeds withdrawals and surrenders offset by outflows from fixed annuity, GICs and other business as the portfolio matures.

(iii) In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group payout annuity business. The transaction resulted in an increase to policyholder liabilities of Jackson £4.1 billion at the inception of the contract.

(iv) Negative investment-related items and other movements in variable annuity separate account liabilities of £(11,561) million for 2018 primarily reflects the decrease in equity and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £1,562 million primarily reflect the interest credited to the policyholder accounts and increase in the guarantee reserves in the year.

(v) Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions arising 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 2018 and 2017:

	31 Dec 2018			31 Dec 2017		
	Fixed annuity and other business (including GICs and similar contracts) £m	**Variable annuity separate account liabilities** £m	**Total** £m	**Fixed annuity and other business (including GICs and similar contracts)** £m	**Variable annuity separate account liabilities** £m	**Total** £m
Policyholder liabilities	57,380	128,220	185,600	50,196	130,528	180,724
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	51	40	43	50	42	44
5 to 10 years	24	28	27	25	29	28
10 to 15 years	12	16	15	12	15	14
15 to 20 years	7	9	8	7	8	8
20 to 25 years	3	4	4	3	4	4
Over 25 years	3	3	3	3	2	2

(iii) Aggregate account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index), the fixed account portion of variable annuities, and interest-sensitive life business within the range of minimum guaranteed interest rates as described in note C4.2(b).

	Fixed annuities and the fixed account portion of variable annuities £m		**Interest-sensitive life business** £m	
Minimum guaranteed interest rate	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
> 0% – 1.0%	7,584	6,887	–	–
> 1.0% – 2.0%	6,789	7,385	–	–
> 2.0% – 3.0%	10,075	9,799	229	221
> 3.0% – 4.0%	1,274	1,272	2,394	2,341
> 4.0% – 5.0%	1,794	1,744	2,106	2,059
> 5.0% – 6.0%	225	220	1,703	1,651
Total	27,741	27,307	6,432	6,272

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

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:

		Shareholder-backed funds and subsidiaries		
	With-profits sub-funds £m note (v)	**Unit-linked liabilities** £m	**Annuity and other long-term business** £m	**Total** £m
At 1 January 2017	113,146	22,119	34,039	169,304
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	101,496	22,119	34,039	157,654
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	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 (i)	3,457	(1,031)	(1,690)	736
Shareholders' transfers post-tax	(233)	–	–	(233)
Switches	(192)	192	–	–
Investment-related items and other movements	8,408	1,865	873	11,146
Foreign exchange translation differences	113	–	–	113
At 31 December 2017/1 January 2018	**124,699**	**23,145**	**33,222**	**181,066**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	111,222	23,145	33,222	167,589
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	13,477	–	–	13,477
Reclassification of reinsured UK annuity contracts as held for sale note (ii)	–	–	(10,858)	(10,858)
Premiums	12,525	1,147	339	14,011
Surrenders	(4,764)	(1,950)	(66)	(6,780)
Maturities/deaths	(4,552)	(619)	(1,625)	(6,796)
Net flows note (i)	3,209	(1,422)	(1,352)	435
Shareholders' transfers post-tax	(259)	–	–	(259)
Switches	(165)	165	–	–
Investment-related items and other movements note (iii)	(3,341)	(1,171)	(969)	(5,481)
Foreign exchange translation differences	(14)	–	–	(14)
At 31 December 2018	**124,129**	**20,717**	**20,043**	**164,889**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	110,795	20,717	20,043	151,555
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	13,334	–	–	13,334
Average policyholder liability balances note (iv)				
2018	111,009	21,931	29,347	162,287
2017	106,359	22,632	33,631	162,622

Notes

(i) Net inflows were £435 million (31 December 2017: net inflows of £736 million). Inflows into the with-profits business were offset by outflows from both the annuity business, as the closed book matures, and the unit-linked business. The levels of inflows/outflows for the unit-linked business is driven by corporate pension schemes with transfers in or out from only a small number of schemes influencing the level of flows in the year.

(ii) The reclassification as held for sale of the reinsured UK annuity business that will be transferred to Rothesay life once the Part VII process is complete reflects the value policyholder liabilities held at 1 January 2018.

(iii) Investment-related items and other movements for with-profits business principally comprise investment return attributable to policyholders reflecting falling equity markets in the later quarter of the year. For shareholder-backed annuity and other long-term business, investment-related items and other movements include the effect of movements in interest rates and credit spreads.

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

(v) Includes the Scottish Amicable Insurance Fund.

(ii) Duration of liabilities

With the exception of most unitised with-profits bonds and other whole of life contracts, the majority of the contracts of UK and Europe insurance operations have a contract term. In effect, the maturity term of the other contracts reflects the earlier of death, maturity, or the policy lapsing. In addition, as described in note A3.1, with-profits contract liabilities include projected future bonuses based on current investment values. The actual amounts payable will vary with future investment performance of SAIF and the WPSF.

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

	31 Dec 2018 £m									
	With-profits business			**Annuity business (insurance contracts)**			**Other**			**Total**
	Insurance contracts	**Investment contracts**	**Total**	**Non-profit annuities within WPSF**	**Shareholder-backed annuity**	**Total**	**Insurance contracts**	**Investment contracts**	**Total**	
Policyholder liabilities	34,242	67,020	101,262	9,533	19,119	28,652	6,063	15,578	21,641	151,555
	31 Dec 2018 %									
Expected maturity:										
0 to 5 years	34	37	36	33	27	29	44	32	36	35
5 to 10 years	23	27	26	26	23	24	25	24	24	25
10 to 15 years	16	17	17	17	19	18	15	18	17	17
15 to 20 years	11	9	10	11	14	13	8	12	11	10
20 to 25 years	7	4	5	6	9	8	4	7	6	6
over 25 years	9	6	6	7	8	8	4	7	6	7
	31 Dec 2017 £m									
Policyholder liabilities	38,285	62,328	100,613	10,609	32,572	43,181	6,714	17,081	23,795	167,589
	31 Dec 2017 %									
Expected maturity:										
0 to 5 years	33	37	36	31	26	27	41	31	34	34
5 to 10 years	23	27	25	24	23	23	26	22	23	25
10 to 15 years	16	17	17	17	18	18	15	18	17	17
15 to 20 years	11	10	10	11	13	13	9	13	12	11
20 to 25 years	7	4	5	7	9	9	5	8	7	6
over 25 years	10	5	7	10	11	10	4	8	7	7

- 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 but excludes the amount classified as held for sale.
- Investment contracts under 'Other' comprise certain unit-linked and similar contracts accounted for under IAS 39 and IFRS 15.
- 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.

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

(iii) Annuitant mortality

Mortality assumptions for UK annuity business are set in light of recent population and internal experience, with an allowance for expected future mortality improvements. Given the long-term nature of annuity business, longevity remains a significant assumption in determining policyholder liabilities. The assumptions used reference recent population mortality data, with specific risk factors applied on a per policy basis to reflect the features of the Company's portfolio.

The recent declining mortality improvements observed in population data were considered as part of the judgement exercised in setting the 2018 mortality basis. New mortality projection models are released regularly by the Continuous Mortality Investigation (CMI). The CMI 2016 model was used to produce the 2018 results and the CMI 2015 model was used to produce the 2017 results. The default calibration of CMI 2016 was adopted to reflect the Company's view of future mortality improvements based on a range of possible outcomes, with an appropriate margin for prudence. The mortality improvement assumptions used are summarised in the table below:

Year ended		CMI Model, with calibration to reflect future mortality improvements
31 December 2018	**CMI 2016**	**For males: with a long-term improvement rate of 2.25% pa** **For females: with a long-term improvement rate of 2.00% pa**
31 December 2017	CMI 2015	For males: with a long-term improvement rate of 2.25% pa For females: with a long-term improvement rate of 2.00% pa

For annuities in deferment, the tables used were AM92 – four years (males) and AF92 – four years (females) for 2018 and 2017.

C4.2 Products and determining contract liabilities

C4.2(a) Asia

Contract type	*Description*	*Material features*	*Determination of liabilities*
With-profits and participating contracts	Provides savings and/or protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the Company.	Participating products often offer a guaranteed maturity or surrender value. Declared regular bonuses are guaranteed once vested. Future bonus rates and cash dividends are not guaranteed. Market value adjustments and surrender penalties are used for certain products where the law permits such adjustments. Guarantees are predominantly supported by segregated life funds and their estates.	With-profits contracts are predominantly sold in Hong Kong, Malaysia and Singapore. The total value of the with-profits funds is driven by the underlying asset valuation with movements reflected principally in the accounting value of policyholder liabilities and unallocated surplus. In Taiwan and India, US GAAP is applied for measuring insurance assets and liabilities. The other Asia operations principally adopt a gross premium valuation method.

C4.2(a) Asia continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Term, whole life and endowment assurance	Non-participating savings and/or protection where the benefits are guaranteed, or determined by a set of defined market-related parameters.	These products often offer a guaranteed maturity and surrender value. It is common in Asia for regulations or market-driven demand and competition to provide some form of capital value protection and minimum crediting interest rate guarantees. This is reflected within the guaranteed maturity and surrender values. Guarantees are borne by shareholders.	The approach to determining the contract liabilities is generally driven by the local solvency basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance for assumptions to deviate from best estimate or by applying an overlay constraint so that on day one no negative reserves (ie where future premium inflows are expected to exceed prudent future claims and outflows) are derived at an individual policyholder level, or a combination of both. In Vietnam, the Company uses an estimation basis aligned substantially to that used by the countries applying the gross premium valuation method. For India and Taiwan, US GAAP is applied for measuring insurance liabilities. For these businesses, the future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claims expenses. Rates of interest used in establishing the policyholder benefit provisions vary by operation depending on the circumstances attaching to each block of business. The other Asia operations principally adopt a net premium valuation method to determine the future policyholder benefit provisions.
Unit-linked	Combines savings with protection, the cash value of the policy depends on the value of the underlying unitised funds.		The attaching liabilities reflect the unit value obligation driven by the value of the investments of the unit fund. Additional technical provisions are held for guaranteed benefits beyond the unit fund value using a gross premium valuation method. These additional provisions are recognised as a component of other business liabilities.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(a) Asia continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Health and protection	Health and protection features are offered as supplements to the products listed above or sold as standalone products. Protection covers mortality or morbidity benefits including health, disability, critical illness and accident coverage.		The determination of the liabilities of health and protection contracts are driven by the local solvency basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance for assumptions to deviate from best estimate or by applying an overlay constraint so that on day one no negative reserves (ie where future premium inflows are expected to exceed prudent future claims and outflows) are derived at an individual policyholder level, or a combination of both.

C4.2(b) US

Contract type	*Description*	*Material features*	*Determination of liabilities*
Fixed interest rate annuities	Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. At 31 December 2018, fixed interest rate annuities accounted for 7 per cent (2017: 7 per cent) of policy and contract liabilities of Jackson. The policyholder of a fixed interest rate annuity pays Jackson a premium, which is credited to the policyholder's account. Periodically, interest is credited to the policyholder's account and in some cases administrative charges are deducted from the policyholder's account. Jackson makes benefit payments at a future date as specified in the policy based on the value of the policyholder's account at that date. The policy provides that at Jackson's discretion it may reset the interest rate, subject to a guaranteed minimum. Approximately 64 per cent (2017: 60 per cent) of the fixed interest rate annuities Jackson wrote in 2018 provide for a (positive or negative) market value adjustment (MVA) on surrender. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move.	Guaranteed minimum interest rate. At 31 December 2018, Jackson had fixed interest rate annuities totalling £12.6 billion (2017: £12.6 billion) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 2.91 per cent average guaranteed rate (2017: 1.0 per cent to 5.5 per cent and a 2.93 per cent average guaranteed rate).	As explained in note A3.1 all of Jackson's insurance liabilities are based on US GAAP. An overview of the deferral and amortisation of acquisition costs for Jackson is provided in note C5.2(b). With minor exceptions the following is applied to most of Jackson's contracts. Contracts are accounted for as investment contracts as defined for US GAAP purposes by applying a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by: — Any amounts that have been assessed to compensate the insurer for services to be performed over future periods (ie deferred income); — Any amounts previously assessed against policyholders that are refundable on termination of the contract; and — Any probable future loss on the contract (ie premium deficiency). Capitalised acquisition costs and deferred income for these contracts are amortised over the life of the book of contracts. The present value of the estimated gross profits is computed using the rate of interest that accrues to policyholder balances (sometimes referred to as the contract rate). Estimated gross profits include estimates of the following, each of which will be determined based on the best estimate of amounts over the life of the book of contracts without provision for adverse deviation: — Amounts expected to be assessed for mortality less benefit claims in excess of related policyholder balances; — Amounts expected to be assessed for contract administration less costs incurred for contract administration; — Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances; — Amounts expected to be assessed against policyholder balances upon termination of contracts (sometimes referred to as surrender charges); and — Other expected assessments and credits. The interest guarantees are not explicitly valued but are reflected as they are earned in the current account liability value.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(b) US continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Fixed index annuities	Fixed index annuities vary in structure but are generally deferred annuities that enable policyholders to obtain a portion of an equity-linked return (based on participation rates and caps), and provide a guaranteed minimum return. Fixed index annuities accounted for 5 per cent (2017: 5 per cent) of Jackson's policy and contract liabilities at 31 December 2018. Jackson hedges the equity return risk on fixed index products using offsetting equity exposure in the variable annuity product. The cost of hedging is taken into account in setting the index participation rates or caps.	Guaranteed minimum rates are generally set at 1.0 to 3.0 per cent. At 31 December 2018, Jackson had fixed index annuities allocated to indexed funds totalling £6.0 billion (31 December 2017: £6.3 billion) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.77 per cent average guaranteed rate (2017: 1.0 per cent to 3.0 per cent and a 1.77 per cent average guarantee rate). Jackson offers an optional lifetime income rider, which can be elected for an additional fee. Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2018, fixed interest accounts of fixed index annuities totalled £2.7 billion (2017: £2.5 billion) in account value. Minimum guaranteed rates on fixed interest accounts range from 1.0 per cent to 3.0 per cent and a 2.57 per cent average guaranteed rate (2017: 1.0 per cent to 3.0 per cent and a 2.58 per cent average guaranteed rate).	The liability for policyholder benefits that represent the guaranteed minimum return is determined similarly to the liabilities of the fixed interest annuity above. The equity-linked return option within the contract is treated as an embedded liability under US GAAP and therefore this element of the liability is recognised at fair value. The liability for the lifetime income rider is determined each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess on a prorated basis over the life of the contract based on total expected assessments.
Group pay-out annuities	Group payout annuities consist of a block of defined benefit annuity plans assumed from John Hancock USA. A single premium payment from an employer (contract holder) funds the pension benefits for its employees (participants). The contracts are tailored to meet the requirements of the specific pension plan being covered. This is a closed block of business from two standpoints: (1) John Hancock USA is no longer selling new contracts and (2) contract holders (companies) are no longer adding additional participants to these defined benefit pension plans. The majority of participants are in the payout phase, but there are some participants in the deferral phase.	The contracts provide annuity payments that meet the requirements of the specific pension plan being covered. In some cases, the contracts have pre-retirement death and/or withdrawal benefits, pre-retirement surviving spouse benefits, and/or subsidised early retirement benefits.	The liability for future benefits is determined under US GAAP methodology for limited-payment contracts, using assumptions as of the acquisition date as to mortality and expense plus provisions for adverse deviation.

C4.2(b) US continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Variable annuities	Variable annuities are deferred annuities that have the same tax advantages and payout options as fixed interest rate and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement. At 31 December 2018, variable annuities accounted for 75 per cent (2017: 77 per cent) of Jackson's policy and contract liabilities. The rate of return depends upon the performance of the selected fund portfolio. Policyholders may allocate their investment to either the fixed account or a selection of variable accounts. Subject to benefit guarantees, investment risk on the variable account is borne by the policyholder, while investment risk on the fixed account is borne by Jackson through guaranteed minimum fixed rates of return. At 31 December 2018, 5 per cent (2017: 5 per cent) of variable annuity funds were in fixed accounts.	Jackson had variable annuity funds in fixed accounts totalling £6.4 billion (2017: £5.9 billion) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 1.70 per cent average guaranteed rate (2017: 1.0 per cent to 3.0 per cent and a 1.68 per cent average guaranteed rate). Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which can be elected for additional fees. These guaranteed benefits might be expressed as the return of either: (a) total deposits made to the contract adjusted for any partial withdrawals, (b) total deposits made to the contract adjusted for any partial withdrawals, plus a minimum return, or (c) the highest contract value on a specified anniversary date adjusted for any withdrawals following that contract anniversary. Jackson hedges these risks using derivative instruments as described in note C7.3	The general principles for fixed annuity and fixed index annuity also apply to variable annuities. The impact of any fixed account interest guarantees is reflected as they are earned in the current account value. Jackson regularly evaluates estimates used and adjusts the benefit guarantee liability balances, with a related charge or credit to benefit expense if actual experience or other evidence suggests that earlier assumptions should be revised.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(b) US continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Variable annuities continued		The benefit guarantee types are set out below:	
		Benefits that are payable in the event of death (guaranteed minimum death benefit).	The liability for Guaranteed Minimum Death Benefit (GMDB) is determined each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess rateably over the life of the contract based on total expected assessments. At 31 December 2018, these liabilities were valued using a series of stochastic investment performance scenarios, a mean investment return of 7.4 per cent (2017: 7.4 per cent) net of external fund management fees, and assumptions for policyholder behaviour, mortality and expense that are similar to those used in amortising the capitalised acquisition costs.
		Benefits that are payable upon the depletion of funds (guaranteed minimum withdrawal benefit).	The liability for the Guaranteed Minimum Withdrawal Benefit (GMWB) 'for life' portion is determined similarly to GMDB above. Provisions for benefits under Guaranteed Minimum Withdrawal Benefit 'not for life' features are recognised at fair value under US GAAP. Non-performance risk is incorporated into the fair value calculation through the use of discount interest rates sourced from an AA corporate credit curve as a proxy for Jackson's own credit risk. Other risk margins, particularly for policyholder behaviour and long-term volatility, are also incorporated into the model through the use of explicitly conservative assumptions. On a periodic basis, Jackson validates the resulting fair values based on comparisons to other models and market movements.

C4.2(b) US continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Variable annuities continued		Benefits that are payable at annuitisation (guaranteed minimum income benefit). This feature is no longer offered and existing coverage is substantially reinsured, subject to deductibles and annual claim limits.	The direct Guaranteed Minimum Income Benefit (GMIB) liability is determined by estimating the expected value of the annuitisation benefits in excess of the projected account balance at the date of annuitisation and recognising the excess rateably over the life of the contract based on total expected assessments. Guaranteed Minimum Income Benefits are reinsured, subject to a deductible and annual claim limits. Due to the net settlement provisions of the reinsurance agreement, under the 'grandfathered' US GAAP, it is recognised at fair value with the change in fair value included as a component of short-term fluctuations. Volatility and non-performance risk is considered as per GMWB above.
		Benefits that are payable at the end of a specified period (guaranteed minimum accumulation benefit). This feature is no longer offered.	Provisions for Guaranteed Minimum Accumulation Benefit (GMAB) are recognised at fair value under US GAAP. Volatility and non-performance risk is considered as per GMWB above.
Life insurance	Life products include term life, traditional life and interest-sensitive life (universal life and variable universal life). Life insurance products accounted for 9 per cent (2017: 9 per cent) of Jackson's policy and contract liabilities at 31 December 2018. Jackson discontinued new sales of life insurance products in 2012. Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. Traditional life provides protection for either a defined period or until a stated age and includes a predetermined cash value.	Excluding the business that is subject to the retrocession treaties at 31 December 2018, Jackson had interest-sensitive life business in force with total account value of £6.4 billion (2017: £6.3 billion), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.67 per cent average guaranteed rate (2017: 2.5 per cent to 6.0 per cent with a 4.67 per cent average guaranteed rate).	For term and traditional life insurance contracts, provisions for future policy benefits are determined under US GAAP using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation for directly sold business and assumptions at purchase for acquired business. For universal life and variable universal life a retrospective deposit method is used to determine the liability for policyholder benefits. This is then augmented by additional liabilities to account for no-lapse guarantees, profits followed by losses, contract features such as persistency bonuses, and cost of interest rate guarantees.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(b) US continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Life insurance continued	Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the policyholder account to be invested in separate account funds. For certain fixed universal life plans, additional provisions are held to reflect the existence of guarantees offered in the past that are no longer supported by earnings on the existing asset portfolio, or for situations where future mortality charges are not expected to be sufficient to provide for future mortality costs.		
Institutional products	Institutional products are: guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank programme) and Medium Term Note funding agreements. At 31 December 2018, institutional products accounted for 1 per cent of contract liabilities (31 December 2017: 1 per cent).	GICs feature a lump sum policyholder deposit on which interest is paid at a rate fixed at inception. Market value adjustments are made to the value of any early withdrawals. Funding agreements feature either lump sum or periodic policyholder deposits. Interest is paid at a fixed or index linked rate. Funding agreements have a duration of between one and 30 years. In 2018 and 2017 there were no funding agreements terminable by the policyholder with less than 90 days' notice.	Institutional products are classified as investment contracts, and are accounted for as financial liabilities. The currency risk on contracts that represent currency obligations other than US dollars are hedged using cross-currency swaps.

C4.2(c) UK and Europe

Contract type	*Description*	*Material features*	*Determination of liabilities*
PruFund contracts	A range of with-profits contracts offer policyholders a choice of investment profiles. Unlike traditional with-profits contracts, no regular bonuses are declared. Total policyholder return is determined by an Expected Growth Rate (EGR). A different EGR is applied for each of the different PruFund funds within the range, each relating to the individual asset mix of that fund. The applicable EGR, net of the relevant charges, is applied to calculate the smoothed unit value of policyholder funds. In normal investment conditions the EGR is expected to reflect PAC's view of how the funds will perform over the longer term. An adjustment is made to the smoothed unit value if it moves outside of a specified range relative to the value of the underlying assets.	The EGRs are reviewed and updated quarterly, with the smoothed unit value calculated daily. Prescribed adjustments to the smoothed unit value are applied quarterly, monthly or daily, depending on specific market condition related triggers. If the customer terminates the policy the smoothed unit value is paid out. For the purposes of determining shareholder transfers, the difference between the smoothed unit value on withdrawal and the initial investment is treated as a terminal bonus.	The liabilities for PruFund contracts are calculated in accordance with the methodology applied to other with-profits sub-fund contracts, as described below.
With-profits contracts in WPSF	With-profits contracts provide returns to policyholders through bonuses that are 'smoothed'. There are two types of bonuses: 'regular' and 'final'. Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers.	Regular bonuses are typically declared once a year, and once credited, are guaranteed in accordance with the terms of the particular product. Final bonus rates are guaranteed only until the next bonus declaration. The shareholder receives one ninth of the cost of bonuses declared to the customer distributed by the typical regular and final bonuses.	The policyholder liabilities reported for the WPSF are primarily for two broad types of business. These are accumulating and conventional with-profits contracts. The policyholder liabilities of the WPSF are accounted for in accordance with the requirements of 'grandfathered' FRS 27. For with-profits business a market consistent valuation is performed. Additional assumptions required are for persistency and the management actions under which the fund is managed. Assumptions used for a market-consistent valuation typically do not contain margins, whereas those used for the valuation of other classes of business do.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(c) UK and Europe continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
With-profits contracts in WPSF continued	In normal investment conditions, PAC expects changes in regular bonus rates to be gradual over time. However, PAC retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change. A final bonus which is normally declared annually, may be added when a claim is paid or when units of a unitised product are realised. The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares for the sample policies but subject to the smoothing approach as explained opposite.		The provisions have been determined on a basis consistent with the detailed methodology included in regulations contained in the PRA's previously issued rules for the determination of reserves on the PRA's 'realistic' Peak 2 basis. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4. In aggregate, the regime has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances. These contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4. The liabilities calculation under the realistic regime requirement is explained further in note A3.1 under the UK regulated with-profits section. Persistency assumptions are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business. Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis.

C4.2(c) UK and Europe continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
SAIF with-profits	SAIF is a ring-fenced with-profits sub-fund of PAC. No new business is written in SAIF, although regular premiums are still being paid on in-force policies. The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. The process for determining policyholder bonuses of SAIF with-profits policies, is similar to that for the with-profits policies of the WPSF. However, in addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.	Provision is made for the risks attaching to some SAIF unitised with-profits policies that have (Market Value Reduction) MVR-free dates and for those SAIF products which have a guaranteed minimum benefit on death or maturity of premiums accumulated at 4 per cent per annum. The Group's main exposure to guaranteed annuities in the UK is through SAIF and a provision of £361 million was held in SAIF at 31 December 2018 (31 December 2017: £503 million) to honour the guarantees. As SAIF is a separate sub-fund solely for the benefit of policyholders of SAIF, this provision has no impact on the financial position of the Group's shareholders' equity.	The process of determining policyholder liabilities of SAIF is similar to that for the with-profits policies of the WPSF.
Annuities – level, fixed increase and inflation-linked annuities	**Level** Provide a fixed annuity payment over the policyholder's life.		Annuity liabilities are calculated as the expected future value of future annuity payments and expenses discounted by a valuation interest rate. Key assumptions include: ***Mortality*** The mortality assumptions are set in light of recent population and internal experience. The assumptions used are adjusted percentages of standard actuarial mortality tables with an allowance for future mortality improvements, the effect of anti-selection and characteristics specific to each individual policyholder. Where annuities have been sold on an enhanced basis to impaired lives an additional age adjustment is made. New mortality projection models are released annually by the Continuous Mortality Investigation (CMI). The CMI 2016 model was used to produce the 2018 results calibrated to reflect an appropriate view of future mortality improvements. For annuities in payment, the mortality tables used are set out in C4.1(d)(iii).
	Fixed increase Provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.		
	Inflation-linked Provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK RPI.		
	With-profits Written in the with-profits fund, these combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the with-profits fund equity shares, property and other investment categories over time.	As per with-profits products.	

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(c) UK and Europe continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Annuities – level, fixed increase and inflation-linked annuities continued			*Expense* Maintenance expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model. A margin for adverse deviation is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve. *Valuation interest rates* Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the technical provisions. For fixed interest securities the internal rate of return of the assets backing the liabilities is used. Properties are valued using the redemption yield, and for equities it is the greater of the dividend yield and the average of the dividend yield and the earnings yield. An adjustment is made to the yield on non-risk-free fixed interest securities and property to reflect credit risk. *Credit risk* For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk on fixed interest securities. Further details on credit risk allowance are provided in note B3(ii).

C4.2(c) UK and Europe continued

Contract type	*Description*	*Material features*	*Determination of liabilities*
Unit-linked	UK and Europe insurance operations also have a book of unit-linked policies.	There are no guaranteed maturity values or guaranteed annuity options on unit-linked policies except for minor amounts for certain policies linked to cash units within SAIF.	For unit-linked contracts the attaching liability reflects the unit value obligation and, in the case of policies classified as insurance contracts, provision for expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile. For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability and acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Acquisition costs and deferred income are recognised consistent with the level of service provision in line with the requirements of IFRS 15. To calculate the non-unit reserves for linked business, assumptions have been set for the gross unit growth rate and the rate of inflation of maintenance expenses, as well as for the valuation interest rate.

Operation of the UK with-profits sub-funds

The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The WPSF's profits, apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution, are determined via the annual actuarial valuation.

Application of significant judgement

Determining bonuses using the table described in the material features table above requires the PAC Board to apply significant judgement in many respects, including in particular the following:

- Determining what constitutes fair treatment of customers;
- Smoothing of investment returns; and
- Determining at what level to set bonuses to ensure that they are competitive.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

Key assumptions

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. Prudential determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business. As such, it is not possible to specifically quantify the effects of each of these assumptions, or of reasonably likely changes in these assumptions.

Prudential's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent conceptually with the approach adopted by other firms that manage a with-profits business and is also consistent with the requirements of the Principles and Practices of Financial Management (PPFM) that are applied in the management of their with-profits funds.

In accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- A chief actuary who provides the PAC Board with all actuarial advice;
- A with-profits actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the principles and practices of financial management and the manner in which any conflicting interests have been addressed; and
- A with-profits committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting rights have been addressed.

Determination of bonus rates

In determining bonus rates for the UK with-profits policies, smoothing is applied to the allocation of the overall earnings of the UK with-profits fund of which the investment return is a significant element.

The degree of smoothing is illustrated numerically by comparing in the following table the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution, with the more volatile movement in investment return and other items of income and expenditure of the UK component of the UK with-profits fund for each year presented.

	2018 £m	**2017** £m
Net income of the fund:		
Investment return	**(2,261)**	9,985
Claims incurred	**(8,776)**	(8,449)
Movement in policyholder liabilities	**(554)**	(10,011)
Add back policyholder bonuses for the year (as shown below)	**2,345**	2,071
Claims incurred and movement in policyholder liabilities (including charge for provision for asset shares and excluding policyholder bonuses)	**(6,985)**	(16,389)
Earned premiums, net of reinsurance	**12,505**	12,508
Other income	**36**	35
Acquisition costs and other expenditure	**(1,170)**	(1,732)
Share of profits from investment joint ventures	**36**	106
Tax credit (charge)	**273**	(440)
Net income of the fund before movement in unallocated surplus	**2,434**	4,073
Movement in unallocated surplus	**170**	(1,769)
Surplus for distribution	**2,604**	2,304
Surplus for distribution allocated as follows:		
– 90% policyholders' bonus (as shown above)	**2,345**	2,071
– 10% shareholders' transfers	**259**	233
	2,604	2,304

C5 Intangible assets

C5.1 Goodwill

	31 Dec 2018 £m			31 Dec 2017 £m
	Attributable to:			
	Shareholders	With-profits	Total	Total
Carrying value at beginning of year	1,458	24	1,482	1,628
Acquisition of TMB Asset Management Co., Ltd. in Thailand (see note D1.2)	181	–	181	–
Other additions in the year (see below)	–	195	195	9
Disposals/reclassifications to held for sale	–	(10)	(10)	(155)
Exchange differences	12	(3)	9	–
Carrying value at end of year	1,651	206	1,857	1,482
Comprising:				
M&G – attributable to shareholders			1,153	1,153
Other – attributable to shareholders			498	305
Goodwill – attributable to shareholders			1,651	1,458
Venture fund investments – attributable to with-profits funds			206	24
			1,857	1,482

During 2018, the UK with-profits fund, via its venture fund holdings managed by M&GPrudential asset management, made a small number of acquisitions that are consolidated by the Group resulting in an addition to goodwill of £195 million. As these transactions are within the with-profits fund, they have no impact on shareholders' profit or equity for the year ended 31 December 2018. The impact on the Group's consolidated revenue, including investment returns, is not material. Had the acquisitions been effected at 1 January 2018, the revenue and profit of the Group for 2018 would not have been materially different.

Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

Assessment of whether goodwill may be impaired

Goodwill is tested for impairment by comparing the cash-generating unit's carrying amount, including any goodwill, with its recoverable amount. The Group's methodology of assessing whether goodwill may be impaired for acquired life and asset management operations is discussed below:

M&G

The recoverable amount for the M&G business (which is part of the UK and Europe operating segment) has been determined by calculating the value in use of M&G Group Limited and its subsidiaries (considered to be a cash-generating unit during 2018). This has been calculated by aggregating the present value of future cash flows expected to be derived from the M&G business.

The discounted cash flow valuation has been based on a three-year plan prepared by M&G, and approved by management, and cash flow projections for later years.

The value in use is particularly sensitive to a number of key assumptions as follows:

- The set of economic, market and business assumptions used to derive the three-year plan. The direct and secondary effects of recent developments, such as changes in global equity markets and trends in fund flows, are considered by management in arriving at the expectations for the final projections for the plan;
- The assumed growth rate on forecast cash flows beyond the terminal year of the plan after considering expected future and past growth rates. A growth rate of 1.7 per cent (2017: 1.7 per cent) has been used to extrapolate beyond the plan period;
- The risk discount rate. Differing discount rates have been applied in accordance with the nature of the individual component businesses. For the most material component retail and institutional business, a risk discount rate of 12 per cent (2017: 12 per cent) has been applied to post-tax cash flows. The pre-tax risk discount rate was 15 per cent (2017: 15 per cent); and
- That asset management contracts continue on similar terms. Management believes that any reasonable change in the key assumptions would not cause the recoverable amount of M&G to fall below its carrying amount.

C5 Intangible assets continued

C5.1 Goodwill continued

Other goodwill attributable to shareholders

Other goodwill attributable to shareholders represents amounts allocated to entities in Asia in respect of both acquired asset management and life businesses. The goodwill in respect of asset management businesses at 31 December 2018 comprised mainly the goodwill arising from the acquisition of TMB Asset Management Co., Ltd. in Thailand during the year (see note D1.2). At 31 December 2018, the recoverable amount of this business has been determined by using a discounted cash flow valuation.

For acquired life businesses, the Company routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of acquired life business with the value of the current in-force business as determined using the EEV methodology. Any excess of IFRS over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS statement of financial position may be impaired. The methodology and assumptions underpinning the Group's EEV basis of reporting are included in the EEV basis supplementary information in this Annual Report.

Venture fund investments

Goodwill for venture fund investments is tested for impairment by comparing the business's carrying value, including goodwill to its recoverable amount (fair value less costs to sell). The accumulated impairment of goodwill as at 31 December 2018 was £4.7 million (31 December 2017: nil), wholly attributable to with-profits funds.

C5.2 Deferred acquisition costs and other intangible assets

	31 Dec 2018 £m	**31 Dec 2017** £m
Deferred acquisition costs and other intangible assets attributable to shareholders note (i)	11,784	10,866
Other intangible assets, including computer software, attributable to with-profits funds	139	145
Total of deferred acquisition costs and other intangible assets	11,923	11,011

(i) Deferred acquisition costs and other intangible assets attributable to shareholders

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

	31 Dec 2018 £m	**31 Dec 2017** £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	10,017	9,170
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	78	63
Deferred acquisition costs related to insurance and investment contracts note (ii)	10,095	9,233
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	34	36
Distribution rights and other intangibles	1,655	1,597
Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders note (iii)	1,689	1,633
Total of deferred acquisition costs and other intangible assets note (a)	11,784	10,866

Notes

(a) *Total deferred acquisition costs and other intangible assets can be further analysed by business operations as follows:*

	31 Dec 2018 £m						31 Dec 2017 £m
	Deferred acquisition costs						
	Asia insurance	**US insurance** note (b)	**UK and Europe insurance**	**All asset management**	**PVIF and other intangibles***	**Total**	**Total**
Balance at 1 January	946	8,197	84	6	1,633	10,866	10,755
Additions	419	569	15	15	230	1,248	1,240
Amortisation to the income statement: note (c)†							
Adjusted IFRS operating profit based on longer-term investment returns	(148)	(683)	(11)	(3)	(179)	(1,024)	(709)
Non-operating profit	–	(114)	–	–	(4)	(118)	455
	(148)	(797)	(11)	(3)	(183)	(1,142)	(254)
Disposals and transfers	–	–	–	–	(14)	(14)	–
Exchange differences and other movements	47	512	(2)	–	23	580	(799)
Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income	–	246	–	–	–	246	(76)
Balance at 31 December	1,264	8,727	86	18	1,689	11,784	10,866

* 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. Software rights include additions of £34 million, amortisation of £32 million, foreign exchange losses of £7 million and a balance at 31 December 2018 of £62 million.

† Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standards Codification Topic 944, Financial Services – Insurance, of the Financial Accounting Standards Board 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 (2017: 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)).

(b) *The DAC amount in respect of US insurance operations comprises amounts in respect of:*

	31 Dec 2018 £m	**31 Dec 2017** £m
Variable annuity business	8,477	8,208
Other business	299	278
Cumulative shadow DAC (for unrealised gains booked in other comprehensive income)*	(49)	(289)
Total DAC for US operations	8,727	8,197

* A gain of £246 million (2017: a loss of £(76) million) for shadow DAC amortisation is booked within other comprehensive income to reflect the impact from the negative unrealised valuation movement in 2018 of £1,617 million (2017: positive unrealised valuation movement of £617 million). 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 2018, the cumulative shadow DAC balance as shown in the table above was negative £49 million (31 December 2017: negative £289 million).

(c) *Sensitivity of amortisation charge*

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

- A core amount that reflects a relatively stable proportion of underlying premiums or profit; and
- 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 2018, the DAC amortisation charge for adjusted IFRS operating profit based on longer-term investment returns was determined after including a debit for accelerated amortisation of £194 million (2017: credit for decelerated amortisation of £86 million). The acceleration arising in 2018 reflects a mechanical increase in the projected separate account return for the next five years under the mean-reversion technique. Under this technique the projected level of return for each of the next five years is adjusted so that in combination with the actual rates of return for the preceding three years (including the current period) the assumed long-term annual separate account return of 7.4 per cent is realised on average over the entire eight-year period. The acceleration in DAC amortisation in 2018 is driven both by the actual separate return in the year being lower than that assumed and by the lower than expected return in 2015 falling out of the eight-year period in effect reversing the deceleration experienced in 2015 under the mean reversion formula.

The application of the mean reversion formula (described in note A3.1) has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. At 31 December 2018, it would take approximate movements in separate account values of more than either negative 22 per cent or positive 57 per cent (31 December 2017: negative 32 per cent or positive 37 per cent) for the mean reversion assumption to move outside the corridor.

C5 Intangible assets continued

C5.2 Deferred acquisition costs and other intangible assets continued

(ii) Deferred acquisition costs related to insurance and investment contracts

The movements in deferred acquisition costs relating to insurance and investment contracts are as follows:

	2018 £m		2017 £m	
	Insurance contracts	Investment management note	Insurance contracts	Investment management note
DAC at 1 January	9,170	63	9,114	64
Additions	991	26	1,000	11
Amortisation	(947)	(11)	(77)	(12)
Exchange differences	557	–	(791)	–
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	246	–	(76)	–
DAC at 31 December	10,017	78	9,170	63

Note

All of the additions are through internal development. The carrying amount of the balance comprises the following gross and accumulated amortisation amounts:

	2018 £m	2017 £m
Gross amount	181	156
Accumulated amortisation	(103)	(93)
Net book amount	78	63

(iii) Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders

	2018 £m				2017 £m			
	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software) note (c)	Total	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software) note (c)	Total
At 1 January								
Cost	227	1,793	363	2,383	226	1,628	321	2,175
Accumulated amortisation	(191)	(312)	(247)	(750)	(183)	(196)	(219)	(598)
	36	1,481	116	1,633	43	1,432	102	1,577
Additions	–	181	49	230	–	173	56	229
Amortisation charge	(4)	(142)	(37)	(183)	(7)	(121)	(37)	(165)
Disposals and transfers	–	–	(14)	(14)	–	–	–	–
Exchange differences and other movements	2	18	3	23	–	(3)	(5)	(8)
At 31 December	34	1,538	117	1,689	36	1,481	116	1,633
Comprising:								
Cost	232	1,999	313	2,544	227	1,793	363	2,383
Accumulated amortisation	(198)	(461)	(196)	(855)	(191)	(312)	(247)	(750)
	34	1,538	117	1,689	36	1,481	116	1,633

Notes

(a) All of the PVIF balances relate to insurance contracts. The PVIF attaching to investment contracts have been fully amortised. Amortisation is charged over the period of provision of asset management services as those profits emerge.

(b) Distribution rights relate to fees paid in relation to the bancassurance partnership arrangements for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels.

(c) Software is amortised over its useful economic life, which generally represents the licence period of the software acquired.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed businesses

	31 Dec 2018 £m	**31 Dec 2017** £m
Holding company operations: note (i)		
US$250m 6.75% Notes (Tier 1) note (vi)	196	185
US$300m 6.5% Notes (Tier 1) note (vi)	235	222
US$700m 5.25% Notes (Tier 2)	550	517
US$550m 7.75% Notes (Tier 1) note (v)	–	407
US$1,000m 5.25% Notes (Tier 2)	780	731
US$725m 4.375% Notes (Tier 2)	565	530
US$750m 4.875% Notes (Tier 2)	583	548
Perpetual Subordinated Capital Securities	2,909	3,140
€20m Medium Term Notes 2023 (Tier 2) note (vii)	18	18
£435m 6.125% Notes 2031 (Tier 2)	431	430
£400m 11.375% Notes 2039 (Tier 2)	399	397
£600m 5% Notes 2055 (Tier 2)	591	591
£700m 5.7% Notes 2063 (Tier 2)	696	696
£750m 5.625% Notes 2051 (Tier 2) note (iv)	743	–
£500m 6.25% Notes 2068 (Tier 2) note (iv)	498	–
US$500m 6.5% Notes 2048 (Tier 2) note (iv)	391	–
Subordinated Notes	3,767	2,132
Subordinated debt total	6,676	5,272
Senior debt: note (ii)		
£300m 6.875% Bonds 2023	294	300
£250m 5.875% Bonds 2029	223	249
Bank loan note (iii)	275	–
Holding company total	7,468	5,821
Prudential Capital bank loan note (iii)	–	275
Jackson US$250m 8.15% Surplus Notes 2027 note (viii)	196	184
Total (per consolidated statement of financial position)	7,664	6,280

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 US$3,725 million (31 December 2017: US$4,275 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. In 2018, as part of its preparation to demerge M&GPrudential, the Group made certain modifications to the terms and conditions of the senior bonds with bondholders' consent. The amendment to the terms and conditions will avoid an event of a technical default on the bonds, should the demerger proceed. The fees paid to bondholders have been adjusted to the carrying value of the bonds and will be amortised in subsequent periods. No other adjustments were made to the carrying value of the debt as a result of the modification.

(iii) The bank loan of £275 million is drawn at a cost of 12-month GBP LIBOR plus 0.33 per cent. The loan, held by Prudential Capital as of 31 December 2017, was renewed in December 2018, with Prudential plc becoming the new holder. The loan matures on 20 December 2022 with an option to repay annually.

(iv) In October 2018, the Company issued the following three substitutable core structural borrowings as part of the process required before demerger to rebalance debt across M&GPrudential and Prudential (see below):
- £750 million 5.625 per cent Tier 2 subordinated notes due 2051. The proceeds, net of costs, were £743 million;
- £500 million 6.25 per cent Tier 2 subordinated notes due 2068. The proceeds, net of costs, were £498 million; and
- US$500 million 6.5 per cent Tier 2 subordinated notes due 2048. The proceeds, net of costs, were £389 million (US$498 million).

(v) In December 2018, the Company paid £434 million to redeem its US$550 million 7.75 per cent Tier 1 perpetual subordinated notes.

(vi) These borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date, into one or more series of Prudential preference shares.

(vii) The €20 million borrowings were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three-month GBP LIBOR plus 1.2 per cent.

(viii) Jackson's borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

C6 Borrowings continued

C6.1 Core structural borrowings of shareholder-financed businesses continued

Prior to the demerger, the Group expects to rebalance its debt capital across Prudential and M&GPrudential. This will include the ultimate holding company of M&GPrudential becoming an issuer of new debt, including debt substituted from Prudential, and Prudential redeeming some of its existing debt. Following these actions, the overall absolute quantum of debt across Prudential and M&GPrudential is currently expected to increase, by an amount which is not considered to be material in the context of the Group's total outstanding debt as at 30 June 2018, before any substitutable debt had been issued, of £7.6 billion (comprising the Group's core structural borrowings of £6.4 billion and shareholder borrowings from short-term fixed income securities programme of £1.2 billion).

At the time of the demerger, Prudential expects M&GPrudential to be holding around £3.5 billion of subordinated debt. This expectation is subject to the M&GPrudential capital risk appetite being approved by the Board of the ultimate holding company of M&GPrudential, once fully constituted to include independent non-executive directors, and reflects the current operating environment and economic conditions, material changes in which may lead to a different outcome.

Ratings

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A2 by Moody's, A by Standard & Poor's and A- by Fitch.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

The financial strength of The Prudential Assurance Company Limited is rated A+ 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 and Fitch, A1 by Moody's and A+ by A.M. Best.

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

All the Group's ratings are on a stable outlook.

C6.2 Other borrowings

(i) Operational borrowings attributable to shareholder-financed businesses

	31 Dec 2018 £m	**31 Dec 2017** £m
Commercial Paper	472	485
Medium Term Notes 2018	–	600
Borrowings in respect of short-term fixed income securities programmes	472	1,085
Bank loans and overdrafts	90	70
Obligations under finance leases	19	5
Other borrowings	417	631
Other borrowings[note]	526	706
Total	998	1,791

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.

(ii) Borrowings attributable to with-profits businesses

	31 Dec 2018 £m	31 Dec 2017 £m
Non-recourse borrowings of consolidated investment funds*	3,845	3,570
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc†	–	100
Other borrowings (including obligations under finance leases)	95	46
Total	3,940	3,716

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* 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 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. These bonds were redeemed in full on 30 June 2018.

C6.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's borrowings as recognised in the statement of financial position:

	Shareholder-financed businesses				With-profits businesses	
	Core structural borrowings		Operational borrowings		Borrowings	
	31 Dec 2018 £m	31 Dec 2017 £m	31 Dec 2018 £m	31 Dec 2017 £m	31 Dec 2018 £m	31 Dec 2017 £m
Less than 1 year	–	275	840	1,723	573	351
1 to 2 years	–	–	89	1	71	371
2 to 3 years	–	–	1	1	90	184
3 to 4 years	275	–	–	–	5	59
4 to 5 years	312	–	–	–	102	1
Over 5 years	7,077	6,005	68	66	3,099	2,750
Total	7,664	6,280	998	1,791	3,940	3,716

C7 Risk and sensitivity analysis

C7.1 Group overview

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

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

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

Type of business	*Market and credit risk*			*Insurance and lapse risk*
	Investments/derivatives	*Liabilities/unallocated surplus*	*Other exposure*	
Asia insurance operations (see also section C7.2)				
All business	Currency risk			Mortality and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	
Non-participating business	Asset/liability mismatch risk			
	Credit risk	Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements		
	Interest rate and price risk			
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 features and variability of asset management fees offset by derivative hedging programme			Risk that utilisation of withdrawal benefits or lapse levels differ from those assumed in pricing
Fixed index annuity business	Derivative hedge programme to the extent not fully hedged against liability	Incidence of equity participation features		
Fixed index annuities, Fixed annuities and GIC business	Credit risk Interest rate risk Profit and loss and shareholders' equity are volatile for these risks as they affect the values of derivatives and embedded derivatives and impairment losses. In addition, shareholders' equity is volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39		Spread difference between earned rate and rate credited to policyholders	Lapse risk, but the effects of extreme events may be mitigated by the application of market value adjustments

Type of business	*Market and credit risk*			*Insurance and lapse risk*
	Investments/derivatives	*Liabilities/unallocated surplus*	*Other exposure*	
UK and Europe insurance operations (see also section C7.4)				
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	Persistency risk to future shareholder transfers
SAIF sub-fund	Net neutral direct exposure (indirect exposure only)		Asset management fees earned	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	Persistency risk
	Asset/liability mismatch risk			
Shareholder-backed annuity business	Credit risk for assets covering liabilities and shareholder capital Interest rate risk for assets in excess of liabilities, ie assets representing shareholder capital			Mortality experience and assumptions for longevity

Detailed analysis of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit is provided in notes C7.2, C7.3, C7.4 and C7.5. The sensitivity analysis provided shows 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, this analysis does 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 Risk and sensitivity analysis continued

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 adjusted IFRS 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 2018, 10-year government bond rates vary from territory to territory and range from 0.9 per cent to 8.1 per cent (31 December 2017: 1.0 per cent to 7.5 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 local business units.

The estimated sensitivity to the decrease and increase in interest rates is as follows:

	2018 £m		**2017** £m	
	Decrease of 1%	**Increase of 1%**	**Decrease of 1%**	**Increase of 1%**
Profit before tax attributable to shareholders	312	(338)	2	(443)
Related deferred tax (where applicable)	(15)	26	(7)	20
Net effect on profit and shareholders' equity	297	(312)	(5)	(423)

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 countries 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 in time.

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 2018: £2,151 million; 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, is as follows:

	2018 £m		**2017** £m	
	Decrease		**Decrease**	
	of 20%	**of 10%**	**of 20%**	**of 10%**
Profit before tax attributable to shareholders	(557)	(279)	(478)	(239)
Related deferred tax (where applicable)	17	8	7	4
Net effect on profit and shareholders' equity	(540)	(271)	(471)	(235)

A 10 or 20 per cent increase in equity and property values 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 £57 million (2017: £66 million). Mortality and morbidity have a broadly 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 2018, the rates for the most significant operations are given in note A1.

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

	A 10% increase in local currency to £ exchange rates		**A 10% decrease in local currency to £ exchange rates**	
	2018 £m	**2017** £m	**2018** £m	**2017** £m
Profit before tax attributable to shareholders	(134)	(155)	164	189
Profit for the year	(113)	(135)	138	165
Shareholders' equity, excluding goodwill, attributable to Asia operations	(543)	(492)	664	601

C7.3 US insurance operations

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

Jackson's reported adjusted IFRS 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 — 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; — 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.

C7 Risk and sensitivity analysis continued

C7.3 US insurance operations continued

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 are carried at fair value, including derivatives embedded in certain host liabilities where these are required to be valued separately.

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 the buyer 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.

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

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 2018	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	0-6%	98,653	4,437	66.5 years	
GMWB – premium only	0%	1,924	62		
GMWB[*]	0-5%[†]	197	20		
GMAB – premium only	0%	26	–		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		8,531	1,113	67.1 years	
GMWB – highest anniversary only		2,220	314		
GMWB[*]		535	89		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	5,454	1,217	69.5 years	
GMIB[‡]	0-6%	1,256	648		0.1 years
GMWB[*]	0-8%[†]	91,788	16,835		

31 December 2017	Minimum return	Account value £m	Net amount at risk £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		

[*] 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 x 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 substantially reinsured.

C7 Risk and sensitivity analysis continued

C7.3 US insurance operations continued

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

Mutual fund type:	**31 Dec 2018** £m	**31 Dec 2017** £m
Equity	78,387	80,843
Bond	13,901	13,976
Balanced	19,903	19,852
Money market	824	681
Total	113,015	115,352

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. 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 of 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 automatically offset within the financial statements as the impact of equity market movements resets 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.

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, as described above.

	31 Dec 2018 £m				**31 Dec 2017** £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	1,058	427	58	(125)	1,107	336	619	262
Related deferred tax effects	(222)	(90)	(12)	26	(233)	(71)	(130)	(55)
Net sensitivity of profit after tax and shareholders' equity*	836	337	46	(99)	874	265	489	207

* 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 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 2018 and 2017.

(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 at fair value 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 is as follows:

	31 Dec 2018 £m				**31 Dec 2017** £m			
	Decrease		**Increase**		**Decrease**		**Increase**	
	of 2%	**of 1%**	**of 1%**	**of 2%**	**of 2%**	**of 1%**	**of 1%**	**of 2%**
Profit and loss:								
Pre-tax profit effect (net of related changes in amortisation of DAC)	(3,535)	(1,718)	1,201	2,210	(4,079)	(1,911)	1,373	2,533
Related effect on charge for deferred tax	742	361	(252)	(464)	857	401	(288)	(532)
Net profit effect	(2,793)	(1,357)	949	1,746	(3,222)	(1,510)	1,085	2,001
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	4,134	2,346	(2,346)	(4,134)	3,063	1,700	(1,700)	(3,063)
Related effect on movement in deferred tax	(868)	(493)	493	868	(643)	(357)	357	643
Net effect	3,266	1,853	(1,853)	(3,266)	2,420	1,343	(1,343)	(2,420)
Total net effect on shareholders' equity	473	496	(904)	(1,520)	(802)	(167)	(258)	(419)

These sensitivities are shown for interest rates in isolation only and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities. Similar to the 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 2018, the average and closing rates were US$1.34 (31 December 2017: US$1.29) and US$1.27 (31 December 2017: US$1.35) 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 US$:£ exchange rates		**A 10% decrease in US$:£ exchange rates**	
	2018 £m	**2017** £m	**2018** £m	**2017** £m
Profit before tax attributable to shareholders	(159)	(54)	194	66
Profit for the year	(136)	(20)	166	24
Shareholders' equity attributable to US insurance operations	(508)	(456)	620	557

C7 Risk and sensitivity analysis continued

C7.3 US insurance operations continued

(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 benchmarking 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 2018 was 7.4 per cent (2017: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

- Through the projected expected gross profits that are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail in note A3.1 above; and
- The required level of provision for claims for guaranteed minimum death, 'for life' withdrawal, and income benefits.

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

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

C7.4 UK and Europe insurance operations

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

The IFRS basis results of the shareholder-backed business for the UK and Europe insurance operations are most sensitive to the following factors:

- Asset/liability matching;
- Default rate experience;
- Annuitant mortality; and
- The difference between the rates of return on corporate bonds and risk-free rates.

Further details are described below.

The adjusted 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 UK 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, longer-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 £37 million (2017: £66 million). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £99 million (2017: £198 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase pre-tax profit by £21 million (2017: £40 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 £69 million (2017: £143 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 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, persistency 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 that 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 2018, annuity liabilities accounted for 95 per cent (31 December 2017: 98 per cent) of UK non-linked shareholder-backed business liabilities. For annuity business, liabilities are exposed to interest rate risk. However, the net exposure is 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:

	31 Dec 2018 £m				**31 Dec 2017** £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	7,369	3,317	(2,792)	(5,193)	13,497	5,805	(4,659)	(8,541)
Policyholder liabilities	(4,784)	(2,162)	1,801	3,317	(9,426)	(4,210)	3,443	6,295
Related deferred tax effects	(446)	(199)	171	323	(658)	(254)	190	348
Net sensitivity of profit after tax and shareholders' equity	2,139	956	(820)	(1,553)	3,413	1,341	(1,026)	(1,898)

C7 Risk and sensitivity analysis continued

C7.4 UK and Europe insurance operations continued

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.

	2018 £m		**2017** £m	
	A decrease of 20%	**A decrease of 10%**	**A decrease of 20%**	**A decrease of 10%**
Pre-tax profit	(336)	(168)	(332)	(166)
Related deferred tax effects	57	29	57	28
Net sensitivity of profit after tax and shareholders' equity	(279)	(139)	(275)	(138)

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

(i) Asset management

(a) 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 £10 million and £43 million respectively (2017: £30 million and £53 million, respectively).

(b) 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.

(ii) 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 based on historical experience could be plus or minus £150 million.

Other operations are sensitive to credit risk on the loan portfolio of the Prudential Capital operation. Total debt securities held at 31 December 2018 by Prudential Capital were £1,884 million (2017: £2,238 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

C8.1 Deferred tax

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

	2018 £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	14	1	93	5	113
Balances relating to investment and insurance contracts	1	–	–	–	1
Short-term temporary differences	2,532	(266)	(8)	81	2,339
Capital allowances	14	–	–	1	15
Unused tax losses	66	23	–	38	127
Total	2,627	(242)	85	125	2,595
Deferred tax liabilities					
Unrealised losses or gains on investments	(1,748)	666	195	20	(867)
Balances relating to investment and insurance contracts	(872)	(91)	–	(39)	(1,002)
Short-term temporary differences	(2,041)	68	(15)	(109)	(2,097)
Capital allowances	(54)	(1)	–	(1)	(56)
Total	(4,715)	642	180	(129)	(4,022)

Of the short-term temporary differences of £2,339 million relating to deferred tax assets, £2,194 million relating to the US insurance operations is expected to be recovered in line with the run off of the in-force book, and the remaining balances of the £145 million are expected to be recovered within 10 years.

The deferred tax balances at 31 December 2018 and 2017 arise in the following parts of the Group:

	Deferred tax assets		Deferred tax liabilities	
	2018 £m	**2017** £m	**2018** £m	**2017** £m
Asia operations	119	112	(1,257)	(1,152)
US operations	2,295	2,300	(1,688)	(1,845)
UK and Europe	126	157	(1,061)	(1,703)
Other operations	55	58	(16)	(15)
Total	2,595	2,627	(4,022)	(4,715)

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.

C8 Tax assets and liabilities continued

C8.1 Deferred tax continued

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. For the 2018 results and financial position at 31 December 2018 the following tax benefits have not been recognised:

	31 Dec 2018		31 Dec 2017	
	Tax benefit £m	**Losses** £bn	**Tax benefit** £m	**Losses** £bn
Capital losses	49	0.2	79	0.4
Trading losses	49	0.2	74	0.3

Of the unrecognised trading losses, losses of £34 million will expire within the next 10 years, the rest have no expiry date.

Some of the Group's businesses are located in jurisdictions in which a withholding tax charge is incurred upon the distribution of earnings. Deferred tax liabilities of £117 million (2017: £120 million) have not been recognised in respect of such withholding taxes as the Group is able to control the timing of the distributions and it is probable that the timing differences will not reverse in the foreseeable future.

C8.2 Current tax

Of the £618 million (31 December 2017: £613 million) current tax recoverable, the majority is expected to be recovered in one year or less. The current tax recoverable includes £112 million in relation to the litigation relating to the historic tax treatment of dividends received from overseas portfolio investments of life insurance companies. The Prudential Assurance Company Limited (PAC) was the test case for the litigation. In July 2018, the UK Supreme Court ruled in PAC's favour on most of the substantive issues. PAC and HM Revenue & Customs (HMRC) are working through the mechanics of implementing the Supreme Court decision. PAC expects to receive full and final repayment from HMRC in 2019.

The current tax liability of £568 million (31 December 2017: £537 million) includes £149 million (31 December 2017: £139 million) of provisions for uncertain tax matters. Further detail is provided in note B4.

C9 Defined benefit pension schemes

(i) 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 (2017: 82 per cent) of the underlying scheme liabilities of the Group's defined benefit schemes.

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

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

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

	31 Dec 2018 £m					31 Dec 2017 £m				
	PSPS note (a)	**SASPS** note (b)	**M&GGPS**	**Other schemes**	**Total**	**PSPS** note (a)	**SASPS** note (b)	**M&GGPS**	**Other schemes**	**Total**
Underlying economic surplus (deficit)	908	(79)	131	(1)	959	721	(137)	109	(1)	692
Less: unrecognised surplus	(677)	–	–	–	(677)	(485)	–	–	–	(485)
Economic surplus (deficit) (including investment in Prudential insurance policies)^note (c)^	231	(79)	131	(1)	282	236	(137)	109	(1)	207
Attributable to:										
UK with-profits fund	162	(32)	–	–	130	165	(55)	–	–	110
Shareholder-backed business	69	(47)	131	(1)	152	71	(82)	109	(1)	97
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	–	–	(225)	–	(225)	–	–	(151)	–	(151)
IAS 19 pension asset (liability) on the Group statement of financial position^note (d)^	231	(79)	(94)	(1)	57	236	(137)	(42)	(1)	56

Notes

(a) No deficit or other funding is required for PSPS. Deficit funding, where applicable, is apportioned in the ratio of 70/30 between the UK with-profits fund and shareholder-backed business 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.

(b) The deficit of SASPS has been allocated 40 per cent to the UK with-profits fund and 60 per cent to the shareholders' fund as at 31 December 2018 and 2017.

(c) 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.

(d) At 31 December 2018, the PSPS pension asset of £231 million (31 December 2017: £236 million) and the other schemes' pension liabilities of £174 million (31 December 2017: £180 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.

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 2017	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 Limited	Paul Belok AON Hewitt Limited
Funding level at the last valuation	105 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 £5 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 valuation for M&GGPS as at 31 December 2017 is currently in progress.

C9 Defined benefit pension schemes continued

(i) Background and summary economic and IAS 19 financial positions continued

For PSPS, the market value of the scheme assets as at the 5 April 2017 funding valuation was £7,766 million. The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the purposes of the 2017 valuation were as follows:

	%
Rate of increase in salaries	Nil
Rate of inflation:	
Retail Prices Index (RPI)	3.4
Consumer Prices Index (CPI)	2.6
Rate of increase of pensions in payment for inflation:	
Guaranteed (maximum 5%)	2.6
Guaranteed (maximum 2.5%)	2.5
Discretionary	Nil
Expected returns on plan assets	1.5

Mortality assumptions:

The tables used for PSPS pensions in payment at 5 April 2017 were:

Base post-retirement mortality

For male (female) members and male dependants 95 per cent (105 per cent) of the SAPS S2 Pensioner Amounts table. For female dependants 89 per cent of the SAPS S2 Dependants Amounts table.

Allowance for future improvements to post-retirement mortality

Assumed improvements up to 2017 are based on the CMI 2015 Core projections model with a 1.5 per cent per annum long-term trend. From 2018 onwards, assumed improvements for males (females) are based on the CMI 2015 Core projections model with a 1.75 per cent per annum (1.5 per cent per annum) long-term trend.

Risks to which the defined benefit schemes expose the Group

Responsibility of making good of any deficit that may arise in the schemes lies with the employers of the schemes, which are subsidiaries of the Group. Accordingly, the pension schemes expose the Group to a number of risks and the most significant of which are interest rate and investment risk, inflation risk and mortality risk.

Corporate governance

The Group's UK pension schemes are established under trust and are subject to UK legal requirements; this includes being subject to regulation by 'The Pension Regulator' in accordance with the Pension Act 1995. Each scheme has a corporate trustee to which some directors are appointed by Group employers with the remaining directors nominated by members in accordance with UK legal requirements. The trustees have the ultimate responsibility to ensure that the scheme is managed in accordance with the Trust Deed & Rules. The trustees act in the best interests of the schemes' beneficiaries; this includes taking appropriate account of each employer's legal obligation and financial ability to support the schemes, when setting investment strategy and when agreeing funding with the employers. The employers' contribution commitments are formally updated at each triennial valuation; between valuations funding levels and employer strength continue to be monitored, with the Trustees being able to bring forward the next triennial valuation if they consider it appropriate to do so.

All of the Group's three UK defined benefit pension schemes (PSPS, SASPS and M&GGPS) are final salary schemes, which are closed to new entrants.

The Trustees of each scheme set the general investment policy and specify any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegate the responsibility for selection and realisation of specific investments to the Investment Managers. The Trustees consult the Principal Employer (eg The Prudential Assurance Company Limited for PSPS) on the investment principles, but the ultimate responsibility for the investment of the assets of the scheme lies with the Trustees.

The Trustees of each of the schemes manage the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return in the hope of reducing the contributions required or providing additional benefits to members.

For PSPS, a significant portion of the scheme assets are invested in liability matching assets such as bonds and gilts, including index-linked gilts, to partially hedge against inflation. In addition, PSPS has maintained a portfolio of interest rate and inflation swaps to match more closely the duration and inflation profile of its assets to its liabilities.

The risks arising from SASPS and M&GGPS are managed through a diversified mix of investments. Both schemes have invested in a mix of both return-seeking assets, such as equities and property and matching assets including leveraged liability driven investment portfolios to reflect the liability profile of the scheme.

(ii) Assumptions

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

	31 Dec 2018 %	**31 Dec 2017** %
Discount rate*	2.8	2.5
Rate of increase in salaries	3.3	3.1
Rate of inflation†		
Retail prices index (RPI)	3.3	3.1
Consumer prices index (CPI)	2.3	2.1
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	3.3	3.1

* 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 expected future improvements in mortality. This allowance reflected the CMI 2015 Core projections model (2017: CMI 2014 projections model, with scheme-specific calibrations). In 2018, for members post retirement long-term mortality improvement rates of 1.75 per cent per annum (2017: 1.75 per cent per annum) and 1.50 per cent per annum (2017: 1.25 per cent per annum) were applied for males and females, respectively.

C9 Defined benefit pension schemes continued

(iii) Estimated pension scheme surpluses and deficits

This section illustrates the financial position of the Group's defined benefit pension schemes on an economic basis and the IAS 19 basis.

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. At 31 December 2018, M&GGPS held investments in Prudential insurance policies of £225 million (31 December 2017: £151 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:

	2018 £m				
	Surplus (deficit) in schemes at 1 Jan 2018	**(Charge) credit to income statement**	**Actuarial gains and losses in other comprehensive income**	**Contributions paid**	**Surplus (deficit) in schemes at 31 Dec 2018**
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus (deficit)	692	(88)	303	52	959
Less: amount attributable to UK with-profits fund	(473)	38	(178)	(20)	(633)
Shareholders' share:					
Gross of tax surplus (deficit)	219	(50)	125	32	326
Related tax	(42)	10	(24)	(6)	(62)
Net of shareholders' tax	177	(40)	101	26	264
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	(485)	(13)	(179)	–	(677)
Less: amount attributable to UK with-profits fund	363	8	132	–	503
Shareholders' share:					
Gross of tax	(122)	(5)	(47)	–	(174)
Related tax	23	1	9	–	33
Net of shareholders' tax	(99)	(4)	(38)	–	(141)
With the effect of IFRIC 14					
Surplus (deficit)	207	(101)	124	52	282
Less: amount attributable to UK with-profits fund	(110)	46	(46)	(20)	(130)
Shareholders' share:					
Gross of tax surplus (deficit)	97	(55)	78	32	152
Related tax	(19)	11	(15)	(6)	(29)
Net of shareholders' tax	78	(44)	63	26	123

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 comprise the following investments:

	31 Dec 2018				31 Dec 2017			
	PSPS £m	**Other schemes** £m	**Total** £m	%	**PSPS** £m	**Other schemes** £m	**Total** £m	%
Equities								
UK	8	6	14	–	9	67	76	1
Overseas	204	53	257	3	226	272	498	6
Bonds*								
Government	4,596	538	5,134	61	5,040	655	5,695	63
Corporate	1,586	454	2,040	24	1,491	248	1,739	20
Asset-backed securities	263	12	275	3	164	–	164	2
Derivatives	103	4	107	1	188	(6)	182	2
Properties	143	143	286	3	140	130	270	3
Other assets	172	198	370	5	216	77	293	3
Total value of assets†	7,075	1,408	8,483	100	7,474	1,443	8,917	100

* 87 per cent of the bonds are investment grade (2017: 89 per cent).

† 94 per cent of the total value of the scheme assets are derived from quoted prices in an active market (31 December 2017: 96 per cent). None of the scheme assets included shares in Prudential plc or property occupied by the Prudential Group. The IAS 19 basis plan assets at 31 December 2018 of £8,258 million (31 December 2017: £8,766 million) is different from the economic basis plan assets of £8,483 million (31 December 2017: £8,917 million) as shown above due to the exclusion of investment in Prudential insurance policies by M&GGPS as described above.

The movements in the IAS 19 pension schemes' surplus and deficit between scheme assets and liabilities as consolidated in the financial statements were:

Attributable to policyholders and shareholders

	Plan assets	Present value of benefit obligations note (a)	Net surplus (deficit) (without the effect of IFRIC 14)	Effect of IFRIC 14 for derecognition of PSPS surplus	Economic basis net surplus (deficit)	Other adjustments including for investments in Prudential insurance policies note (b)	IAS 19 basis net surplus (deficit)
2018 £m							
Net surplus (deficit), beginning of year	8,917	(8,225)	692	(485)	207	(151)	56
GMP equalisation provision note (e)	–	(53)	(53)	–	(53)	–	(53)
Current service cost	–	(44)	(44)	–	(44)	–	(44)
Net interest on net defined benefit liability (asset)	217	(200)	17	(13)	4	(4)	–
Administration expenses	(8)	–	(8)	–	(8)	–	(8)
Benefit payments	(475)	475	–	–	–	–	–
Employers' contributions note (c)	52	–	52	–	52	–	52
Employees' contributions	1	(1)	–	–	–	–	–
Actuarial gains and losses note (d)	(221)	524	303	(179)	124	10	134
Transfer into investment in Prudential insurance policies	–	–	–	–	–	(80)	(80)
Net surplus (deficit), end of year	8,483	(7,524)	959	(677)	282	(225)	57
2017 £m							
Net surplus (deficit), beginning of year	9,006	(8,443)	563	(558)	5	(134)	(129)
Current service cost	–	(46)	(46)	–	(46)	–	(46)
Net interest on net defined benefit liability (asset)	228	(214)	14	(14)	–	(3)	(3)
Administration expenses	(8)	–	(8)	–	(8)	–	(8)
Benefit payments	(479)	479	–	–	–	–	–
Employers' contributions note (c)	50	–	50	–	50	–	50
Employees' contributions	1	(1)	–	–	–	–	–
Actuarial gains and losses note (d)	119	–	119	87	206	(6)	200
Transfer into investment in Prudential insurance policies	–	–	–	–	–	(8)	(8)
Net surplus (deficit), end of year	8,917	(8,225)	692	(485)	207	(151)	56

C9 Defined benefit pension schemes continued

(iii) Estimated pension scheme surpluses and deficits continued

Notes

(a) *Maturity profile of the benefit obligations*

The weighted average duration of the benefit obligations of the schemes is 18.4 years (2017: 18.6 years).

The following table provides an expected maturity analysis of the benefit obligations:

	All schemes £m						
	1 year or less	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**Total**
31 Dec 2018	257	1,142	1,593	1,641	1,631	7,426	13,690
31 Dec 2017	255	1,108	1,589	1,667	1,661	7,889	14,169

(b) The adjustments for investments in Prudential insurance policies are consolidation adjustments for intra-group assets and liabilities with no impact to adjusted IFRS operating profit based on longer-term investment returns.

(c) Total employer contributions expected to be paid into the Group defined benefit schemes for the year ending 31 December 2019 amount to £52 million (2018: £50 million).

(d) The actuarial gains and losses attributable to policyholders and shareholders as shown in the table above are analysed as follows:

	2018 £m	**2017** £m
Actuarial gains and losses		
Return on the scheme assets less amount included in interest income	(221)	119
Gains (losses) on changes in demographic assumptions	168	(10)
Gains (losses) on changes in financial assumptions	330	(101)
Experience gains on scheme liabilities	26	111
	303	119
Effect of derecognition of PSPS surplus	(179)	87
Consolidation adjustment for investments in Prudential insurance policies and other adjustments	10	(6)
	134	200

(e) In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions (GMPs). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide.

In light of this Court ruling, at 31 December 2018, the Group has recognised an estimated allowance for GMP equalisation within the IAS 19 valuation for all the three UK schemes (£31 million for PSPS, £17 million for SASPS and £5 million for M&GGPS). These costs are allocated between the UK with-profits fund and the shareholders' fund on the basis of 70:30 for PSPS, 40:60 for SASPS and with M&GGPS being wholly attributable to the shareholders' fund. The impact on shareholders profit before tax is £24 million (before taking into account any charge to PSPS surplus restriction) and on shareholders' equity post tax is £12 million.

(iv) 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 UK with-profits fund as described above.

	Assumption applied			**Impact of sensitivity on scheme liabilities on IAS 19 basis**		
	2018	**2017**	**Sensitivity change in assumption**		**2018**	**2017**
Discount rate	2.8%	2.5%	Decrease by 0.2%	Increase in scheme liabilities by:		
				PSPS	3.5%	3.5%
				Other schemes	5.0%	5.4%
Discount rate	2.8%	2.5%	Increase by 0.2%	Decrease in scheme liabilities by:		
				PSPS	3.3%	3.4%
				Other schemes	4.7%	4.9%
Rate of inflation	3.3%	3.1%	RPI: Decrease by 0.2%	Decrease in scheme liabilities by:		
	2.3%	2.1%	CPI: Decrease by 0.2% with consequent reduction in salary increases	PSPS	0.6%	0.6%
				Other schemes	3.9%	3.9%
Mortality rate			Increase life expectancy by 1 year	Increase in scheme liabilities by:		
				PSPS	3.9%	4.0%
				Other schemes	3.9%	3.8%

C10 Share capital, share premium and own shares

	2018			2017		
Issued shares of 5p each fully paid	**Number of ordinary shares**	**Share capital** £m	**Share premium** £m	**Number of ordinary shares**	**Share capital** £m	**Share premium** £m
At 1 January	2,587,175,445	129	1,948	2,581,061,573	129	1,927
Shares issued under share-based schemes	5,868,964	1	16	6,113,872	–	21
At 31 December	2,593,044,409	130	1,964	2,587,175,445	129	1,948

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 2018, there were options outstanding under save as you earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range		Exercisable by year
		from	to	
31 Dec 2018	4,885,804	901p	1,455p	2024
31 Dec 2017	6,448,853	629p	1,455p	2023

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 £170 million as at 31 December 2018 (31 December 2017: £250 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2018, 9.6 million (31 December 2017: 11.4 million) Prudential plc shares with a market value of £135 million (31 December 2017: £218 million) were held in such trusts all of which are for employee incentive plans. The maximum number of shares held during 2018 was 14.9 million which was in March 2018.

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

	Number of shares	2018 share price		Cost	Number of shares	2017 share price		Cost
		Low	High			Low	High	
January	51,555	19.18	19.40	996,536	62,388	15.83	16.02	989,583
February	55,765	17.91	18.10	1,004,362	65,706	15.70	16.09	1,052,657
March	55,623	18.25	18.54	1,025,238	70,139	16.40	16.54	1,159,950
April	1,664,334	16.67	17.95	29,113,556	3,090,167	16.58	16.80	51,369,760
May	63,334	18.91	19.38	1,216,136	55,744	17.50	17.62	979,645
June	181,995	18.21	18.65	3,335,725	182,780	17.52	18.00	3,269,447
July	55,888	17.68	17.86	993,779	51,984	17.72	17.93	927,452
August	60,384	18.04	18.10	1,090,283	55,857	18.30	18.73	1,025,802
September	82,612	16.95	16.98	1,400,868	51,226	17.45	17.97	912,151
October	148,209	15.62	16.84	2,477,127	136,563	17.99	18.22	2,483,879
November	67,162	15.95	15.96	1,071,633	53,951	18.38	18.40	992,123
December	73,744	13.99	14.30	1,045,278	53,519	18.26	18.47	986,000
Total	2,560,605			44,770,521	3,930,024			66,148,449

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 2018 was 3.0 million (31 December 2017: 6.4 million) and the cost of acquiring these shares of £20 million (2017: £71 million) is included in the cost of own shares. The market value of these shares as at 31 December 2018 was £42 million (31 December 2017: £121 million). During 2018, these funds made net disposals of 3,368,506 Prudential shares (2017: acquisitions of 372,029) for a net decrease of £50.5 million to book cost (2017: net increase of £9.4 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 2018 or 2017.

C11 Provisions

	31 Dec 2018 £m	31 Dec 2017 £m
Provision in respect of defined benefit pension schemes[C9]	174	180
Other provisions[note]	904	943
Total provisions	1,078	1,123

Note
Analysis of other provisions:

	2018 £m	2017 £m
At 1 January	943	659
Charged to income statement:		
Additional provisions	229	542
Unused amounts released	(18)	(9)
Used during the year	(262)	(239)
Exchange differences	12	(10)
Total at 31 December	904	943

Other provisions comprise staff benefits provisions of £409 million (31 December 2017: £453 million) that are generally expected to be paid out within the next three years, other provisions of £171 million (31 December 2017: £121 million) and a provision for review of past annuity sales after utilisation during the year of £324 million (31 December 2017: £369 million). Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. A gross provision of £400 million, before costs incurred, was established at 31 December 2017 to cover the costs of undertaking the review and any related redress and following a reassessment, no change has been made in 2018. The majority of the provision will be utilised in 2019. The ultimate amount that will be expended by the Group on the review will remain uncertain until the project is completed. If the population subject to redress increased or decreased by 10 per cent, then the provision would be expected to increase or decrease by circa 7 per cent accordingly. Additionally, in 2018, the Group agreed with its professional indemnity insurers that they will meet £166 million of the Group's claims costs, which will be paid as the Group incurs costs/redress. This has been recognised on the Group's balance sheet within 'Other debtors' at 31 December 2018.

C12 Capital

C12.1 Group objectives, policies and processes for managing capital

(i) Capital measure

The Group manages its Group Solvency II own funds as its measure of capital. At 31 December 2018 estimated Group Solvency II own funds are £30.2 billion (31 December 2017: £26.4 billion).

(ii) External capital requirements

Solvency II is the Group's consolidated capital regime. Solvency II is a risk-based solvency framework required under the European Solvency II Directive as implemented by the Prudential Regulatory Authority in the UK. The Solvency II surplus represents the aggregated capital held by the Group less Solvency Capital Requirements.

(iii) Meeting of capital management objectives

The Group Solvency Capital Requirement has been met during 2018.

As well as holding sufficient capital to meet Solvency II requirements at Group level, the Group also closely manages the cash it holds within its central holding companies so that it can:

- Maintain flexibility, fund new opportunities and absorb shock events;
- Fund dividends; and
- Cover central costs and debt payments.

More details on holding company cash flows and balances are given in section II(a) of the Additional unaudited financial information.

While the Group at a consolidated level is subject to the Solvency II requirements, at a business unit level capital is defined by local capital regulations and local business needs.

Each of the Group's long-term business operations is capitalised to a sufficiently strong level for its individual circumstances.

The Group manages its assets, liabilities and capital locally, in accordance with local regulatory requirements and reflecting the different types of liabilities in each business unit. As a result of the diversity of products offered by Prudential and the different regulatory regimes under which it operates, the Group employs differing methods of asset/liability and capital management, depending on the business concerned.

Stochastic modelling of assets and liabilities is undertaken in the UK, US and Asia to assess the economic capital requirements. A stochastic approach models the inter-relationship between asset and liability movements, taking into account asset correlation, management actions and policyholder behaviour under a large number of alternative economic scenarios.

In addition, reserve adequacy testing under a range of scenarios and dynamic solvency testing is carried out, including under certain scenarios mandated by the UK, US and Asia regulators.

The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this conditions the approach to asset/liability management.

(iv) Post demerger

In August 2018, the Group announced that the Hong Kong Insurance Authority would become its lead regulator upon successful completion of the demerger. The European Solvency II regime will no longer be applicable to Prudential plc group and it is proactively engaging with the Hong Kong Insurance Authority on the supervisory framework that will apply to the Group after the demerger.

C12.2 Local capital regulations

(i) Asia insurance operations

The estimated available capital position for Asia life insurance operations excluding with-profits funds with reconciliation to shareholders equity is shown below:

	31 Dec 2018 £m	31 Dec 2017 £m
IFRS shareholders' equity	5,868	5,525
Adjustments to local regulatory basis		
Remove deferred acquisition costs, goodwill and other intangibles	(1,850)	(1,515)
Other adjustments	631	306
Total adjustments	(1,219)	(1,209)
Total available capital resources of life assurance businesses on a local regulatory basis excluding with-profits funds note	4,649	4,316

Note

The available capital resources on a local regulatory basis as at 31 December 2018 excludes the with-profits business of Hong Kong, Singapore and Malaysia of £11,524 million (31 December 2017: £10,253 million).

The capital requirements of significant operations are:

China

A risk-based capital, risk management and governance framework, known as the China Risk Oriented Solvency System (C-ROSS), applies in China. Under C-ROSS, insurers are required to maintain a core solvency ratio (core capital over minimum capital) and a comprehensive solvency ratio (actual capital over minimum capital) of not lower than 50 per cent and 100 per cent, respectively. The actual capital is the difference between the admitted assets and admitted liabilities.

Hong Kong

The capital requirement varies by underlying risk and duration of liabilities, but is generally determined as a percentage of mathematical reserves and capital at risk. Mathematical reserves are based on a best estimate basis with prudent margins for adverse deviations, discounted at a valuation interest rate based on a blend between the risk-adjusted portfolio yield and the reinvestment rate.

Indonesia

Solvency capital is determined using a risk-based capital approach. Insurance companies in Indonesia are expected to maintain the level of net assets above 100 per cent of solvency capital.

Malaysia

A risk-based capital framework applies in Malaysia. The local regulator, Bank Negara Malaysia (BNM), has set a Supervisory Target Capital Level of 130 per cent below which supervisory actions of increasing intensity will be taken. Each insurer is also required to set its own Individual Target Capital Level to reflect its own risk profile and this is expected to be higher than the Supervisory Target Capital Level.

Market liberalisation measures were introduced by BNM in April 2009, which increases the limit from 49 per cent to 70 per cent on foreign equity ownership for insurance companies and Takaful operators in Malaysia. A higher foreign equity limit beyond 70 per cent for insurance companies will be considered by BNM on a case by case basis for companies who support expansion of insurance provision to the most vulnerable in Malaysian society.

Singapore

A risk-based capital framework applies in Singapore. A registered insurer incorporated in Singapore is required at all times to maintain a minimum level of paid-up ordinary share capital and to ensure that its financial resources are not less than the greater of (i) the total risk requirement arising from the assets and liabilities of the insurer, calculated in accordance with the Singapore Insurance Act; or (ii) a minimum amount of S$5 million (Singapore dollars). The regulator also has the authority to direct that the insurer satisfy additional capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if it considers such additional requirements appropriate.

C12 Capital continued

C12.2 Local capital regulations continued

(ii) US insurance operations

The estimated capital position for Jackson with reconciliation to shareholders' equity is shown below:

	31 Dec 2018 £m	31 Dec 2017 £m
IFRS shareholders' equity	5,584	5,013
Adjustments to regulatory basis		
Remove deferred acquisition costs	(8,727)	(8,197)
Jackson surplus notes	196	184
Investment and policyholder liabilities valuation differences between IFRS and regulatory basis for Jackson	7,217	5,325
Other adjustments*	63	818
Total adjustments	(1,251)	(1,870)
Total available capital resources of life assurance businesses on a local regulatory basis	4,333	3,143

* Other adjustments include the removal of entities recorded as US insurance operations in the IFRS statements which fall outside the scope of Jackson National Life Insurance Company.

The regulatory framework for Jackson is governed by the requirements of the US NAIC approved Risk-Based Capital standards. Under these requirements life insurance companies report using a formula-based capital standard which includes components calculated by applying after-tax factors to various asset, premium and reserve items and a separate model-based component for market risk associated primarily with variable annuity products. The after-tax factors were adjusted to reflect the impact of US Tax Reform during 2018.

Jackson had a permitted practice in effect as granted by the local regulator allowing Jackson to carry certain interest rate swaps at book value, as if statutory hedge accounting were in place, instead of at fair value as would have been otherwise required. Jackson is required to demonstrate the effectiveness of its interest rate swap programme pursuant to the Michigan Insurance Code. The total effect of this permitted practice, net of tax, was to decrease statutory surplus by £129 million (31 December 2017: £355 million).

Under the equivalence provisions of Solvency II, Jackson is incorporated into the Group's Solvency II position at a level equal to available capital in excess of 100 per cent of the US local minimum risk-based capital requirement level at which corrective action commences.

(iii) UK and Europe insurance operations

Insurance operations in the UK and Europe are subject to Solvency II capital requirements on an individual basis. These have been met during 2018.

(iv) Asset management operations – regulatory and other surplus

Certain asset management subsidiaries of the Group are subject to local regulatory requirements. The movement in the year of the estimated surplus regulatory capital position of those subsidiaries, combined with the movement in the IFRS basis shareholders' funds for unregulated asset management operations, is as follows:

	Asset management operations				
	2018 £m				2017 £m
	M&GPrudential	US	Eastspring Investments	Total	Total
Regulatory and other surplus					
Beginning of year	419	235	222	876	814
Gains during the year	364	23	138	525	586
Movement in capital requirement	(10)	–	5	(5)	(73)
Capital injection	88	–	13	101	6
Distributions made to the parent company	(197)	(97)	(104)	(398)	(433)
Exchange and other movements	–	(121)	20	(101)	(24)
End of year	664	40	294	998	876

C12.3 Transferability of available capital

In the UK, PAC is required to meet the Solvency II capital requirements as a company as a whole, ie covering both its ring-fenced with-profits funds and non-profit funds. Further, the surplus of the with-profits funds is ring-fenced from the shareholder balance sheet with restrictions as to its distribution. Distributions from the with-profits funds to shareholders continue to reflect the shareholders' one-ninth share of the cost of declared policyholders' bonuses.

For Jackson, capital retention is maintained at a level consistent with an appropriate rating by Standard & Poor's. Currently Jackson is rated AA. Jackson can pay dividends on its capital stock only out of earned surplus unless prior regulatory approval is obtained. Furthermore, dividends that exceed the greater of statutory net gain from operations less net realised investments losses for the prior year or 10 per cent of Jackson's prior year end statutory surplus, excluding any increase arising from the application of permitted practices, require prior regulatory approval.

For Asia subsidiaries, the amounts retained within the companies are at levels that provide an appropriate level of capital strength in excess of the local regulatory minimum. The businesses in Asia may, in general, remit dividends to UK parent entities, provided the statutory insurance fund meets the local regulatory solvency requirements. For with-profits funds, the excess of assets over liabilities is retained within the funds, with distribution to shareholders tied to the shareholders' share of declared bonuses.

Available capital of the non-insurance business units is transferable after taking account of an appropriate level of operating capital, based on local regulatory solvency requirements, over and above base liabilities.

C13 Property, plant and equipment

Property, plant and equipment comprise Group occupied properties and tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the year is as follows:

	2018 £m			2017 £m		
	Group occupied property	Tangible assets	Total	Group occupied property	Tangible assets	Total
At 1 January						
Cost	367	1,041	1,408	439	1,077	1,516
Accumulated depreciation	(72)	(547)	(619)	(88)	(685)	(773)
Net book amount	295	494	789	351	392	743
Year ended 31 December						
Opening net book amount	295	494	789	351	392	743
Exchange differences	13	10	23	(8)	(14)	(22)
Depreciation and impairment charge	(10)	(127)	(137)	(22)	(94)	(116)
Additions	35	254	289	17	117	134
Arising on acquisitions of subsidiaries	4	518	522	–	178	178
Disposals and transfers	(8)	(69)	(77)	(43)	(85)	(128)
Closing net book amount	329	1,080	1,409	295	494	789
At 31 December						
Cost	412	1,641	2,053	367	1,041	1,408
Accumulated depreciation	(83)	(561)	(644)	(72)	(547)	(619)
Net book amount	329	1,080	1,409	295	494	789

Tangible assets

Of the £1,080 million (31 December 2017: £494 million) of tangible assets, £856 million (31 December 2017: £360 million) were held by the Group's with-profits businesses, primarily by the consolidated subsidiaries for venture fund and other investment purposes of the UK with-profits fund.

Capital expenditure: property, plant and equipment by segment

The capital expenditure of £254 million (2017: £117 million) arose as follows: £52 million (2017: £55 million) in Asia, £14 million (2017: £19 million) in US and £187 million (2017: £41 million) in UK and Europe with the remaining balance of £1 million (2017: £2 million) arising from unallocated corporate expenditure.

C14 Investment properties

Investment properties principally relate to the UK with-profits fund and are carried at fair value. A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

	2018 £m	**2017** £m
At 1 January	16,497	14,646
Additions:		
Resulting from property acquisitions	1,326	2,009
Resulting from expenditure capitalised	183	39
Disposals	(178)	(591)
Net gain from fair value adjustments	149	415
Net foreign exchange differences	(52)	(21)
At 31 December	17,925	16,497

The 2018 income statement includes rental income from investment properties of £927 million (2017: £876 million) and direct operating expenses including repairs and maintenance arising from these properties of £56 million (2017: £82 million).

Investment properties of £5,825 million (31 December 2017: £5,689 million) are held under finance leases. The present value of minimum lease payments under these leases is £42 million (31 December 2017: £43 million) and 76 per cent (31 December 2017: 73 per cent) of lease payments are due in over five years.

The Group's policy is to let investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Group's freehold investment properties are receivable in the following periods:

	2018 £m	**2017** £m
Less than 1 year	314	322
1 to 5 years	1,077	1,073
Over 5 years	2,242	2,286
Total	3,633	3,681

The total minimum future rentals to be received on non-cancellable sub-leases for the Group's investment properties held under finance leases at 31 December 2018 are £1,596 million (31 December 2017: £1,527 million).

D Other notes

D1 Corporate transactions

D1.1 Gains/(losses) on disposal of businesses and corporate transactions

'(Loss) gain on disposal of businesses and corporate transactions' comprises the following:

	2018 £m	**2017** £m
Loss arising on reinsurance of part of UK shareholder-backed annuity portfolio note (i)	(508)	–
Other transactions note (ii)	(80)	223
	(588)	223

Notes

(i) *Loss arising on reinsurance of part of UK shareholder-backed annuity portfolio*

In March 2018, M&GPrudential announced the reinsurance of £12.0 billion (as at 31 December 2017) of its shareholder-backed annuity portfolio to Rothesay Life. Under the terms of the agreement, M&GPrudential has reinsured the liabilities to Rothesay Life, which is expected to be followed by a court sanctioned legal transfer, under Part VII of the Financial Services and Markets Act 2000 (Part VII), of most of the portfolio to Rothesay Life by 30 June 2019.

The reinsurance agreement became effective on 14 March 2018. A reinsurance premium of £12,149 million has been recognised within 'Outward reinsurance premiums' in the income statement and settled via the transfer of financial investments and other assets to Rothesay Life. After allowing for the recognition of a reinsurance asset and associated changes to policyholder liabilities, a loss of £(508) million was recognised in 2018 in relation to the transaction.

The reinsured annuity business that will be transferred once the Part VII process is complete has been classified as held for sale in these consolidated financial statements in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'.

The assets and liabilities of the M&GPrudential annuity business classified as held for sale on the statement of financial position are as follows:

	31 Dec 2018 £m
Assets	
Reinsurer's share of insurance contract liabilities	10,502
Other assets (including cash and cash equivalents)	66
Assets held for sale	10,568
Liabilities	
Policyholder liabilities	10,502
Other liabilities	66
Liabilities held for sale	10,568

(ii) *Other transactions*

Other transaction costs of £80 million incurred by the Group in 2018 primarily relate to additional costs incurred in exiting from the NPH broker-dealer business and costs related to preparation for the previously announced intention to demerge M&GPrudential from Prudential plc, resulting in two separately listed entities.

In 2017, the Group completed its disposal of its Korea life business, realising a gain of £61 million principally as a result of recycling from other comprehensive income cumulative exchange gains of this 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 which realised a gain of £162 million in 2017. Together these two transactions generated a gain on disposal of businesses and corporate transactions of £223 million.

D1 Corporate transactions continued

D1.2 Acquisition of TMB Asset Management Co., Ltd. in Thailand

In September 2018, the Group completed its initial acquisition of 65 per cent of TMB Asset Management Co., Ltd. (TMBAM), an asset management company in Thailand, from TMB Bank Public Limited (TMB) for £197 million.

The terms of the sale agreement include a call option exercisable (by the Group) after three years and a put option exercisable (by TMB) after four years which, if exercised, triggers the purchase of the remaining 35 per cent of the business. The put option, in line with IFRS, has been recognised as a financial liability and a reduction in shareholders' equity of £106 million as of the acquisition date, being the discounted expected consideration payable for the remaining 35 per cent (£109 million as of 31 December 2018).

The fair value of the acquired assets, assumed liabilities and resulting goodwill are shown in the table below:

	31 Dec 2018 £m
Assets	
Intangible assets	5
Other assets	26
Cash and cash equivalents	2
Total assets	33
Other liabilities	(10)
Non-controlling interests	(7)
Net assets acquired and liabilities assumed	16
Goodwill arising on acquisition*	181
Purchase consideration	197

* The goodwill on acquisition of £181 million (retranslated to £186 million at 31 December 2018) is mainly attributable to the expected benefits from new customers and synergies. Refer to note C5.1 for changes to the carrying amount of goodwill during the year.

The acquisition of TMBAM contributed £18 million to revenue and £5 million to adjusted IFRS operating profit based on longer-term investment returns and profit before tax of the Group for the post-acquisition period from 27 September to 31 December 2018. There is no material impact on the Group's revenue and profit for 2018 if the acquisition had occurred on 1 January 2018.

D2 Contingencies and related obligations

Litigation and regulatory matters

In addition to the matters set out in note C11 in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in various litigation and regulatory issues. These may from time to time include class actions involving Jackson. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

Guarantees

Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The estimated reserve for future guarantee fund assessments is not significant. The directors believe that sufficient provision has been made on the balance sheet for all anticipated payments for known insolvencies.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the Group does not consider that the amounts involved are significant.

Support for with-profits sub-funds by shareholders' funds

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

Matters relating to with-profits sub-funds:

- Pension mis-selling review – the UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Offers of redress to all cases were made by 30 June 2002. Whilst Prudential believed it met the regulator's requirements to issue offers of redress to all customers by 30 June 2002 there is a population of customers who, whilst an attempt was made at the time, to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged to ensure that they have the opportunity to take part in the review. Costs arising from this review are met by the excess assets of the UK with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. Prudential has given an assurance that these deductions from excess assets will not impact its bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, Prudential has stated it would make available support to the sub-fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged;

- Scottish Amicable Insurance sub-fund – policies within this sub-fund (a with-profits sub-fund closed to new business) contain minimum levels of guaranteed benefit to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the UK with-profits sub-fund would be liable to cover any such deficiency in the first instance. In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £361 million was held within the sub-fund (31 December 2017: £503 million); and
- Guaranteed annuities – a provision for guaranteed annuity products of £49 million was held (31 December 2017: £53 million) in the UK with-profits sub-fund.

Intra-group capital support arrangements

Prudential and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential. While Prudential considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

In addition, Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries regarding their solvency levels.

D3 Post balance sheet events

Dividends

The second interim ordinary dividend for the year ended 31 December 2018, that was approved by the Board of Directors after 31 December 2018, is described in note B6.

Renewal of strategic bancassurance alliance with United Overseas Bank Limited

In January 2019, the Group announced the renewal of its regional strategic bancassurance alliance with United Overseas Bank Limited (UOB). The new agreement extends the original alliance, which commenced in 2010 to 2034 and increases the geographical scope to include a fifth market, Vietnam, alongside the existing markets across Singapore, Malaysia, Thailand and Indonesia.

As part of this transaction, Prudential has agreed to pay UOB an initial fee of £662 million (translated using a Singapore dollar: £ foreign exchange rate of 1.7360) for distribution rights which is not dependent on future sales volumes. This amount will be paid in three instalments of £230 million in February 2019, £331 million in January 2020 and £101 million in January 2021. In line with the Group's policy, these amounts will be capitalised as a distribution rights intangible asset.

D4 Related party transactions

Transactions between the Company and its subsidiaries that are eliminated on consolidation

The Company has transactions and outstanding balances with certain unit trusts, Open-Ended Investment Companies (OEICs), collateralised debt obligations and similar entities that are not consolidated and where a Group company acts as manager which are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's statement of financial position at fair value or amortised cost in accordance with IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and amounts paid in respect of the periodic charge and administration fee.

In addition, there are no material transactions between the Group's joint ventures and associates, which are accounted for on an equity method basis and other Group companies.

Executive officers and Directors of the Company may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In 2018 and 2017, other transactions with Directors were not deemed to be significant both by virtue of their size and in the context of the Directors' financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's-length transactions.

Apart from these transactions with Directors, no Director had interests in shares, transactions or arrangements that require disclosure, other than those given in the Directors' remuneration report. Key management remuneration is disclosed in note B2.3.

D5 Commitments

Operating leases and capital commitments

The Group leases various offices to conduct its business. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

	2018 £m	**2017** £m
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:		
Not later than 1 year	**120**	113
Later than 1 year and not later than 5 years	**404**	284
Later than 5 years	**408**	118
Future minimum sub-lease rentals received for non-cancellable operating leases for land and buildings	**42**	56
Minimum lease rental payments included in consolidated income statement	**139**	123

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment properties at 31 December 2018 were £615 million (31 December 2017: £176 million).

At 31 December 2018, Jackson has unfunded commitments of £664 million (31 December 2017: £414 million) related to its investments in limited partnerships and £345 million (31 December 2017: £214 million) related to commercial mortgage loans and other fixed maturities. These commitments were entered into in the normal course of business and a material adverse impact on the operations is not expected to arise from them.

At 31 December 2018, UK and Europe's insurance operations had unfunded commitments of £3,997 million (31 December 2017: £3,225 million) related to private equity and infrastructure funds. In addition, Prudential Capital had unfunded commitments of £155 million (31 December 2017: £162 million) related to its bridging loans. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

D6 Investments in subsidiary undertakings, joint ventures and associates

(a) Dividend restrictions and minimum capital requirements

Certain Group subsidiaries and joint ventures are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to the parent company.

Under UK company law, UK companies can only declare dividends if they have sufficient distributable reserves. Further, UK insurance companies are required to maintain solvency margins in accordance with the rules of the Prudential Regulation Authority. M&GPrudential's asset management company, M&G Investment Management Ltd, is also required to maintain capital in accordance with regulatory requirements before making any distribution to the parent company.

Jackson is subject to state laws that limit the dividends payable to its parent company based on statutory capital, surplus and prior year earnings. Dividends in excess of these limitations require prior regulatory approval.

The Group's subsidiaries, joint ventures and associates in Asia may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations and has sufficient distributable reserves. For further details on local capital regulations in Asia please refer to note C12.2.

(b) Investments in joint ventures and associates

Joint ventures represent arrangements where the controlling parties through contractual or other agreement have the rights to the net assets of the arrangements. The Group has shareholder-backed joint venture insurance and asset management businesses in China with CITIC Group, and a joint venture asset management business in India with ICICI Bank . In addition, there is an asset management joint venture in Hong Kong with Bank of China International Holdings Limited (BOCI) and Takaful insurance joint venture in Malaysia.

The Group has various joint ventures relating to property investments held by the UK with-profits fund. The results of these joint ventures are reflected in the movement in the unallocated surplus of the UK with-profits funds and therefore do not affect shareholders' results.

For the Group's joint ventures that are accounted for by using the equity method, the net of tax results of these operations are included in the Group's profit before tax.

The Group's associates, which are also accounted for under the equity method, include the Indian insurance entity (with the majority shareholder being ICICI Bank) and PPM South Africa. In addition, the Group has investments in Open-Ended Investment Companies (OEICs), unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the UK with-profits funds where the Group has significant influence. As allowed under IAS 28, these investments are accounted for on a fair value through profit or loss basis. The aggregate fair value of associates accounted for at fair value through profit or loss, where there are published price quotations, is approximately £1.2 billion at 31 December 2018 (31 December 2017: £2.4 billion).

For joint ventures and associates accounted for using the equity method, the 12 months financial information of these investments up to 31 December (covering the same period as that of the Group) has been used in these consolidated financial statements.

Key to classes of shares held

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

The Group's share of the profits (including short-term fluctuations in investment returns), net of related tax, and carrying amount of interest in joint ventures and associates, which are equity accounted as shown in the consolidated income statement comprises the following:

Joint ventures and associates	**2018** £m	**2017** £m
Shareholder-backed business	255	196
UK with-profits fund (prior to offsetting effect in movement in unallocated surplus)	36	106
Total	291	302

	Asia		**UK and Europe**		
Share of profits from joint ventures and associates, net of related tax	**Insurance**	**Asset management**	**Insurance**	**Asset management**	**Total segment and Group total**
2018	178	61	36	16	291
2017	121	60	106	15	302

There is no other comprehensive income in the joint ventures and associates. There has been no unrecognised share of losses of a joint venture or associate that the Group has stopped recognising in the total income.

The joint ventures have no significant contingent liabilities or capital commitments to which the Group is exposed nor does the Group have any significant contingent liabilities or capital commitments in relation to its interests in the joint ventures.

(c) Related undertakings

In accordance with Section 409 of the Companies Act 2006 a list of Prudential Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent) along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 31 December 2018 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. The Group's consolidation policy is described in note A3.1(b).

Direct subsidiary undertakings of the parent company, Prudential plc (shares held directly or via nominees)

Name of entity	**Classes of shares held**	**Proportion held**	**Registered office address and country of incorporation**
M&G Prudential Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential (US Holdco1) Limited	OS	100.00%	
Prudential Capital Holding Company Limited	OS	100.00%	
Prudential Corporation Asia Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Group Holdings Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, Prudential plc or its nominees)

Name of entity	**Classes of shares held**	**Proportion held**	**Registered office address and country of incorporation**
95th Avenue Retail Building, LLC	MI	100.00%	901 S., Ste. 201, Second St., Springfield, IL, 62704-7909, United States
Aberdeen Standard Singapore Equity	OS	57.73%	21 Church Street, Capital Square 2, #01-01, Singapore 049480
Aberdeen Standard Cash Creation	OS	22.91%	28th Floor Bangkok City Tower, 179 South Sathorn Road, Thungmahamek, Sathorn, Bangkok 10120, Thailand
Allied Life Brokerage Agency, Inc	OS	100.00%	400 East Court Avenue, Des Moines, IA 50309, USA
ANRP II (AIV VI FC), L.P.	LPI	36.58%	Cayman Corporate Centre, 27 Hospital Road, George Town, KY-9008, Cayman Islands
BOCHK Aggressive Growth Fund	OS	57.19%	27th Floor, Bank of China Tower, 1 Garden Road, Central and Western District, Hong Kong
BOCHK Asia Pacific Equity Fund	OS	27.18%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai, Hong Kong
BOCHK Balanced Growth Fund	OS	49.07%	
BOCHK China Equity Fund	OS	66.00%	
BOCHK Conservative Growth Fund	OS	54.00%	
BOCHK Global Bond Fund	OS	30.25%	27/F Bank of China Tower, 1 Garden Road, Central and Western District, Hong Kong
BOCHK Investment Funds - BOCHK Hong Kong Equity Fund	U	20.25%	12th Floor, 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai , Hong Kong
BOCI - Prudential Asset Management Limited	OS	36.00%	27th Floor, Bank of China Tower, 1 Garden Road, Central and Western District, Hong Kong

D6 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, Prudential plc or its nominees) continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
BOCI - Prudential Trustee Limited	OS	36.00%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai, Hong Kong
Brier Capital LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Brooke (Holdco 1) Inc	OS	100.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Brooke Life Insurance Company	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
BWAT Retail Nominee (1) Limited	OS	50.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
BWAT Retail Nominee (2) Limited	OS	50.00%	
Calvin F1 GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Calvin F2 GP Limited	OS	100.00%	
Canada Property (Trustee) No 1 Limited	OS	100.00%	Lime Grove House, Green Street, St Helier, JE1 2ST, Jersey
Canada Property Holdings Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Cardinal Distribution Park Management Limited	OS	66.00%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carraway Guildford (Nominee A) Limited	OS	100.00%	13 Castle Street, St Helier, Jersey, JE4 5UT
Carraway Guildford (Nominee B) Limited	OS	100.00%	
Carraway Guildford General Partner Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Carraway Guildford Investments Unit Trust	OS	100.00%	13 Castle Street, St Helier, Jersey, JE4 5UT
Carraway Guildford LP	LPI	100.00%	Lloyds Chambers, 1 Portsoken Street, London, E1 8HZ, UK
Centaurus Retail LLP	LPI	50.00%	40 Broadway, London, SW1H 0BU, UK
Centre Capital Non-Qualified Investors IV AIV Orion, LP	LPI	76.80%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors IV AIV-ELS, LP	LPI	76.53%	
Centre Capital Non-Qualified Investors IV AIV-RA, LP	LPI	31.92%	
Centre Capital Non-Qualified Investors IV, LP	LPI	73.06%	
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	73.16%	
Centre Capital Non-Qualified Investors V LP	LPI	67.16%	
CEP IV-A Chicago AIV LP	LPI	31.92%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A CWV AIV LP	LPI	31.95%	850 New Burton Road, Suite 201, Dover, DE 19904, USA
CEP IV-A Davenport AIV LP	LPI	31.92%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A Indy AIV LP	LPI	31.92%	
CEP IV-A NMR AIV LP	LPI	31.92%	
CEP IV-A WBCT AIV LP	LPI	31.91%	
CF Prudential European QIS Fund	OS	97.89%	17 Rochester Row, London, SW1P 1QT, UK
CF Prudential Japanese QIS Fund	OS	97.99%	
CF Prudential North American QIS Fund	OS	98.87%	135 Bishopsgate, London, EC2M 3UR, UK
CF Prudential Pacific Markets Trust Fund	OS	98.31%	Laurence Pountney Hill, London, EC4R 0HH, UK
CF Prudential UK Growth QIS Fund	OS	98.92%	17 Rochester Row, London, SW1P 1QT, UK
CITIC-CP Asset Management Co., Ltd.	MI	26.95%	No.128 North Zhangjiabang Road, Pudong District, Shanghai, China
CITIC-Prudential Fund Management Co., Ltd.	MI	49.00%	Level 9, HSBC Building, Shanghai IFC, 8 Century Avenue, Pudong, Shanghai, China
CITIC-Prudential Life Insurance Company Limited	MI	50.00%	East Tower, World Financial Centre, No. 1 East Third Ring Middle Road, Chaoyang District, Beijing, China
Clairvest Equity Partners IV-A LP	LPI	31.87%	22 St Clair Avenue East, Suite 1700, Toronto, ON M4T 2S3, Canada
Cribbs Causeway JV Limited	OS	50.00%	40 Broadway, London, SW1H 0BU, UK
Cribbs Causeway Merchants Association Limited	LBG	100.00%	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Curian Capital, LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Curian Clearing LLC (Michigan)	OS	100.00%	
Digital Infrastructure Investment Partners GP LLP	LPI	65.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100.00%	
Digital Infrastructure Investment Partners LP	LPI	100.00%	
Digital Infrastructure Investment Partners SLP GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Digital Infrastructure Investment Partners SLP GP1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100.00%	

Key to classes of shares held

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Al-Wara' Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia
Eastspring Asset Management Korea Co. Ltd.	OS	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Infrastructure Debt Fund L.P.	PI	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Investments - Japan Equity Fund	U	89.84%	26, Boulevard Royal, Luxembourg, L-2449, Luxembourg
Eastspring Investment Management (Shanghai) Company Limited	OS	100.00%	3/F Azia Center, 1233 Lujiazui Ring Road, Shanghai 200120, China
Eastspring Investments - Asian Local Bond Fund	OS	97.95%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Smaller Companies Fund	OS	99.71%	
Eastspring Investments - Developed and Emerging Asia Equity Fund	OS	100.00%	
Eastspring Investments - Emerging Europe, Middle East and Africa Dynamic Fund	OS	100.00%	
Eastspring Investments - Global Emerging Markets Customized Equity Fund	OS	99.90%	
Eastspring Investments - Global Emerging Markets Dynamic Fund	OS	94.89%	
Eastspring Investments - Global Low Volatility Equity Fund	OS	98.67%	
Eastspring Investments - Global Technology Fund	OS	78.82%	
Eastspring Investments - Japan Fundamental Value Fund	OS	98.69%	
Eastspring Investments - Pan European Fund	OS	52.83%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments - US High Yield Bond Fund	OS	31.43%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments (Hong Kong) Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Eastspring Investments (Luxembourg) SA	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments (Singapore) Limited	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments Asia Pacific Equity Fund	OS	99.98%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	OS	89.69%	
Eastspring Investments Asian Dynamic Fund	OS	84.57%	
Eastspring Investments Asian Equity Fund	OS	68.69%	
Eastspring Investments Asian Equity Income Fund	OS	77.26%	
Eastspring Investments Asian High Yield Bond Fund	OS	49.64%	
Eastspring Investments Asian High Yield Bond MY Fund	OS	81.00%	
Eastspring Investments Asian Infrastructure Equity Fund	OS	44.47%	
Eastspring Investments Asian Investment Grade Bond Fund	OS	100.00%	
Eastspring Investments Asian Low Volatility Equity Fund	OS	90.00%	
Eastspring Investments Asian Property Securities Fund	OS	95.08%	
Eastspring Investments - Asian Total Return Bond Fund	U	99.13%	26, Boulevard Royal, Luxembourg, L-2449, Luxembourg
Eastspring Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia
Eastspring Investments China Equity Fund	OS	53.72%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Dragon Peacock Fund	OS	35.18%	
Eastspring Investments European Inv Grade Bond Fund	OS	99.76%	
Eastspring Investments Fund Management Limited Liability Company	MI	100.00%	23rd Floor, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments Global Emerging Markets Bond Fund	OS	95.43%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Global Equity Navigator Fund	OS	99.99%	
Eastspring Investments Global Market Navigator Fund	OS	98.88%	
Eastspring Investments Greater China Equity Fund	OS	94.13%	
Eastspring Investments Hong Kong Equity Fund	OS	99.89%	
Eastspring Investments Incorporated	OS	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Eastspring Investments India Consumer Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene 72201, Mauritius
Eastspring Investments India Equity Fund	OS	69.74%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments India Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene 72201, Mauritius
Eastspring Investments India Infrastructure Equity Open Limited	OS	100.00%	
Eastspring Investments Latin American Equity Fund	OS	91.89%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Limited	OS	100.00%	Marunouchi Park Building, 6-1 Marunouchi 2-chome, Chiyoda-Ku, Tokyo, Japan
Eastspring Investments Global Multi Asset Income Plus Growth Fund	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments North America Value Fund	OS	99.84%	
Eastspring Investments Services Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983

D6 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, Prudential plc or its nominees) continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments SICAV-FIS - Alternative Investments Fund	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS - Asia Pacific Loan Fund	OS	100.00%	
Eastspring Investments SICAV-FIS Africa Equity Fund	U	100.00%	
Eastspring Investments SICAV-FIS Universal USD Bond Fund	OS	99.94%	
Eastspring Investments SICAV-FIS Universal USD Bond II Fund	OS	100.00%	
Eastspring Investments US Bond Fund	OS	32.87%	
Eastspring Investments US Corporate Bond Fund	OS	89.61%	
Eastspring Investments US Equity Income Fund	U	99.50%	
Eastspring Investments US High Inv Grade Bond Fund	OS	92.77%	
Eastspring Investments US Investment Grade Bond Fund	OS	56.87%	
Eastspring Investments US Strategic Income Bond Fund	OS	100.00%	
Eastspring Investments US Total Return Bond Fund	OS	100.00%	
Eastspring Investments Unit Trust - Dragon Peacock Fund	U	97.40%	Eastspring Investments (Singapore) Limited, Marina Bay Financial Centre, 10, Marina Boulevard, #32-01, Singapore 018983
Eastspring Investments UT Singapore ASEAN Equity Fund	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments UT Singapore Select Bond Fund	OS	85.39%	
Eastspring Investments World Value Equity Fund	OS	92.28%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Overseas Investment Fund Management (Shanghai) Company Limited	OS	100.00%	Unit 306-308, 3/F Azia Center, 1233 Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, China
Eastspring Real Assets Partners	OS	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Securities Investment Trust Co., Ltd.	OS	99.54%	4th Floor, No.1 Songzhi Road, Taipei 110, Taiwan
Edger Investments Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Edinburgh Park (Management) Limited	LBG	100.00%	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL, UK
Embankment GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Embankment Nominee 1 Limited	OS	100.00%	
Embankment Nominee 2 Limited	OS	100.00%	
Empire Holding SARL (In liquidation)	OS	100.00%	5, rue Guilllaume Kroll, L-1882, Luxembourg
European Specialist Investment Funds - M&G Total Return Credit Investment Fund	OS	26.13%	80, route d'Esch, L-1470, Luxembourg
Falan GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Fashion Square ECO LP (In liquidation)	LPI	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Fidelity Funds - Japan Fund	OS	23.56%	2A, Rue Albert Borschette, BP 274, Luxembourg, LU-LU L-1246, Luxembourg
First State China Focus Fund	OS	60.97%	70 Sir John Rogerson's Quay Dublin 2 D02 R296 Ireland
First State Global Property A	OS	42.35%	Ground Floor, Tower 1, Darling Park, 201 Sussex Street, Sydney, NSW 2001, Australia
Five Hotel Holding, LLC	MI	100.00%	CT Corporation System, 208 South LaSalle Street, Suite 814, Chicago, IL 60604, USA
Folios III Designated Activity Company	OS	60.00%	Fourth Floor, 76 Lower Baggot Street, Dublin 2
Foudry Properties Limited	OS	50.00%	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
Fubon China Currency Fund	OS	25.10%	8F, No.108, Sec. 1, Dunhua S. Rd., Songshan Dist., Taipei, Taiwan
Fubon Global Investment Grade Bond Fund	OS	47.80%	8F, No.108, Sec. 1, Dunhua S. Rd., Songshan Dist., Taipei, Taiwan
Furnival Insurance Company PCC Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
Genny GP 1 LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Genny GP 2 Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Genny GP Limited	OS	100.00%	
George Digital GP 1 LLP	LPI	100.00%	
George Digital GP 2 Limited	OS	100.00%	
George Digital GP Limited	OS	100.00%	
GGE GP Limited	OS	100.00%	
Green GP Limited	OS	100.00%	

Key to classes of shares held

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Greenpark (Reading) General Partner Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Greenpark (Reading) Nominee No. 1 Limited	OS	100.00%	
GreenPark (Reading) Nominee No. 2 Limited	OS	100.00%	
GS Twenty Two Limited	OS	100.00%	
Hermitage Management LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Holborn Bars Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Holtwood Limited (in liquidation)	OS	100.00%	International House, Castle Hill, Victoria Road, Douglas, IM2 4RB, Isle of Man
Hudson Seasons, LLC	MI	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Hyde Holdco 1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
ICICI Prudential Asset Management Company Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
ICICI Prudential Life Insurance Company Limited	OS	25.82%	ICICI PruLife Towers, 1089 Appasaheb Marathe Marg, Prabhadevi, Mumbai 400025, India
ICICI Prudential Pension Funds Management Company	OS	25.82%	
ICICI Prudential Trust Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
Infracapital (AIRI) GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Belmond) GP Limited	OS	100.00%	
Infracapital (Bio) GP Limited	OS	100.00%	
Infracapital (Churchill) GP 1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, England
Infracapital (Churchill) GP LLP	LPI	100.00%	
Infracapital (GC) GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Gigaclear) GP 1 Limited	OS	100.00%	
Infracapital (Gigaclear) GP 2 Limited	OS	100.00%	
Infracapital (Gigaclear) GP LLP	LPI	100.00%	
Infracapital (IT PPP) GP Limited	OS	100.00%	
Infracapital (Leo) GP Limited	OS	100.00%	
Infracapital (Sense) GP Limited	OS	100.00%	
Infracapital (TLSB) GP Limited	OS	100.00%	
Infracapital (TLSB) SLP LP	LPI	100.00%	
Infracapital ABP GP Limited (In liquidation)	OS	100.00%	
Infracapital CI II Limited	OS	100.00%	
Infracapital DF II GP LLP	LPI	100.00%	
Infracapital DF II Limited	OS	100.00%	
Infracapital Employee Feeder GP 1 LLP	LPI	100.00%	
Infracapital Employee Feeder GP 2 LLP	LPI	100.00%	
Infracapital Employee Feeder GP Limited	OS	100.00%	
Infracapital F1 GP2 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital F2 GP1 Limited	OS	100.00%	
Infracapital F2 GP2 Limited	OS	100.00%	
Infracapital GP 1 LLP	LPI	100.00%	
Infracapital GP 2 LLP	LPI	100.00%	
Infracapital GP II Limited	OS	100.00%	
Infracapital GP Limited	OS	100.00%	
Infracapital Greenfield DF GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners 1 SLP GP LLP	LPI	100.00%	
Infracapital Greenfield Partners 1 SLP GP1 Limited	OS	100.00%	
Infracapital Greenfield Partners 1 SLP GP2 Limited	OS	100.00%	
Infracapital Greenfield Partners I Employee Feeder GP LLP	LPI	100.00%	
Infracapital Greenfield Partners I GP 1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital Greenfield Partners I GP 2 Limited	OS	100.00%	
Infracapital Greenfield Partners I GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I LP	LPI	26.52%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital Greenfield Partners I SLP2 GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP LLP	LPI	100.00%	
Infracapital Greenfield Partners I Subholdings GP1 Limited	OS	100.00%	
Infracapital Partners II LP	LPI	31.56%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital Partners II Subholdings GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners II Subholdings GP1 Limited	OS	100.00%	
Infracapital Partners III GP SARL	OS	100.00%	6, rue Eugène Ruppert, L-245, Luxembourg

D6 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, Prudential plc or its nominees) continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital Partners III Subholdings (Euro) GP LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital Partners III Subholdings (Sterling) GP LLP	LPI	100.00%	
Infracapital Partners III Subholdings GP1 Limited	OS	100.00%	
Infracapital Partners III Subholdings GP2 Limited	OS	100.00%	
Infracapital Partners LP	LPI	33.04%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital RF GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Sisu GP Limited	OS	100.00%	
Infracapital SLP II GP LLP	LPI	100.00%	
Infracapital SLP II LP	LPI	34.00%	
Infracapital SLP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Innisfree M&G PPP LLP	LPI	35.00%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Innisfree M&G PPP LP	LPI	62.22%	
Invesco Fixed Maturity Selective Emerging Market Bonds 2024	OS	57.31%	22nd Floor, No. 1 Songzhi Road, Taipei, TW-TPE 11047, Taiwan
INVEST Financial Company Insurance Agency LLC of Illinois	OS	100.00%	208 South LaSalle Street, Chicago, IL 60604, USA
Jackson Charitable Foundation Inc	NSB	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson Holdings LLC	OS	100.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Jackson National Asset Management LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life (Bermuda) Limited	OS	100.00%	Cedar House, Hamilton, Bermuda
Jackson National Life Distributors LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Jackson National Life Insurance Company	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life Insurance Company of New York	OS	100.00%	2900 Westchester Avenue, Suite 305, Purchase, NY 10577, USA
Jefferies Capital Partners V, L.P.	LPI	21.92%	1209 Orange Street, Wilmington, DE 19801, USA
JNL Global Credit LLC	OS	100.00%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
Lion Credit Opportunity Fund Public Limited Company - Credit Opportunity Fund XV	OS	98.44%	53 Merrion Square South, Dublin 2, D02 PR63, Ireland
LIPP SARL (In liquidation)	OS	100.00%	5, rue Guilllaume Kroll, L-1882, Luxembourg
Livicos Limited (In liquidation)	OS	100.00%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
London Stone Investments F3 Employee Feeder GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 I Limited	OS	100.00%	
London Stone Investments F3 II Limited	OS	100.00%	
London Stone Investments F3 SP GP LLP	LPI	100.00%	
M&G (Guernsey) Limited	OS	100.00%	Dorey Court, Admiral Park, St. Peter Port, GY1 2HT, Guernsey
M&G Alternatives Investment Management Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Asia Property Fund	OS	54.01%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G Corporate bond Fund	OS	30.96%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Dividend Fund	OS	58.33%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Episode Macro Fund	OS	23.92%	
M&G European Credit Investment Fund	OS	82.48%	80, route d'Esch, L-1470, Luxembourg
M&G European High Yield Credit Investment Fund	OS	99.99%	
M&G European Property Fund SICAV-FIS	OS	49.74%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G European Secured Property Income Fund	U	23.98%	
M&G European Select Fund	OS	41.53%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G European Strategic Value Fund	OS	79.22%	
M&G Financial Services Limited	OS	100.00%	
M&G Founders 1 Limited	OS	100.00%	
M&G General Partner Inc	OS	100.00%	Walker House, 87 Mary Street, Grand Cayman, KY1-9002, Cayman Islands
M&G Gilt & Fixed Interest Income Fund	OS	49.65%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Group Limited	OS	100.00%	
M&G IMPPP 1 Limited	OS	100.00%	
M&G International Investments Nominees Limited	OS	100.00%	

Key to classes of shares held

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G International Investments SA	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G International Investments Switzerland AG	OS	100.00%	Talstrasse 66, 8001 Zurich, Switzerland
M&G Investment Funds (10) - M&G Absolute Return Bond Fund	OS	41.56%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Investment Funds (10) - M&G Global Listed Infrastructure Fund	OS	20.00%	
M&G Investment Funds (10) - M&G Positive Impact Fund	OS	51.96%	
M&G Investment Funds (4) - M&G Episode Allocation Fund	OS	22.35%	
M&G Investment Funds (7) - M&G Global Convertibles Fund	OS	59.02%	
M&G Investment Management Limited	OS	100.00%	
M&G Investments (Americas) Inc.	OS	100.00%	251 Little Falls Drive, Wilmington, DE, 19801
M&G Investments (Australia) Pty Ltd	OS	100.00%	Level 16, Grosvenor Place, 225 George Street, Sydney, NSW 2000, Australia
M&G Investments (Hong Kong) Limited	OS	100.00%	6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong
M&G Investments (Singapore) Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
M&G Investments Japan Co., LTD	OS	100.00%	3-1 Toranomon, 4 Chome, Minato-ku, Tokyo, Japan
M&G Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Luxembourg SA	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G Management Services Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Nominees Limited	OS	100.00%	
M&G PFI 2018 GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G PFI 2018 GP2 Limited	OS	100.00%	
M&G PFI Carry Partnership 2016 LP	LPI	25.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100.00%	
M&G Platform Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Prudential (Holdings) Limited	OS	100.00%	
M&G Prudential Service Company Limited	OS	100.00%	
M&G RE Espana 2016 S.L.	OS	100.00%	Plaza de Colon, Torre II, Planta 14, 28046, Madrid, Spain
M&G RE UKEV (GP1) LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH
M&G RE UKEV 1-A LP	LPI	100.00%	
M&G Real Estate Asia Holding Company Pte. Ltd	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
M&G Real Estate Asia PTE. Ltd	OS	100.00%	
M&G Real Estate Debt Finance VI Designated Activity Company	OS	46.00%	4th Floor, 76 Lower Baggot Street, Dublin 2, D02 Ek81
M&G Real Estate Funds Management SARL	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G Real Estate Japan Co. Ltd.	OS	100.00%	Shiroyama Trust Tower, Tokyo, Japan
M&G Real Estate Korea Co. Ltd.	OS	100.00%	Kyobo Building, Seoul, Korea
M&G Real Estate Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Real Estate UK Enhanced Value LP	LPI	50.10%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G RED Employee Feeder GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II Employee Feeder GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
M&G RED II SLP GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28.00%	
M&G RED III Employee Feeder GP Limited	OS	100.00%	
M&G RED III GP Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
M&G RED III SLP GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25.00%	
M&G RED SLP GP Limited	OS	100.00%	
M&G RPF GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G RPF Nominee 1 Limited	OS	100.00%	
M&G RPF Nominee 2 Limited	OS	100.00%	
M&G Securities Limited	OS	100.00%	
M&G SIF Management Company (Ireland) Limited	OS	100.00%	78 Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland

D6 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, Prudential plc or its nominees) continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Specialty Finance Fund (GP) Sárl	OS	100.00%	51, Avenue J.F. Kennedy, L-1855 Luxembourg
M&G Specialty Finance Fund Carry Interest Partnership (GP) Sárl	OS	100.00%	
M&G UK Companies Financing Fund II LP	LPI	48.32%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G UK Property Fund	OS	100.00%	16, Boulevard Royal, L-2449, Luxembourg
M&G UK Property GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G UK Property Nominee 1 Limited	OS	100.00%	
M&G UK Property Nominee 2 Limited	OS	100.00%	
M&G UK Residential Property Fund	LPI	58.42%	34-38, avenue de la Liberté, L-1931, Luxembourg
M&G UKCF II GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G UKEV (SLP) General Partner LLP	LPI	100.00%	
M&G UKEV (SLP) LP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Manchester JV Limited	OS	50.00%	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Manulife Asia Pacific Bond Fund	OS	20.33%	9th Floor, 89 Sungren Road, Taipei, TW-TPE 11073, Taiwan
Manulife China Dim Sum High Yield Bond Fund	OS	36.45%	
Manulife China Offshore Bond Fund	OS	51.39%	
Manulife Superior Selection China Fund	OS	21.74%	
Manulife USD High Yield Bond Fund	U	25.73%	
MCF S.r.l	LPI	45.00%	Via Romagnosi 18/a, 00196 Roma, Italy
Minster Court Estate Management Limited	OS	75.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Mission Plans of America, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
Murphy & Partners Fund, LP	LPI	21.07%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
NAPI REIT, Inc	OS	99.00%	300 E Lombard Street, Baltimore, MD 21202, USA
National Planning Holdings, LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Nomura Six Years Fixed Maturity Emerging Market Bond Fund	OS	43.40%	101 Tower, 30F, No. 7 Sec. 5, Taipei, Taiwan
North Sathorn Holdings Company Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Nova Sepadu Sdn. Bhd. (In liquidation)	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Oaktree Business Park Limited	OS	12.50%	Laurence Pountney Hill, London, EC4R 0HH, UK
Old Kingsway, LP	LPI	100.00%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Limited	OS	100.00%	Barrat House Cartwright Way, Bardon Hill, Coalville, LE67 1UF, UK
Pacus (UK) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
PCA IP Services Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PCA Life Assurance Co. Ltd.	OS	99.79%	8th Floor, No.1 Songzhi Road, Taipei 11047, Taiwan
PCA Reinsurance Co. Ltd.	OS	100.00%	Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
PGDS (UK One) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
PGDS (US One) LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
PGF Management Company (Ireland) Limited	OS	50.00%	5 George's Dock, Dublin 1, D01 X8N7, Ireland
PPM America Capital Partners II, LLC	MI	60.50%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners IV, LLC	MI	34.50%	874 Walker Road, Suite C, City of Dover, County of Kent, State of Delaware 19904, United States
PPM America Capital Partners V, LLC	MI	34.00%	
PPM America Capital Partners VI, LLC	MI	32.00%	
PPM America Capital Partners VII, LLC	MI	100.00%	
PPM America Private Equity Fund III LP	LPI	99.81%	
PPM America Private Equity Fund IV LP	LPI	99.84%	
PPM America Private Equity Fund V LP	LPI	99.84%	
PPM America Private Equity Fund VI LP	LPI	99.85%	
PPM America Private Equity Fund VII LP	LPI	100.00%	
PPM America, Inc	OS	100.00%	

Key to classes of shares held

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM Capital (Holdings) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
PPM CLO 2 Ltd.	OS	100.00%	PO Box 1093, Queensgate House,Grand Cayman KY1-1102, Cayman Islands
PPM CLO 2018-1 Ltd.	PS	100.00%	Queensgate House, South Church Street, George Town, Grand Cayman KY1-1102, Cayman Islands
PPM CLO 3 Ltd.	OS	100.00%	PO Box 1093, Queensgate House,Grand Cayman KY1-1102, Cayman Islands
PPM Finance, Inc	OS	100.00%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM Funds	OS	100.00%	84 State Street, MA, Boston, Suffolk, 02109
PPM Funds - PPM Core Plus Fixed Income Fund	OS	99.00%	C/O PPM America, Inc., West Wacker Drive, Suite 1200, 60606, Chicago, USA
PPM Funds - PPM Credit Fund	OS	99.00%	
PPM Funds - PPM Floating Rate Income Fund	OS	96.00%	
PPM Funds - PPM High Yield Core Fund	OS	97.00%	
PPM Funds - PPM Strategic Income Fund	OS	87.00%	
PPM Holdings, Inc	OS	100.00%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM Loan Management Company LLC	MI	100.00%	
PPM Loan Management Holding Company LLC	MI	100.00%	
PPM Managers GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25.00%	
PPM Ventures (Asia) Limited (In liquidation)	OS	100.00%	Gloucester Tower, 15 Queens Road, Central, Hong Kong
PPMC First Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prenetics Limited	PS	14.27%	7th floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong
Property Partners (Two Rivers) Limited	OS	50.00%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Pru Life Insurance Corporation of U.K.	OS	100.00%	9th Floor, Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Pru Life UK Asset Management and Trust Corporation	OS	100.00%	2/F., Uptown Parade 2, 36th Street, Uptown Bonifacio, 1634 Taguig City, Philippines
Pru Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudence Foundation	LBG	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudence Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential (Cambodia) Life Assurance Plc	OS	100.00%	20th Floor, #445, Monivong Blvd, Boeung Prolit, 7 Makara, Phnom Penh Tower, Phnom Penh, Cambodia
Prudential / M&G UKCF GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Africa Holdings Limited	OS	100.00%	
Prudential Africa Services Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Assurance Company Singapore (Pte) Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Assurance Malaysia Berhad[*]	OS	51.00%	Level 3, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Assurance Uganda Limited	OS	100.00%	Kampala Road, Kampala, Uganda
Prudential BSN Takaful Berhad[†]	OS	49.00%	Level 8A, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Capital (Singapore) Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Prudential Capital plc	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Corporate Pensions Trustee Limited	OS	100.00%	
Prudential Corporation Australasia Holdings Pty Limited	OS	100.00%	c/o Highgate Legal Pty Ltd, 33 Lexington Drive, Bella Vista, NSW 2153, Australia
Prudential Corporation Holdings Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Credit Opportunities 1 SARL	OS	100.00%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Credit Opportunities GP SARL	OS	100.00%	
Prudential Credit Opportunities Scsp	OS	100.00%	
Prudential Distribution Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Dynamic 0-30 Portfolio	OS	25.49%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 10-40 Portfolio	OS	28.77%	
Prudential Dynamic 20 - 55 Portfolio	OS	34.19%	
Prudential Dynamic 40-80 Portfolio	OS	34.55%	
Prudential Dynamic 60-100 Portfolio	OS	30.20%	
Prudential Dynamic Focused 0-30 Portfolio	OS	53.48%	
Prudential Dynamic Focused 20 - 55 Portfolio	OS	37.69%	
Prudential Equity Release Mortgages Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Financial Planning Limited	OS	100.00%	
Prudential Financial Services Limited	OS	100.00%	
Prudential Five Limited	OS	100.00%	

D6 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, Prudential plc or its nominees) continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential General Insurance Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential Global Services Private Limited	OS	100.00%	Prudential House, Mumbai, India
Prudential GP Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Greenfield GP LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Greenfield GP1 Limited	OS	100.00%	
Prudential Greenfield GP2 Limited	OS	100.00%	
Prudential Greenfield LP	LPI	100.00%	
Prudential Greenfield SLP GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Prudential Group Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Group Secretarial Services Limited	OS	100.00%	
Prudential Holborn Life Limited	OS	100.00%	
Prudential Holdings Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Assurance plc	OS	100.00%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100.00%	
Prudential International Staff Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Investment (Luxembourg) 2 SARL	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
Prudential Investments Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential IP Services Limited	OS	100.00%	
Prudential Leasing Services Limited	OS	100.00%	
Prudential Life Assurance (Lao) Company Limited	OS	100.00%	Unit A, 6th Floor, Vientiane Plaza Hotel Office Building, Sailom Road, Hatsady Neua Village, Chanthabouly District, Vientiane Capital, Lao, PDR
Prudential Life Assurance (Thailand) Public Company Limited	OS	99.93%	9/9 Sathorn Building, 20th–27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
Prudential Life Assurance Kenya Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Life Assurance Zambia Limited	OS	100.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Life Insurance Ghana Limited	OS	100.00%	35 North Street, Accra, Ghana
Prudential Lifetime Mortgages Limited	OS PS	100.00% 100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Loan Investments 1 SARL	OS	100.00%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Loan Investments GP SARL	OS	100.00%	
Prudential Loan Investments SCSp	OS	100.00%	
Prudential Mauritius Holdings Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Prudential Mortgages Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Nominees Limited	OS	100.00%	
Prudential Pensions Limited	OS	100.00%	
Prudential Pensions Management Zambia Limited	OS	100.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Polska sp. z.o.o	OS	100.00%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS A Class OS	49.99% 75.00%	PO Box 44813, Claremont 7735, South Africa
Prudential Portfolio Managers Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Properties Trusty Pty Limited	OS	100.00%	Darling Park Tower 2, 201 Sussex Street, Sydney, NSW 2000, Australia
Prudential Property Holding Limited (In liquidation)	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Property Investment Managers Limited	OS	100.00%	
Prudential Property Investments Limited	OS PS	100.00% 100.00%	
Prudential Property Services Limited	OS	100.00%	
Prudential Protect Limited	OS	100.00%	
Prudential Real Estate Investments 1 Limited	OS	100.00%	
Prudential Real Estate Investments 2 Limited	OS	100.00%	
Prudential Real Estate Investments 3 Limited	OS	100.00%	

Key to classes of shares held

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Retirement Income Limited (In liquidation)	OS PS	100.00% 100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Prudential Services Asia Sdn. Bhd.	OS PS	100.00% 100.00%	Suite 1005, 10th Floor, Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Prudential Services Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Services Singapore Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
Prudential Singapore Holdings Pte. Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Staff Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Trustee Company Limited	OS	100.00%	
Prudential UK Real Estate General Partner Limited	OS	100.00%	
Prudential UK Real Estate LP	LPI	100.00%	
Prudential UK Real Estate Nominee 1 Limited	OS	100.00%	
Prudential UK Real Estate Nominee 2 Limited	OS	100.00%	
Prudential UK Services Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Unit Trusts Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Venture Managers Limited	OS	100.00%	
Prudential Vietnam Assurance Private Limited	OS	100.00%	25th Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential Vietnam Finance Company Limited	OS	100.00%	
Prudential/M&G UK Companies Financing Fund LP	LPI	34.42%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prutec Limited	OS	100.00%	
PT. Eastspring Investments Indonesia	OS	99.95%	Prudential Tower, Jl. Jendral Sudirman Kav. 79, 12910, Jakarta Selatan, Indonesia
PT. Prudential Life Assurance	OS	94.62%	
PVFC Financial Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PVM Partnerships Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Randolph Street LP	LPI	100.00%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
REALIC of Jacksonville Plans, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
Reksa Dana Eastspring IDR Fixed Income Fund (NDEIFF)	OS	99.95%	Prudential Tower, Jl. Jendral Sudirman Kav. 79, 12910, Jakarta Selatan, Indonesia
Reksa Dana Eastspring Investments Cash Reserve	U	97.31%	
Reksa Dana Eastspring Investments IDR High Grade	OS	64.64%	
Reksa Dana Eastspring Investments Value Discovery	OS	86.64%	
Reksa Dana Eastspring Investments Yield Discovery	OS	98.33%	
Reksa Dana Syariah Eastspring Syariah Equity Islamic Asia Pacific USD	OS	91.97%	
Reksa Dana Syariah Eastspring Syariah Fixed Income Amanah	OS	69.58%	
Reksa Dana Syariah Eastspring Syariah Money Market Khazanah	U	99.37%	Prudential Tower 23rd floor. Jln. Jenderal Sudirman Kavling 79, South Jakarta - 12910, Indonesia
Rhodium Investment Fund	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Rift GP 1 Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rift GP 2 Limited	OS	100.00%	
ROP, Inc	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
SCB SET Banking Sector Index (Accumulation)	OS	28.05%	7-8th Floor, SCB Park Plaza 1, 18 Ratchadapisek Road, Chatuchak, Bangkok 10900 Thailand
Schroder Asian Investment Grade Credit	OS	49.72%	138 Market Street, #23-01 CapitaGreen, Singapore 048946
Schroder Emerging Markets Fund	OS	46.83%	Schroder Investment Management (Guernsey) Limited, Regency Court Glategny Esplanade, Glategny Esplanade, St Peter Port GY1 3UF, Guernsey
Schroder Multi-Asset Revolution	OS	61.92%	CapitaGreen, #23-01, CapitaGreen, Singapore 048946, Singapore
Schroder US Dollar Money Fund	OS	41.40%	HSBC Institutional Trust Service (Asia) Limited, 1 Queen's Road Central, Hong Kong.
ScotAm Pension Trustees Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Finance plc	OS	100.00%	
Scottish Amicable Holdings Limited	OS	100.00%	
Scottish Amicable Life Assurance Society	No share capital	100.00%	
Scottish Amicable Pensions Investments Limited	OS	100.00%	
Scotts Spazio Pte. Ltd.	OS	45.00%	30 Cecil Street #23-02 Prudential Tower, Singapore, 049712
Sealand (No 1) Limited	OS	100.00%	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
Sealand (No 2) Limited	OS	100.00%	
Sectordate Limited	OS	32.60%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK

Key to classes of shares held

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

D6 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group (no shares held directly by the parent company, Prudential plc or its nominees) continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Selly Oak Shopping Park (General Partner) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100.00%	
Selly Oak Shopping Park (Nominee 2) Limited	OS	100.00%	
Selly Oak Shopping Park Limited Partnership	LPI	100.00%	
Silverfleet Capital 2004 LP	LPI	100.00%	1 Royal Plaza, St Peters Port, Guernsey, GY1 2HL
Silverfleet Capital 2005 LP	LPI	100.00%	
Silverfleet Capital 2006 LP	LPI	100.00%	
Silverfleet Capital 2009 LP	LPI	100.00%	
Silverfleet Capital 2011/12 LP	LPI	100.00%	
Silverfleet Capital II WPLF	LPI	100.00%	
Smithfield Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
SMLLC	LPI	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Squire Capital I LLC	MI	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Squire Capital II LLC	OS	100.00%	
Squire Reassurance Company II, Inc	OS	100.00%	40600 Ann Arbor Road, East Suite 201, Plymouth, MI 48170, USA
Squire Reassurance Company LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Sri Han Suria Sdn. Bhd.	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
St Edward Homes Limited	OS	50.00%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
St Edwards Strand Partnership	OS	50.00%	
Stableview Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Staple Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Staple Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Thanachart Long Term Fixed Income	OS	27.79%	231 MBK Life Building, 5th-7th Floor, Rajdamri Road, Lumpini, Pathumwan, Bangkok 10330, Thailand
Thanachart Life Assurance Public Company Limited (In liquidation)	OS	99.93%	9/9 Sathorn Building, 20th–27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
The Car Auction Unit Trust	OS	50.00%	Dorey Court, Admiral Park, St. Peter Port, GY1 2HT, Guernsey
The First British Fixed Trust Company Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
The Greenpark (Reading) LP	LPI	100.00%	
The Heights Management Company Limited	OS	50.00%	
The Prudential Assurance Company Limited	OS	100.00%	
The St Edward Homes Partnership	OS	49.95%	Berkeley House, 19 Portsmouth Road, Surrey, KT11 1JG, UK
The Strand Property Unit Trust	LPI	50.00%	Liberte house, 19-23 La Motte Street, St Helier, JE2 4SY, Jersey
The Two Rivers Trust	OS	50.00%	
Three Snowhill Birmingham SARL	OS	100.00%	5, rue Guilllaume Kroll, L-1882, Luxembourg
TMB Asset Management Co., Ltd.	OS	65.00%	32nd FL, Abdulrahim Place, 990 Rama IV Rd, Silom, Bangrak, Bangkok 10500, Thailand
Two Rivers LP	LPI	50.00%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham SARL	OS	100.00%	5, rue Guilllaume Kroll, L-1882, Luxembourg
UOB Smart Global Healthcare	OS	24.18%	23A, 25th Floor, Asia Centre Building, 173/27-30, 32-33 South Sathon Road, Thungmahamek, Sathon, Bangkok 10120, Thailand
UOB Smart Millennium Growth Fund	OS	33.18%	
VFL International Life Company SPC, Ltd.	OS	100.00%	171 Elgin Avenue, Grand Cayman, Cayman Islands
Wessex Gate Limited (In liquidation)	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Westwacker Limited	OS	100.00%	
Wynnefield Private Equity Partners I, L.P.	LPI	99.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Wynnefield Private Equity Partners II, L.P.	LPI	99.00%	1209 Orange Street, Wilmington, DE 19801, USA
Zenith-Prudential Life Insurance Company Limited	OS	51.00%	Plot 280, Ajose Adeogun Street, Victoria Island, Nigeria

* Prudential Assurance Malaysia Berhad is consolidated at 100 per cent in the Group's financial statements reflecting the economic interest to the Group.

† Prudential BSN Takaful Berhad is a joint venture that is accounted for using the equity method, for which the Group has an economic interest of 70 per cent for all business sold up to 23 December 2016 and of 49 per cent for new business sold subsequent to this date.

E Further accounting policies

E1 Other significant accounting policies

In addition to the critical accounting polices presented in note A3.1, the following detailed accounting policies are adopted by the Group to prepare the consolidated financial statements. These accounting policies are applied consistently for all years presented and normally are not subject to change unless new accounting standards, interpretations or amendments are introduced by the IASB.

(a) Basis of consolidation

The Group consolidates those investees it is deemed to control. The Group has control over an investee if all three of the following are met: (1) it has power over an investee; (2) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (3) it has ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. The majority of the Group's subsidiaries are corporate entities, but the Group's insurance operations also invest in a number of limited partnerships.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee. Where the Group is deemed to control an entity it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity, with no control over the entity, the investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Entities consolidated by the Group include Qualifying Partnerships as defined under the UK Partnerships (Accounts) Regulations 2008 (the 'Partnerships Act'). Some of these limited partnerships have taken advantage of the exemption under regulation 7 of the Partnerships Act from the financial statements requirements. This is under regulations 4 to 6, on the basis that these limited partnerships are dealt with on a consolidated basis in these financial statements.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In a number of these arrangements, the Group's share of the underlying net assets may be less than 50 per cent but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party. Associates are entities over which the Group has significant influence, but it does not control. Generally it is presumed that the Group has significant influence if it holds between 20 per cent and 50 per cent voting rights of the entity.

With the exception of those referred to below, the Group accounts for its investments in joint ventures and associates by using the equity method of accounting. The Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The equity method of accounting does not apply to investments in associates and joint ventures held by the Group's insurance or investment funds. This includes venture capital business, mutual funds and unit trusts and which, as allowed by IAS 28, 'Investments in Associates and Joint Ventures', are carried at fair value through profit or loss.

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Open-Ended Investment Companies (OEICs);
- Unit Trusts (UTs);
- Limited partnerships;
- Variable interest entities;
- Investment vehicles within separate accounts offered through variable annuities;
- Collateralised debt obligations;
- Mortgage-backed securities; and
- Similar asset-backed securities.

E1 Other significant accounting policies continued

(a) Basis of consolidation continued

(iii) Structured entities continued

Open-ended investment companies and unit trusts

The Group invests in OEICs and UTs, which invest mainly in equities, bonds, cash and cash equivalents, and properties. The Group's percentage ownership in these entities can fluctuate on a daily basis according to the participation of the Group and other investors in them.

- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity exceeds 50 per cent, the Group is judged to have control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is between 20 per cent and 50 per cent, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is less than 20 per cent, the Group is judged to not have control over the entity.
- Where the entity is managed by an asset manager outside the Group, an assessment is made of whether the Group has existing rights that gives it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of OEICs and UTs where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as a subsidiary and are consolidated, with the interests of investors other than the Group being classified as liabilities, and appear as net asset value attributable to unit holders of consolidated unit trusts and similar funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Where the Group's asset manager sets up OEICs and UTs as part of asset management operations, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with OEICs and UTs. For these open-ended investment companies and unit trusts, the Group is not deemed to control the entities but to be acting as an agent.

The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of these investment vehicles.

Jackson's separate account assets

These are investment vehicles that invest contract holders' premiums in equity, fixed income, bonds and money market mutual funds. The contract holder retains the underlying returns and the ownership risks related to the underlying investments. The shareholder's economic interest in separate accounts is limited to the administrative fees charged. The separate accounts are set up as separate regulated entities governed by a Board of Governors or trustees for which the majority of the members are independent of Jackson or any affiliated entity. The independent members are responsible for any decision making that impacts contract holders' interest and govern the operational activities of the entities' advisers, including asset managers. Accordingly, the Group does not control these vehicles. These investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities, the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements.

The majority of such vehicles are not consolidated. In these cases the Group is not the sponsor of the vehicles in which it holds investments and has no administrative rights over the vehicles' activities. The Group generates returns and retains the ownership risks commensurate to its holding and its exposure to the investments. Accordingly the Group does not have power over the relevant activities of such vehicles and all are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

The table below provides aggregate carrying amounts of the investments in unconsolidated structured entities reported in the Group's statement of financial position:

	31 December 2018 £m			**31 December 2017** £m		
	OEICs/UTs	**Separate account assets**	**Other structured entities**	**OEICs/UTs**	**Separate account assets**	**Other structured entities**
Statement of financial position line items						
Equity securities and portfolio holdings in unit trusts	21,216	128,220	–	20,718	130,528	–
Debt securities	–	–	11,081	–	–	10,894
Total	21,216	128,220	11,081	20,718	130,528	10,894

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments.

As at 31 December 2018, the Group does not have an agreement, contractual or otherwise, or intention to provide financial support to structured entities that could expose the Group to a loss.

(b) Reinsurance

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. The treatment of any gains or losses arising on the purchase of reinsurance contracts is dependent on the underlying accounting basis of the entity concerned.

(c) Earned premiums, policy fees and claims paid

Premiums for conventional with-profits policies and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where Prudential collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

(d) Investment return

Investment return included in the income statement principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit or loss, and realised gains and losses (including impairment losses) on items held at amortised cost and Jackson's debt securities designated as available-for-sale. Movements in unrealised appreciation/depreciation of Jackson's debt securities designated as available-for-sale are recorded in other comprehensive income. Interest income is recognised as it accrues, taking into account the effective yield on investments. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accrual basis.

E1 Other significant accounting policies continued

(e) Financial investments other than instruments classified as long-term business contracts

(i) Investment classification

The Group holds financial investments in accordance with IAS 39, whereby subject to specific criteria, financial instruments are required to be accounted for under one of the following categories:

- Financial assets and liabilities at fair value through profit or loss – this comprises assets and liabilities designated by management as fair value through profit or loss on inception and derivatives that are held for trading. These investments are measured at fair value with all changes thereon being recognised in investment return in the income statement;
- Financial investments on an available-for-sale basis – this comprises assets that are designated by management as available-for-sale and/or do not fall into any of the other categories. These assets are initially recognised at fair value plus attributable transaction costs. Available-for-sale assets are subsequently measured at fair value. Interest income is recognised on an effective interest basis in the income statement. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. Except for foreign exchange gains and losses on debt securities, which are included in the income statement, unrealised gains and losses are recognised in other comprehensive income. Upon disposal or impairment, accumulated unrealised gains and losses are transferred from other comprehensive income to the income statement as realised gains or losses; and
- Loans and receivables – except for those designated as at fair value through profit or loss or available-for-sale, these instruments comprise non-quoted investments that have fixed or determinable payments. These instruments include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.

The Group uses the trade date method to account for regular purchases and sales of financial assets. See note A3.1 for further details of valuation of financial investments.

(ii) Derivatives and hedge accounting

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes.

The Group may designate certain derivatives as hedges.

For hedges of net investments in foreign operations, the effective portion of any change in fair value of derivatives or other financial instruments designated as net investment hedges is recognised in other comprehensive income. The ineffective portion of changes in the fair value of the hedging instrument is recorded in the income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39. The Group has no fair value and cash flows hedges under IAS 39 at 31 December 2018 and 2017.

All derivatives that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded in the income statement.

The primary areas of the Group's continuing operations where derivative instruments are held are the UK with-profits funds and annuity business and Jackson.

For UK with-profits funds the derivative programme is used for the purposes of efficient portfolio management or reduction in investment risk.

For shareholder-backed UK annuity business the derivatives are held to contribute to the matching as far as practical, of asset returns and duration with those of liabilities to policyholders. The carrying value of these liabilities is sensitive to the return on the matching financial assets including derivatives held.

For Jackson's derivative programme see note A3.1.

(iii) Guaranteed benefit options and embedded derivatives

Jackson's variable annuity products with guaranteed benefit options are within the scope of IFRS 4 and are accounted for using 'grandfathered' US GAAP (See C4.2(b)). This results in liabilities for Guaranteed Minimum Withdrawal Benefit ('not for life') and Guaranteed Minimum Accumulation benefit options being bifurcated and measured at fair value in a manner consistent with IAS 39.

Embedded derivatives are embedded within other non-derivative host financial instruments and insurance contracts to create hybrid instruments. Embedded derivatives meeting the definition of an insurance contract are accounted for under IFRS 4. Where economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with the changes in fair value recognised in the income statement, the embedded derivative is bifurcated and carried at fair value as a derivative measured in accordance with IAS 39.

In addition, the Group applies the option under IFRS 4 to not separate and fair value surrender options embedded in host contracts and with-profits investment contracts whose strike price is either a fixed amount or a fixed amount plus interest.

(iv) Securities lending and reverse repurchase agreements

The Group is party to various securities lending agreements (including repurchase agreements) under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100 per cent of the fair value of securities loaned is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending programme, the collateral, and corresponding obligation to return such collateral, are recognised in the consolidated statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments in the statement of financial position.

(v) Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

(vi) Financial liabilities designated at fair value through profit or loss

Consistent with the Group's risk management and investment strategy and the nature of the products concerned, the Group has designated under IAS 39 classification certain financial liabilities at fair value through profit or loss as these instruments are managed and their performance evaluated on a fair value basis. These instruments include liabilities related to consolidated collateralised debt obligations, net assets attributable to unit holders of consolidated unit trusts and similar funds and policyholder liabilities for investment contracts without discretionary participation features for UK and Asia.

(f) Segments

Under IFRS 8, 'Operating Segments', the Group determines and presents operating segments based on the information that is internally provided to the Group Executive Committee which is the Group's chief operating decision maker.

The operating segments identified by the Group reflect the Group's organisational structure, which is by business units Asia, US and UK and Europe. All business units contain both insurance and asset management operations.

Further information on the Group's operating segments is provided in note B1.3.

(g) Borrowings

Although initially recognised at fair value, net of transaction costs, borrowings, excluding liabilities of consolidated collateralised debt obligations, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

(h) Investment properties

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment properties, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors valuation standards. Each property is externally valued at least once every three years.

Leases of investment property where the Group has substantially all the risks and rewards of ownership are classified as finance leases (leasehold property). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

(i) Pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position. By contrast, if the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group.

These assets are excluded from plan assets in determining the pension surplus or deficit recognised in the consolidated statement of financial position.

The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit liability (asset) at the start of the period, is charged to the income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income.

Contributions to the Group's defined contribution schemes are expensed when due.

E1 Other significant accounting policies continued

(j) Share-based payments and related movements in own shares

The Group offers share award and option plans for certain key employees and a Save As You Earn plan for all UK and certain overseas employees. Shares held in trust relating to these plans are conditionally gifted to employees.

The compensation expense charged to the income statement is primarily based upon the fair value of the options granted, the vesting period and the vesting conditions.

The Company has established trusts to facilitate the delivery of Prudential plc shares under employee incentive plans and savings-related share option schemes. The cost to the Company of acquiring these treasury shares held in trusts is shown as a deduction from shareholders' equity.

(k) Tax

Prudential is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12, 'Income Taxes' does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

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

(l) Business acquisitions and disposals

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the acquisition consideration over the fair value of the assets and liabilities of the acquired entity is recorded as goodwill. Expenses related to acquiring new subsidiaries are charged to the income statement in the period in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

Income and expenses of entities sold during the period are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21.

Where the Group writes a put option over its non-controlling interests as part of its business acquisition, which if exercised triggers the purchase by the Group of the non-controlling interests, the put option is recognised as a financial liability at the acquisition date with a corresponding amount, deducted directly from shareholder's equity. Any subsequent changes to the carrying amount of the put liability are also recognised within equity.

(m) Goodwill

Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the Group statement of financial position as an intangible asset at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash generating units. For further details see note C5.1.

(n) Intangible assets

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are measured at fair value on acquisition. Deferred acquisition costs are accounted for as described in note A3.1(c). Other intangible assets, such as distribution rights and software, are valued initially at the price paid to acquire them and are subsequently carried at cost less amortisation and any accumulated impairment losses. The amortisation methods for distribution rights and software are as described in note C5.2(iii). For other intangibles, amortisation follows the pattern in which the future economic benefits are expected to be consumed. If the pattern cannot be determined reliably, a straight-line method is applied. Amortisation of intangible assets is charged to the 'acquisition costs and other expenditure' line in the consolidated income statement. Impairment testing is conducted when there is an indication of impairment.

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

(p) Shareholders' dividends

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders.

(q) Share capital

Shares are classified as equity when their terms do not create an obligation to transfer assets. The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued, is credited to share premium. Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from retained earnings. Upon issue or sale any consideration received is credited to retained earnings net of related costs.

(r) Foreign exchange

The Group's consolidated financial statements are presented in pounds sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries must be translated into the presentation currency of the Group from their functional currencies, ie the currency of the primary economic environment in which the entity operates. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income.

Foreign currency borrowings that are used to provide a hedge against Group equity investments in overseas subsidiaries are translated at year end exchange rates and movements recognised in other comprehensive income. Other foreign currency monetary items are translated at year end exchange rates with changes recognised in the income statement.

Foreign currency transactions are translated at the spot rate prevailing at the time.

(s) Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated unit trusts and OEICs, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

Statement of financial position of the parent company

31 December	Note	2018 £m	2017 £m
Fixed assets			
Investments in subsidiary undertakings	5	10,825	10,798
Current assets			
Debtors:			
Amounts owed by subsidiary undertakings		5,904	4,732
Other debtors		5	5
Tax recoverable		42	40
Derivative assets	6	5	5
Pension asset	7	69	71
Cash at bank and in hand		22	143
		6,047	4,996
Liabilities: amounts falling due within one year			
Commercial paper	8	(472)	(485)
Other borrowings	8	–	(600)
Derivative liabilities	6	(423)	(443)
Amounts owed to subsidiary undertakings		(936)	(715)
Tax payable		(10)	(10)
Deferred tax liability	9	(12)	(12)
Accruals and deferred income		(101)	(79)
		(1,954)	(2,344)
Net current assets		4,093	2,652
Total assets less current liabilities		14,918	13,450
Liabilities: amounts falling due after more than one year			
Subordinated liabilities	8	(6,676)	(5,272)
Debenture loans	8	(517)	(549)
Other borrowings	8	(275)	–
		(7,468)	(5,821)
Total net assets		7,450	7,629
Capital and reserves			
Share capital	10	130	129
Share premium	10	1,964	1,948
Profit and loss account	11	5,356	5,552
Shareholders' funds		7,450	7,629

	2018 £m	2017 £m
Profit for the year	1,041	1,235

The financial statements of the parent company on pages 320 to 328 were approved by the Board of Directors on 12 March 2019 and signed on its behalf.

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Mark FitzPatrick
Chief Financial Officer

Statement of changes in equity of the parent company

£m	Share capital	Share premium	Profit and loss account	Total equity
Balance at 1 January 2017	129	1,927	5,449	7,505
Total comprehensive income for the year				
Profit for the year	–	–	1,235	1,235
Actuarial gains recognised in respect of the defined benefit pension scheme	–	–	28	28
Total comprehensive income for the year	–	–	1,263	1,263
Transactions with owners, recorded directly in equity				
New share capital subscribed	–	21	–	21
Share based payment transactions	–	–	(1)	(1)
Dividends	–	–	(1,159)	(1,159)
Total contributions by and distributions to owners	–	21	(1,160)	(1,139)
Balance at 31 December 2017	129	1,948	5,552	7,629
Balance at 1 January 2018	129	1,948	5,552	7,629
Impact of initial application of IFRS 9	–	–	(9)	(9)
Total comprehensive income for the year				
Profit for the year	–	–	1,041	1,041
Actuarial gains recognised in respect of the defined benefit pension scheme	–	–	16	16
Total comprehensive income for the year	–	–	1,057	1,057
Transactions with owners, recorded directly in equity				
New share capital subscribed	1	16	–	17
Share based payment transactions	–	–	–	–
Dividends	–	–	(1,244)	(1,244)
Total contributions by and distributions to owners	1	16	(1,244)	(1,227)
Balance at 31 December 2018	130	1,964	5,356	7,450

Notes on the parent company financial statements

1 Nature of operations

Prudential plc (the Company) is a parent holding company. The Company together with its subsidiaries (collectively, the Group) is an international financial services group with its operations in Asia, the US, UK and Europe and Africa. The Group offers a wide range of retail financial products and services and asset management services throughout these operations. The retail financial products and services primarily include life insurance, pensions and annuities as well as collective investment schemes. On 14 March 2018, the Company announced its intention to demerge M&GPrudential, its UK and Europe business, from Prudential plc resulting in two separately listed companies.

2 Basis of preparation

The financial statements of the Company, which comprise the statement of financial position, statement of changes in equity and related notes, are prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and endorsed by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has also taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Disclosures in respect of transactions with wholly-owned subsidiaries within the Prudential Group;
- Disclosure in respect of capital management; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also applied the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 'Share Based Payments' in respect of Group-settled share-based payments;
- Disclosure required by IFRS 7 'Financial Instrument Disclosures' and IFRS 13 'Fair Value Measurement', except for the consequential amendments to IFRS 7 related to IFRS 9 which have not been adopted by the Group; and
- IFRS 15, 'Revenue from Contracts with Customers' in respect of revenue recognition.

In 2018, the Company adopted IFRS 9, 'Financial Instruments' which replaced IAS 39, 'Financial Instruments – Recognition and Measurement'. Under IFRS 9, except for derivative instruments that are mandatorily classified as fair value through profit or loss, all of the financial assets and liabilities of the Company are classified as amortised cost. There was no significant change from previous IAS 39 classification. The Company changed its approach to assessing impairment on its loans and receivables from the IAS 39 incurred loss approach to the IFRS 9 expected credit loss approach. This resulted in a small amount of expected credit losses (£9 million) recognised in retained earnings as at 1 January 2018, the date of initial application relating to the amounts owed by subsidiary undertakings (£14 million at 31 December 2018). As permitted by IFRS 9, the Company has not restated its 2017 comparatives. The expected credit loss on the Company's loans and receivables, the majority of which represent loans to its subsidiaries, have been assessed by taking into account the probability of default on those loans. In all cases the subsidiaries are expected to have sufficient resources to repay the loan either now or over time (based on projected earnings). The expected credit loss has therefore been limited to the impact of discounting the value of the loan between the balance sheet date and the anticipated recovery date. The expected credit loss in the period was a charge of £5 million.

The Company has also adopted IFRS 15, 'Revenue from Contracts with Customers' and Amendments to IFRS 2, 'Share-based Payments' as applied under FRS 101 in 2018, the adoption of which did not have an impact on the financial statements of the Company.

The accounting policies set out in note 3 below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

3 Significant accounting policies

Investments in subsidiary undertakings

Investments in subsidiary undertakings are shown at cost less impairment.

Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are shown at cost, less provisions. Upon the adoption of IFRS 9 in 2018, the provisions are determined using the expected credit loss approach.

Derivatives

Derivative financial instruments are held to manage certain macro-economic exposures. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds, net of transaction costs, is amortised through the profit and loss account to the date of maturity or, for subordinated debt, over the expected life of the instrument. Where modifications to borrowings do not result in a substantial difference to the terms of the instrument, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining expected life of the modified instrument.

Dividends

Interim dividends are recorded in the period in which they are paid.

Share premium

The difference between the proceeds received on issue of shares and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

Assets and liabilities denominated in foreign currencies, including borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, are translated at year end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of IAS 12, 'Income Taxes'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that future taxable profits will be available against which these losses can be utilised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

Pensions

The Company assumes a portion of the pension surplus or deficit of the Group's main pension scheme, the Prudential Staff Pension Scheme ('PSPS'). The Company applies the requirements of IAS 19 'Employee Benefits' (as revised in 2011) for the accounting of its interest in the PSPS surplus or deficit. Further details are disclosed in note 7.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets. The Company's share of pension surplus is recognised to the extent that the Company is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The assets and liabilities of the defined benefit pension schemes of the Prudential Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cash flows are then discounted at a high quality corporate bond yield, adjusted to allow for the difference in duration between the bond index and the pension liabilities, where appropriate, to determine their present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the net income (interest) on the net scheme assets (liabilities) at the start of the period, is recognised in the profit or loss account. Actuarial gains and losses as a result of the changes in assumptions, experience variances or the return on scheme assets excluding amounts included in the net deferred benefit asset (liability) are recorded in other comprehensive income.

Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn ('SAYE') plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled.

Under IFRS 2 'Share-based payment', where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions.

4 Reconciliation from the FRS 101 parent company results to the IFRS Group results

The parent company financial statements are prepared in accordance with FRS 101 and the Group financial statements are prepared in accordance with IFRS as issued by the IASB and endorsed by the EU. At 31 December 2018, there were no differences between FRS 101 and IFRS as issued by the IASB and endorsed by the EU in terms of their application to the parent company.

The tables below provide a reconciliation between the FRS 101 parent company results and the IFRS Group results.

	2018 £m	**2017** £m
Profit after tax		
Profit for the financial year of the Company (including dividends from subsidiaries) in accordance with FRS 101 and IFRS	1,041	1,235
Accounting policy difference*	5	–
Share in the IFRS result of the Group, net of distributions to the Company†	1,964	1,154
Profit after tax of the Group attributable to shareholders in accordance with IFRS	3,010	2,389

	2018 £m	**2017** £m
Net equity		
Shareholders' equity of the Company in accordance with FRS 101 and IFRS	7,450	7,629
Accounting policy difference*	14	–
Share in the IFRS net equity of the Group†	9,785	8,458
Shareholders' equity of the Group in accordance with IFRS	17,249	16,087

* Adjustment represents difference in accounting policy for expected credit losses on loan assets, the Company has adopted IFRS 9 while the Group applies IAS 39.

† The 'share in the IFRS result and net equity of the Group' lines represent the parent company's equity in the earnings and net assets of its subsidiaries and associates.

The profit for the financial year of the Company in accordance with IFRS includes dividends received in the year from subsidiary undertakings of £1,495 million and £1,685 million for the years ended 31 December 2018 and 2017, respectively.

As stated in note 3, under FRS 101, the Company accounts for its investments in subsidiary undertakings at cost less impairment. For the purpose of this reconciliation, no adjustment is made to the Company in respect of any valuation adjustments to shares in subsidiary undertakings that would be eliminated on consolidation.

5 Investments in subsidiary undertakings

	2018 £m	**2017** £m
At 1 January	10,798	10,859
Capital injections	88	–
Amounts in respect of share based payments	(61)	(61)
At 31 December	10,825	10,798

In January 2018 the Company provided £88 million to M&G to support the seed funding of the new Luxembourg-based SICAV open-ended collective investment schemes.

In November 2018, the Company transferred ownership of four of its subsidiaries associated with the UK and Europe business to M&GPrudential under a share for share exchange, in preparation for the demerger of M&GPrudential and its subsidiaries from the Group. Shares in the four entities transferred: The Prudential Assurance Company Limited, M&G Investments Management Limited, Prudential Financial Services Limited and Prudential Property Services Limited, were transferred to M&GPrudential in return for shares in M&GPrudential. There is no change to the value recorded in the Company's financial statements.

Amounts in respect of share-based payments of £(61) million (2017: £(61) million) comprise of £5 million (2017: £6 million) in respect of share-based payments reflecting the value of payments settled by the Company for employees of its subsidiary undertakings, less £(66) million (2017: £(67) million) relating to cash received from subsidiaries in respect of share awards.

Subsidiary undertakings of the Company at 31 December 2018 are listed in note D6 of the Group financial statements.

6 Derivative financial instruments

	2018 £m		2017 £m	
	Fair value assets	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Cross-currency swap	5	–	5	–
Inflation-linked swap	–	423	–	443
Total	5	423	5	443

Derivative financial instruments are held to manage certain macro-economic exposures. The change in fair value of the derivative financial instruments of the Company was a gain before tax of £20 million (2017: gain of £5 million).

7 Pension scheme financial position

The majority of UK Prudential staff are members of the Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (the Scheme) which is primarily a closed defined benefit scheme.

At 31 December 2005, the allocation of surpluses and deficits attaching to the Scheme between the Company and the unallocated surplus of UK with-profits fund was apportioned in the ratio 30/70 following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 and for the purpose of determining the allocation of the movements in that position up to 31 December 2018. The IAS 19 service charge and ongoing employer contributions are allocated by reference to the cost allocation for current activity.

The last completed triennial actuarial valuation of the Scheme was as at 5 April 2017, which was finalised in 2018. Further details on the results of this valuation and the total employer contributions to the Scheme for the year are provided in note C9 of the Group financial statements, together with the key assumptions adopted, including mortality assumptions.

A description of the regulatory framework in which the Scheme operates, the governance of the Scheme, and the risks to which the Scheme exposes the Company is provided in note C9 of the Group financial statements. The most recent full valuation has been updated to 31 December 2018, applying the principles prescribed by IAS 19. The actuarial assumptions used in determining the IAS 19 benefit obligations and the net periodic costs and sensitivity of IAS 19 benefit obligation to changes in the actuarial assumptions are also provided in note C9 of the Group financial statements.

The assets and liabilities of the Scheme were:

	31 Dec 2018 £m			31 December 2017 £m		
	Quoted prices in an active market	**Other**	**Total**	**Quoted prices in an active market**	**Other**	**Total**
Scheme assets:						
Equities						
UK	8	–	8	9	–	9
Overseas	194	10	204	216	10	226
Bonds*						
Government	4,596	–	4,596	5,040	–	5,040
Corporate	1,457	129	1,586	1,430	61	1,491
Asset-backed securities	243	20	263	156	8	164
Properties	–	143	143	–	140	140
Derivatives	103	–	103	188	–	188
Other assets	117	55	172	192	24	216
Fair value of Scheme assets	6,718	357	7,075	7,231	243	7,474
Present value of benefit obligations			(6,167)			(6,753)
Underlying surplus in the Scheme			908			721
Effect of the application of IFRIC 14 for de-recognition of surplus			(677)			(485)
Surplus in the Scheme			231			236
Surplus in the Scheme recognised by the Company†			69			71

* 93 per cent (2017: 93 per cent) of the bonds are investment grade.

† The surplus in the Scheme recognised in the balance sheet of the Company represents the amount that is recoverable through reduced future contributions and is net of the apportionment to the UK with-profits fund.

7 Pension scheme financial position continued

The changes in the fair value of the underlying Scheme assets and the present value of the underlying benefit obligations are as follows:

	2018 £m				
	Fair value of Scheme assets	**Present value of benefit obligations** note (i)	**Net surplus without the effect of IFRIC 14**	**Effect of IFRIC 14 for de-recognition of surplus**	**IAS 19 basis net surplus**
Balance at 1 January	7,474	(6,753)	721	(485)	236
Current service cost	–	(26)	(26)	–	(26)
GMP equalisation provision note (iv)	–	(31)	(31)	–	(31)
Net interest income (cost)	181	(163)	18	(13)	5
Administration expenses	(7)	–	(7)	–	(7)
Actuarial gains (losses) note (ii)	(186)	409	223	(179)	44
Contributions paid by the employer note (iii)	10	–	10	–	10
Contributions paid by the employee	–	–	–	–	–
Benefits paid	(397)	397	–	–	–
Balance at 31 December	7,075	(6,167)	908	(677)	231

	2017 £m				
	Fair value of Scheme assets	**Present value of benefit obligations** note (i)	**Net surplus without the effect of IFRIC 14**	**Effect of IFRIC 14 for de-recognition of surplus**	**IAS 19 basis net surplus**
Balance at 1 January	7,627	(6,910)	717	(558)	159
Current service cost	–	(26)	(26)	–	(26)
Net interest income (cost)	193	(175)	18	(14)	4
Administration expenses	(6)	–	(6)	–	(6)
Actuarial gains (losses) note (ii)	40	(33)	7	87	94
Contributions paid by the employer note (iii)	11	–	11	–	11
Contributions paid by the employee	–	–	–	–	–
Benefits paid	(391)	391	–	–	–
Balance at 31 December	7,474	(6,753)	721	(485)	236

Notes

(i) The weighted average duration of the benefit obligations of the Scheme is 17 years (2017: 17 years). The following table provides an expected maturity analysis of the undiscounted benefit obligations as at 31 December:

£m	**1 year or less**	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**Total**
2018	240	1,061	1,449	1,426	1,349	5,265	10,790
2017	238	1,030	1,445	1,452	1,375	5,554	11,094

(ii) The actuarial gains attributable to policyholders and shareholders are analysed as follows:

	2018 £m	**2017** £m
Return on Scheme assets excluding interest income*	(186)	40
Actuarial gains (losses)		
Experience gains on Scheme liabilities	1	70
Actuarial gains (losses) – demographic assumptions	125	(10)
Actuarial gains (losses) – financial assumptions	283	(93)
	409	(33)
Total actuarial gains (losses) without the effect of IFRIC 14	223	7
Actuarial gains attributable to the Company before tax†	19	34

* The total return on Scheme assets in 2018 was a loss of £(5) million (2017: gain £233 million).

† Actuarial gains attributable to the Company are net of the apportionment to the UK with-profits fund and are related to the surplus recognised in the balance sheet of the Company. In 2018, the gains included a debit of £48 million (2017: credit £31 million) for the adjustment to the unrecognised portion of surplus. The gains after tax of £16 million (2017: £28 million) are recorded in other comprehensive income.

(iii) Employer contributions to be paid into the Scheme for the year ending 31 December 2019 are expected to amount to £10 million, comprising ongoing service contributions and expenses.

(iv) In October 2018, the High Court ruled that pension schemes are required to equalise benefits for the effect of guaranteed minimum pensions (GMPs). GMPs are a minimum benefit that schemes that were contracted-out on a salary-related basis between 1978 and 1997 are required to provide.

In light of this Court ruling, at 31 December 2018, an estimated allowance for GMP equalisation of £31 million has been recognised within the IAS 19 valuation for the Scheme, of which £9 million was allocated to the Company. The impact on profit before tax is £9 million (before taking into account any charge to PSPS surplus restriction). After taking into account the change to the PSPS surplus restriction as reflected in the actuarial gains and losses within other comprehensive income, there was no impact on shareholders' funds.

8 Borrowings

	Core structural borrowings		Other borrowings		Total	
	2018 £m	**2017** £m	**2018** £m	**2017** £m	**2018** £m	**2017** £m
Core structural borrowings[note (i)]						
Subordinated liabilities[note (ii)]	6,676	5,272	–	–	6,676	5,272
Debenture loans	517	549	–	–	517	549
Bank loan	275	–	–	–	275	–
	7,468	5,821	–	–	7,468	5,821
Other borrowings:[note (iii)]						
Commercial paper	–	–	472	485	472	485
Medium Term Notes 2018	–	–	–	600	–	600
Total borrowings	7,468	5,821	472	1,085	7,940	6,906
Borrowings are repayable as follows:						
Within 1 year	–	–	472	1,085	472	1,085
Between 1 and 5 years	587	–	–	–	587	–
After 5 years	6,881	5,821	–	–	6,881	5,821
	7,468	5,821	472	1,085	7,940	6,906

Notes

(i) Further details on the core structural borrowings of the Company are provided in note C6.1 of the Group financial statements.

(ii) The interests of the holders of the subordinated liabilities are subordinate to the entitlements of other creditors of the Company.

(iii) These borrowings support a short-term fixed income securities programme.

9 Deferred tax liability

Deferred tax liability	**2018** £m	**2017** £m
Short-term temporary differences related to pension scheme	(12)	(12)
Total	(12)	(12)

10 Share capital and share premium

A summary of the ordinary shares in issue and the options outstanding to subscribe for the Company's shares at 31 December 2018 is set out in note C10 of the Group financial statements.

11 Retained profit of the Company

Retained profit at 31 December 2018 amounted to £5,356 million (31 December 2017: £5,552 million). The retained profit includes distributable reserves of £2,814 million and non-distributable reserves of £2,542 million. The non-distributable reserves comprise £2,405 million relating to gains made by intermediate holding companies following the transfer at fair value of certain subsidiaries to other parts of the Group as part of internal restructuring exercises in previous years, £80 million of share-based payment reserves and £57 million net of taxation in relation the pension benefit surplus of the Company. The amount of £2,405 million is not able to be regarded as part of the distributable reserves of the parent company because the gains relate to intra-group transactions.

Under UK company law, Prudential may pay dividends only if sufficient distributable reserves of the Company are available for the purpose and if the amount of its net assets is greater than the aggregate of its called up share capital and non-distributable reserves (such as the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate.

The retained profit of the Company is substantially generated from dividend income received from subsidiaries. The Group segmental analysis illustrates the generation of profit across the Group (see note B1 of the Group financial statements). The Group and its subsidiaries are subject to local regulatory minimum capital requirements, as set out in note C12 of the Group financial statements. A number of the principal risks set out in the 'Report of the risks facing our business and how these are managed' could impact the generation of profit in the Group's subsidiaries in the future and hence impact their ability to pay dividends in the future.

In determining the dividend payment in any year the directors follow the Group dividend policy described in the Chief Financial Officer's report section of this Annual Report. The directors consider the Company's ability to pay current and future dividends twice a year by reference to the Company's business plan and certain stressed scenarios.

12 Other information

a Information on directors' remuneration is given in the directors' remuneration report section of this Annual Report and note B2.3 of the Group financial statements.
b Information on transactions of the directors with the Group is given in note D4 of the Group financial statements.
c The Company employs no staff.
d Fees payable to the Company's auditor for the audit of the Company's annual accounts were £0.1 million (2017: £0.1 million) and for other services were £0.1 million (2017: £0.1 million).
e In certain instances, the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

13 Post balance sheet events

The second interim ordinary dividend for the year ended 31 December 2018, which was approved by the Board of Directors after 31 December 2018, is described in note B6 of the Group financial statements.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, Directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Prudential plc, whose names and positions are set out on pages 89 to 94 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Independent auditor's report to the members of Prudential plc only

1 Our opinion is unmodified

We have audited the financial statements of Prudential plc ('the Group and parent company') for the year ended 31 December 2018 which comprise:

- the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position and consolidated statement of cash flows, and the related notes, including accounting policies in notes A3 and E1; and
- the statement of financial position, statement of changes in equity, and the related notes, including the significant accounting policies in note 3, of the parent company financial statements.

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 *Reduced Disclosure Framework*; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is for the 20 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council ('FRC') Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of policyholder liabilities (2018: £409,301 million, 2017: £411,243 million).
The risk compared to the prior year is unchanged.

Refer to page 115 (Audit Committee report), page 181 (accounting policy) and pages 241 to 264 (financial disclosures).

The risk

The Group has significant policyholder liabilities representing 83 per cent of the Group's total liabilities.

Subjective valuation

This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long term policyholder liabilities. Economic assumptions, including investment return, credit risk and associated discount rates, and operating assumptions including mortality, morbidity, expenses, utilisation of guarantees and persistency (including consideration of policyholder behaviour) are the key inputs used to estimate these long term liabilities, in addition to the appropriate design and calibration of complex reserving models.

The specific application of these judgements to individual segments is explained below.

For the US insurance segment, the valuation of the guarantees in the variable annuity ('VA') business is complex as it involves exercising significant judgement over the relationship between the investment return attaching to these products and the guarantees contractually provided to policyholders and the likely policyholder behaviour in response to changes in investment performance.

For the UK insurance segment, the valuation of the policyholder liabilities in relation to the annuity business requires significant judgement over the setting of mortality, expenses and credit risk assumptions.

For the Asia insurance segment, the valuation of the policyholder liabilities requires significant judgement over the setting of mortality and morbidity assumptions.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of policyholder liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.

Our response

We used our own actuarial specialists to assist us in performing our procedures in this area.

Our procedures included:

Methodology choice

We have assessed the methodology for selecting assumptions and calculating the policyholder liabilities. This included:

- Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice;
- Assessing the methodology adopted for calculating the policyholder liabilities by reference to the requirements of the accounting standard and assessing the impact of current year changes in methodology on the calculation of policyholder liabilities;
- Comparing changes in methodology to our expectations derived from market experience; and
- Evaluating the analysis of the movements in policyholder liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted.

Control operation

We used our own IT specialists to assist us in performing our procedures in this area which included testing of the design, implementation and operating effectiveness of key controls over the valuation process including additional testing in relation to model evaluation as a result of identified weaknesses in the general IT control environment. Controls testing in respect of the valuation process included assessment and approval of the methods and assumptions adopted over the calculation of policyholder liabilities as well as appropriate access and change management controls over the actuarial models.

Our procedures for the US insurance segment also included:

Historical comparison

- Assessing the assumptions relating to policyholder behaviour by comparing to relevant company and industry historical experience data.

Benchmarking assumptions and sector experience

- Assessing the assumptions for investment mix and projected investment returns by comparing to company specific and industry data and for future growth rates by comparing to market trends and market volatility.
- Utilising the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of assumptions in relation to policyholder behaviour.

Model evaluation

- Assessing the cash flow projections in the reserving models by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations.

Valuation of policyholder liabilities (2018: £409,301 million, 2017: £411,243 million).
The risk compared to the prior year is unchanged.
Refer to page 115 (Audit Committee report), page 181 (accounting policy) and pages 241 to 264 (financial disclosures).

The risk	*Our response*
	Our procedures for the UK insurance segment also included: **Historical comparison** — Evaluating the data used to prepare the mortality experience analysis by reference to actual mortality experience of the policyholders in order to assess whether this supported the year-end assumptions adopted. — Assessing whether the expense assumptions appropriately reflect the expected future costs of administering the underlying policies by analysing current year unit costs and the likely impact of planned actions. **Benchmarking assumptions and sector experience** — Comparing mortality experience to industry data on current mortality and expectations of future mortality improvements. — Evaluating the credit risk assumptions, which affect discount rates, by reference to industry practice and our expectation derived from market experience taking into consideration economic factors. — Using the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of the assumptions in relation to the mortality, credit risk and expense assumptions. **Model evaluation** — Evaluating the appropriateness of the calibration of the Continuous Mortality Investigation ('CMI') model (the CMI Bureau releases industry wide mortality tables), adopted based on the analysis of the characteristics of the policyholder population and actual mortality experience. — We used our own valuation models to perform an independent recalculation of a sample of policyholder liabilities to assess whether the selected model calibration has been appropriately implemented. *Our procedures for the Asia insurance segment also included:* **Historical comparison** Evaluating the experience analysis in respect of the mortality and morbidity assumptions by reference to actual experience in order to assess whether this supported the year-end assumptions adopted. **Benchmarking assumptions and sector experience** Using our sector experience and market knowledge to inform our challenge of the assumptions in the areas noted above. **Model evaluation** We have assessed the reserving models by considering the accuracy of the cash flow projections including by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations. **Assessing transparency** We considered whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements. **Our result** We found the valuation of policyholder liabilities to be acceptable (2017: acceptable).

Valuation of investments (2018: £418,105 million, 2017: £422,230 million). The risk compared to the prior year is unchanged.

Refer to page 115 (Audit Committee report), page 187 (accounting policy) and pages 221 to 240 (financial disclosures)

The risk

The Group's investment portfolio represents 82 per cent of the Group's total assets.

The portfolio of quoted investments and investments that are valued primarily using observable inputs makes up 78 per cent of the Group's total assets (by value). We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Subjective valuation
The area that involved significant audit effort and judgement in 2018 was the valuation of certain harder to value level 2 and level 3 positions within the financial investments portfolio representing 5 per cent of the Group's total assets. These included unlisted debt securities, unlisted loans and unlisted funds that are valued by reference to their Net Asset Value ('NAV funds'). For these positions a reliable third party price was not readily available and therefore involved the application of expert judgement in the valuations adopted.

The valuation of the portfolio involves judgement depending on the observability of the inputs into the valuation and further judgement in determining the appropriate valuation methodology for harder to value investments where external pricing sources are either not readily available or are unreliable.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.

Our response

We used our own valuation specialists in order to assist us in performing our procedures in this area.

Our procedures included:

Methodology choice
We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards as well as industry practice.

For quoted investments:
Tests of details
We performed independent price checks using external quoted prices and by agreeing the observable inputs that were used in the Group's valuation techniques to external data.

For harder to value positions:
Control operation
We tested the design, implementation and operating effectiveness of key controls over the valuation process, including the Group's review and approval of the estimates and assumptions used for the valuation including key authorisation and data input controls.

Benchmarking assumptions
We assessed a sample of the valuation assumptions with reference to the Group's own valuation guidelines as well as industry practice.

Tests of details
For a sample of unlisted debt and loan securities we compared the price adopted to our independently derived price, using our valuation specialists.

We agreed the valuations for the NAV funds to the most recent NAV statements. To assess reliability of these statements we compared to audited financial statements of the funds, where available, or performed a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time.

Assessing transparency
We assessed whether the disclosures in relation to the valuation of investments are compliant with the relevant accounting requirements.

Our result
We found the valuation of investments to be acceptable (2017: acceptable).

Amortisation of US deferred acquisition costs ('DAC') (2018: £8,727 million, 2017: £8,197 million). The risk compared to the prior year is unchanged.

Refer to page 115 (Audit Committee report), page 185 (accounting policy) and pages 266 to 268 (financial disclosures)

The risk

DAC represents 2 per cent of the Group's total assets. The DAC associated with the US component, which represents 86 per cent of the total DAC, involves the greatest judgement in terms of measurement.

Accounting treatment

DAC involves judgements in respect of the identification of the acquisition costs that may be deferred and the appropriateness of the deferral methodology adopted.

The amortisation assessment of the DAC asset in the US component is related to the achieved and projected future profit profile. This involves making assumptions about future investment returns and the consequential impact on fee income; therefore there is a greater level of subjectivity involved in relation to the US DAC.

The effect of these matters is that, as part of our risk assessment, we determined that the amortisation of DAC has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

We used our own actuarial specialists to assist us in performing our audit procedures in this area.

Our procedures included:

Accounting analysis

We evaluated the appropriateness of the deferral methodology by reference to the requirements of relevant accounting standards.

Testing application

We evaluated the judgements involved in determining whether the costs incurred are deferred appropriately by reference to the adopted deferral methodology.

Benchmarking assumptions and market experience

All assumptions that are relevant to the calculation of the policyholder liabilities are also relevant to the calculation of DAC amortisation. See further detail in our response to that risk.

Additionally, we challenged the reasonableness of the selected assumptions relating to projected investment return based on our understanding of developments in the business and our expectations derived from market experience. Our work included comparing the projected investment returns against the investment portfolio mix and market return data, and corroborating the rationale for any key differences.

Historical comparison

We have also assessed the appropriateness of the assumptions used in determining the estimated future profit profile and the extent of the associated adjustment necessary to the amortisation of the DAC asset. Our work included critically assessing the judgements that determine the future profit profiles in the context of actual historical experience as well as by reference to market trends.

Tests of detail

We assessed the accuracy of the calculations performed including the extent of the amortisation adjustment determined based on an assessment of the future profit profiles.

Assessing transparency

We assessed whether the disclosures in relation to the amortisation of DAC are compliant with the relevant accounting requirements.

Our result

We found the capitalisation and amortisation of DAC to be acceptable (2017: acceptable).

Determination of pension asset (restricted surplus) in respect of the defined benefit pension scheme (Pension asset (restricted surplus) – 2018: £69 million, 2017: £71 million).
The risk compared to the prior year is unchanged. The risk relates to the parent company financial statements.
Refer to page 115 (Audit Committee report), Refer to page 323 (accounting policy) and pages 284 to 290 (financial disclosures)

The risk	***Our response***
The parent company assumes a portion of the surplus of the Group's main defined benefit pension scheme. **Subjective valuation** Where an entity does not have a right to a refund the asset ceiling (limit of the amount recognised) is determined by reference to the present value of the difference between the estimated future service cost and the contributions payable by the entity over the future working lives of the active members. Assumptions are made over the future service costs. The calculation of the defined benefit obligation requires the determination of a number of assumptions, and judgement is required to determine the appropriateness of these. The most significant assumptions include mortality and the discount rate.	Our procedures included: **Methodology choice** We assessed, with the support of our pension specialists, the methodology for selecting assumptions underpinning the calculation of the defined benefit pension obligation and the estimated future service cost leading to the consequent calculation of the restricted surplus. **Tests of detail** We assessed the reasonableness of the mortality assumptions and discount rate by reference to entity specific data in respect of the demographic characteristics of the population of pension scheme members and factors such as salary inflation. We also considered whether the movements in the defined benefit pension obligation and the estimated future service cost, including the consequential calculation of the restricted surplus, were consistent with the changes made in the assumptions from the prior year. **Benchmarking assumptions** We challenged, with the support of our own pension specialists, the key assumptions applied to the pension obligation, being the discount and mortality rates, against externally derived data. **Our result** We found the pension asset (restricted surplus) recognised in respect of the defined benefit pension scheme to be acceptable (2017: acceptable).

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 52 (Group Chief Risk Officer's Report), page 68 (viability statement), page 115 (Audit Committee Report) and page 194 (financial disclosures).

The risk

Levels of uncertainty due to Brexit

All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of policyholder liabilities, valuation of investments and the determination of the defined benefit pension asset (restricted surplus) above, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- Our Brexit knowledge – We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- Sensitivity analysis – When addressing the valuation of policyholder liabilities, valuation of investments and the determination of the pension asset (restricted surplus) in respect of the defined benefit pension scheme and other areas that depend on forecasts we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- Assessing transparency – As well as assessing individual disclosures as part of our procedures on valuation of policyholder liabilities, valuation of investments and the determination of the pension asset (restricted surplus) in respect of the defined benefit pension scheme, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our result

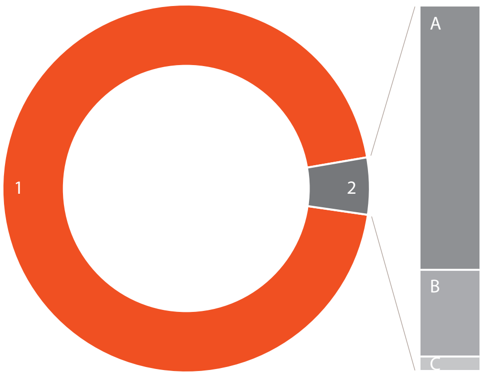
As reported under valuation of policyholder liabilities, valuation of investments and the determination of the pension asset (restricted surplus) in respect of the defined benefit pension scheme, we found the resulting estimates and related disclosures of these matters and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £350 million (2017: £350 million) determined with reference to a benchmark of IFRS shareholders' equity (of which it represents 2 per cent (2017: 2.2 per cent)). We consider IFRS shareholders' equity to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for; we consider that this is the most appropriate measure for the size of the business and that it provides a stable measure year on year. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

We set out below the materiality thresholds that are key to the audit.

IFRS shareholders' equity
£17.25 billion (2017: £16.09 billion)



Group materiality
£350 million (2017: £350 million)

A **£350 million**
Whole financial statements materiality (2017: £350 million)

B **£115 million**
Range of materiality at 16 components (£55 million to £115 million) (2017: £80 million to £186 million)

C **£18 million**
Misstatements reported to the Audit Committee (2017: £18 million)

1 IFRS shareholders' equity
2 Group materiality

Materiality for the parent company financial statements as a whole was set at £115 million (2017: £ 186 million), determined with reference to a benchmark of parent company's net assets, of which it represents 1.5 per cent (2017: 2.4 per cent).

We agreed to report to the Group audit committee any corrected or uncorrected identified misstatements exceeding £18 million (2017: £18 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

We subjected the Group's operations to audits for group reporting purposes as follows:

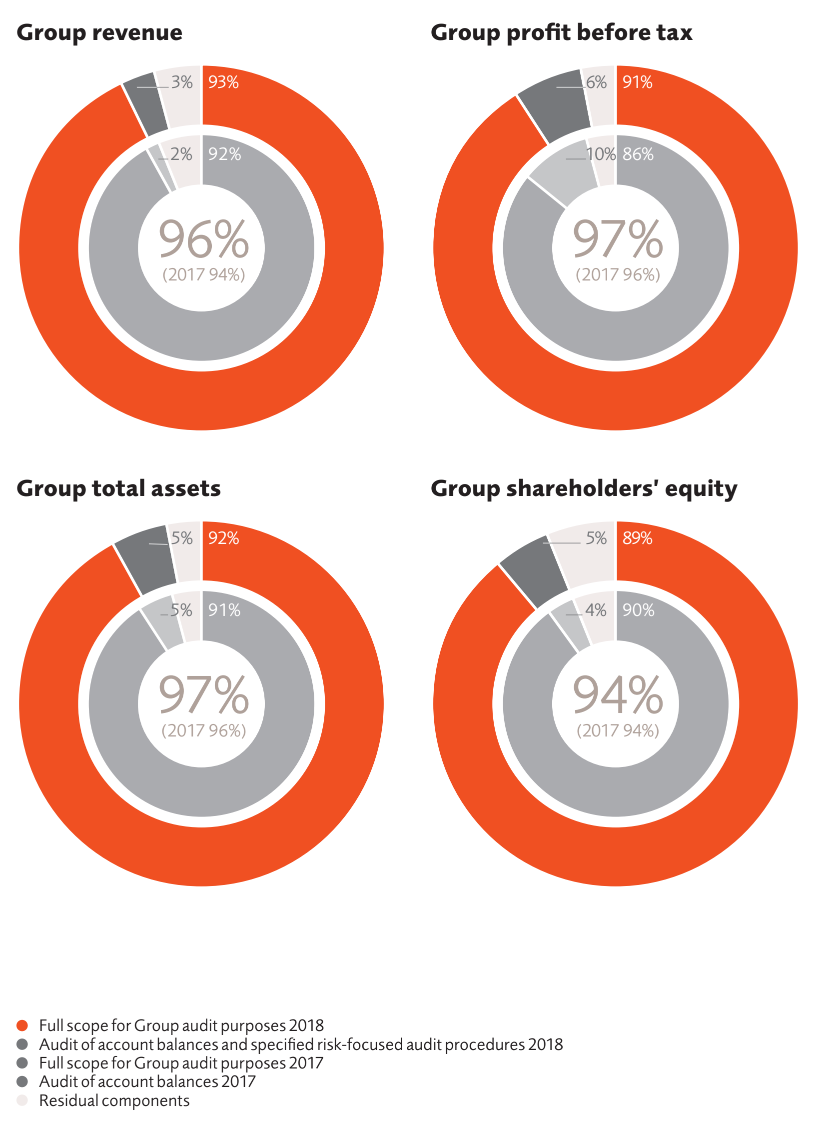
Of the 16 (2017: 16) reporting components scoped in for the Group audit, we subjected 10 (2017: 10) to full scope audits for group reporting purposes, 5 (2017: 6) to an audit of account balances and 1 (2017: Nil) to specified risk-focused audit procedures. The components for which we performed work other than full scope audits for group reporting purposes were not individually significant but were included in the scope of our group reporting work as they did present specific individual audit risks that needed to be addressed or in order to provide further coverage over the Group's results.

The components subjected to full scope audits included the parent company; the Prudential Assurance Company Limited in the UK and the insurance operations in the US, Hong Kong, Indonesia, Singapore, Malaysia, Thailand and Vietnam; and the fund management operations of M&G.

The components subjected to an audit of account balances included Prudential Capital, Prudential Pensions Limited, Prudential Loan Investment Fund (all based in the UK) and the insurance operations in China and Taiwan. The account balances audited were policyholder liabilities, investments and deferred acquisition costs. Additionally, we subjected Eastspring Singapore to specified risk-focused audit procedures over revenue.

For the remaining operations, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these operations.

These components accounted for the following percentages of the Group's results:



The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported. The Group audit team approved the component materialities, which ranged from £55 million to £115 million (2017: £80 million to £186 million) across the components, having regard to the size and risk profile of the Group across the components. The work on 15 components (2017: 15 components) was performed by component auditors and work on the remaining component, which was the parent company, was performed by the Group audit team.

The Group audit team visited all component auditor locations. Video and telephone conference meetings were also held with these component auditors. At these visits and telephone conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group and component audit teams, also regularly attended Business Unit audit committee meetings (these were held at a regional level for Asia) and participated in meetings with local components to obtain additional understanding, first hand, of the key risks and audit issues at a component level which may affect the Group financial statements.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Group's investments, wider credit spreads and defaults and valuation of policyholder liabilities due to the impact of these market movements; and
- Severely adverse policyholder lapse or claims experience.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as failure of counterparties who have transactions with the Group (such as banks and reinsurers) to meet commitments that could give rise to a negative impact on the Group's financial position, increased illiquidity which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline and the impact of Brexit on the economic environment and the resulting impact on the Group's capital resources.

Based on this work, we are required to report to you if:

- We have anything material to add or draw attention to in relation to the directors' statement in note A1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least a year from the date of approval of the financial statements; or
- The related statement under the Listing Rules set out on page 128 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- The directors' confirmation within the viability statement on page 68, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks disclosures on pages 52 to 69 describing these risks and explaining how they are being managed and mitigated; and
- The directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- The section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 329, the directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the area of regulatory capital as that most likely to have such an effect recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Smart

Philip Smart
Senior Statutory Auditor

For and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
London

12 March 2019

06

European Embedded Value (EEV) basis results

Index to European Embedded Value (EEV) basis results

Description of EEV basis reporting

In broad terms, IFRS profit for long-term business reflects the aggregate of results on a traditional accounting basis. By contrast, EEV is a way of reporting the value of the life insurance business.

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, issued by the European Insurance CFO Forum. The EEV Principles provide consistent definitions, a framework for setting actuarial assumptions, and an approach to the underlying methodology and disclosures.

Results prepared under the EEV Principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected profits, full allowance is made for the risks attached to their emergence and the associated cost of capital, taking into account recent experience in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 13 and 14.

European Embedded Value (EEV) basis results

Post-tax operating profit based on longer-term investment returns

	Note	**2018** £m	**2017** £m note (iii)
Asia operations			
New business	3	2,604	2,368
Business in force	4	1,783	1,337
Long-term business		4,387	3,705
Asset management		159	155
Total		4,546	3,860
US operations			
New business	3	921	906
Business in force	4	1,194	1,237
Long-term business		2,115	2,143
Asset management		3	7
Total		2,118	2,150
UK and Europe operations			
New business	3	352	342
Business in force	4	1,022	673
Long-term business		1,374	1,015
General insurance commission		15	13
Total insurance operations		1,389	1,028
Asset management		392	403
Total		1,781	1,431
Other income and expenditure note (i)		(726)	(746)
Restructuring costs note (ii)		(156)	(97)
Operating profit based on longer-term investment returns		7,563	6,598
Analysed as profit (loss) from:			
New business	3	3,877	3,616
Business in force	4	3,999	3,247
Long-term business		7,876	6,863
Asset management and general insurance commission		569	578
Other results		(882)	(843)
		7,563	6,598

Notes

(i) EEV basis other income and expenditure represents the post-tax IFRS basis results for other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital) less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 13(i)(g)).

(ii) Restructuring costs comprise the post-tax charge recognised on an IFRS basis and the additional amount recognised on an EEV basis for the shareholders' share incurred by the with-profits funds, representing the cost of business transformation and integration.

(iii) The comparative results have been prepared using previously reported average exchange rates for the year.

Post-tax summarised consolidated income statement

	Note	**2018** £m	**2017** £m
Asia operations		4,546	3,860
US operations		2,118	2,150
UK and Europe operations		1,781	1,431
Other income and expenditure		(726)	(746)
Restructuring costs		(156)	(97)
Operating profit based on longer-term investment returns		7,563	6,598
Short-term fluctuations in investment returns	5	(3,219)	2,111
Effect of changes in economic assumptions	6	146	(102)
Mark to market value movements on core structural borrowings		549	(326)
Impact of US tax reform	16	–	390
(Loss) profit attaching to corporate transactions	17	(451)	80
Total non-operating (loss) profit		(2,975)	2,153
Profit for the year		4,588	8,751
Attributable to:			
Equity holders of the Company		4,585	8,750
Non-controlling interests		3	1
		4,588	8,751

Basic earnings per share

	2018	**2017**
Based on post-tax operating profit including longer-term investment returns after non-controlling interests (in pence)	293.6p	257.0p
Based on post-tax profit attributable to equity holders of the Company (in pence)	178.1p	340.9p
Weighted average number of shares (millions)	2,575	2,567

Movement in shareholders' equity

	Note	**2018** £m	**2017** £m
Profit for the year attributable to equity holders of the Company		4,585	8,750
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges		1,706	(2,045)
External dividends		(1,244)	(1,159)
Mark to market value movements on Jackson assets backing surplus and required capital		(95)	40
Other reserve movements		132	144
Net increase in shareholders' equity	8	5,084	5,730
Shareholders' equity at beginning of year	8	44,698	38,968
Shareholders' equity at end of year	8	49,782	44,698

	31 Dec 2018 £m			**31 Dec 2017** £m		
Comprising:	**Long-term business operations**	**Asset management and other operations**	**Group total**	**Long-term business operations**	**Asset management and other operations**	**Group total**
Asia operations	24,580	552	25,132	21,191	401	21,592
US operations	14,650	40	14,690	13,257	235	13,492
UK and Europe operations	11,409	2,175	13,584	11,713	1,914	13,627
Other operations	–	(3,624)	(3,624)	–	(4,013)	(4,013)
Shareholders' equity at end of year	50,639	(857)	49,782	46,161	(1,463)	44,698
Representing:						
Net assets attributable to equity holders of the Company excluding acquired goodwill, holding company net borrowings and non-controlling interests	50,388	2,105	52,493	45,917	1,562	47,479
Acquired goodwill*	251	1,400	1,651	244	1,214	1,458
Holding company net borrowings at market value note 7	–	(4,362)	(4,362)	–	(4,239)	(4,239)
	50,639	(857)	49,782	46,161	(1,463)	44,698

* Acquired goodwill for asset management and other operations for 2018 includes goodwill recognised on acquisition of TMB Asset Management Co., Ltd. as discussed in note D1.2 of the IFRS statements.

Summary statement of financial position

	Note	31 Dec 2018 £m	31 Dec 2017 £m
Total assets less liabilities, before deduction of insurance funds*		431,269	434,615
Less insurance funds:			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(414,002)	(418,521)
Less shareholders' accrued interest in the long-term business	8	32,533	28,611
		(381,469)	(389,910)
Less non-controlling interests		(18)	(7)
Total net assets attributable to equity holders of the Company	8	49,782	44,698
Share capital		130	129
Share premium		1,964	1,948
IFRS basis shareholders' reserves		15,155	14,010
Total IFRS basis shareholders' equity	8	17,249	16,087
Additional EEV basis retained profit	8	32,533	28,611
Total EEV basis shareholders' equity	8	49,782	44,698

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Net asset value per share

	31 Dec 2018	31 Dec 2017
Based on EEV basis shareholders' equity of £49,782 million (31 December 2017: £44,698 million) (in pence)	1,920p	1,728p
Number of issued shares at year end (millions)	2,593	2,587
Annualised return on embedded value*	17%	17%

* Annualised return on embedded value is based on EEV post-tax operating profit after non-controlling interests, as a percentage of opening EEV basis shareholders' equity.

The supplementary information on pages 343 to 374 was approved by the Board of Directors on 12 March 2019.

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Mark FitzPatrick
Chief Financial Officer

Notes on the EEV basis results

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, issued by the European Insurance CFO Forum. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The 2017 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2017.

A detailed description of the EEV methodology and accounting presentation is provided in note 13.

2 Results analysis by business area

The 2017 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2017 CER comparative results are translated at 2018 average exchange rates.

Annual premium equivalents (APE) note 15

		2018 £m	**2017** £m		**% change**	
	Note		**AER**	**CER**	**AER**	**CER**
Asia		3,744	3,805	3,671	(2)%	2%
US		1,542	1,662	1,605	(7)%	(4)%
UK and Europe		1,516	1,491	1,491	2%	2%
Group total	3	6,802	6,958	6,767	(2)%	1%

Post-tax operating profit

		2018 £m	**2017** £m		**% change**	
	Note		**AER**	**CER**	**AER**	**CER**
Asia operations						
New business	3	2,604	2,368	2,282	10%	14%
Business in force	4	1,783	1,337	1,280	33%	39%
Long-term business		4,387	3,705	3,562	18%	23%
Asset management		159	155	150	3%	6%
Total		4,546	3,860	3,712	18%	22%
US operations						
New business	3	921	906	874	2%	5%
Business in force	4	1,194	1,237	1,195	(3)%	0%
Long-term business		2,115	2,143	2,069	(1)%	2%
Asset management		3	7	7	(57)%	(57)%
Total		2,118	2,150	2,076	(1)%	2%
UK and Europe operations						
New business	3	352	342	342	3%	3%
Business in force	4	1,022	673	673	52%	52%
Long-term business		1,374	1,015	1,015	35%	35%
General insurance commission*		15	13	13	15%	15%
Total insurance operations		1,389	1,028	1,028	35%	35%
Asset management		392	403	403	(3)%	(3)%
Total		1,781	1,431	1,431	24%	24%
Other income and expenditure		(726)	(746)	(740)	3%	2%
Restructuring costs		(156)	(97)	(97)	(61)%	(61)%
Operating profit based on longer-term investment returns		7,563	6,598	6,382	15%	19%

2 Results analysis by business area continued

	Note	**2018** £m	**2017** £m		**% change**	
			AER	**CER**	**AER**	**CER**
Analysed as profit (loss) from:						
New business	3	3,877	3,616	3,498	7%	11%
Business in force	4	3,999	3,247	3,148	23%	27%
Total long-term business		7,876	6,863	6,646	15%	19%
Asset management and general insurance commission		569	578	573	(2)%	(1)%
Other results		(882)	(843)	(837)	(5)%	(5)%
		7,563	6,598	6,382	15%	19%

* The majority of the general insurance commission is not expected to recur in future years.

Post-tax profit

	Note	**2018** £m	**2017** £m		**% change**	
			AER	**CER**	**AER**	**CER**
Operating profit based on longer-term investment returns		7,563	6,598	6,382	15%	19%
Short-term fluctuations in investment returns	5	(3,219)	2,111	2,057		
Effect of changes in economic assumptions	6	146	(102)	(91)		
Mark to market value movements on core structural borrowings		549	(326)	(326)		
Impact of US tax reform	16	–	390	376		
(Loss) profit attaching to corporate transactions	17	(451)	80	77		
Total non-operating (loss) profit		(2,975)	2,153	2,093		
Profit for the year		4,588	8,751	8,475	(48)%	(46)%

Basic earnings per share

	2018	**2017**		**% change**	
		AER	**CER**	**AER**	**CER**
Based on post-tax operating profit including longer-term investment returns after non-controlling interests (in pence)	293.6p	257.0p	248.6p	14%	18%
Based on post-tax profit attributable to equity holders of the Company (in pence)	178.1p	340.9p	330.2p	(48)%	(46)%

3 Analysis of new business contribution

(i) Group summary for long-term business operations

	2018				
	Annual premium equivalents (APE) note 15 £m	**Present value of new business premiums (PVNBP)** note 15 £m	**New business contribution** £m	**New business margin**	
				APE %	**PVNBP** %
Asia note (ii)	3,744	20,754	2,604	70	12.5
US	1,542	15,423	921	60	6.0
UK and Europe	1,516	14,073	352	23	2.5
Total	6,802	50,250	3,877	57	7.7

	2017				
				New business margin	
	Annual premium equivalents (APE) note 15 £m	**Present value of new business premiums (PVNBP)** note 15 £m	**New business contribution** £m	**APE** %	**PVNBP** %
Asia note (ii)	3,805	20,405	2,368	62	11.6
US	1,662	16,622	906	55	5.5
UK and Europe	1,491	13,784	342	23	2.5
Total	6,958	50,811	3,616	52	7.1

Note

After allowing for foreign exchange effects of £(118) million, the new business contribution has increased by £379 million on a CER basis. The increase is driven by a beneficial effect of pricing, product mix and other actions of £278 million reflecting our strategic emphasis on increasing sales from health and protection business in Asia, together with changes in long-term interest rates and other economic assumptions (£83 million) and higher sales volumes (a contribution of £18 million).

(ii) Asia new business contribution by business unit

	2018 £m	**2017** £m	
		AER	**CER**
China	149	133	131
Hong Kong	1,729	1,535	1,474
Indonesia	122	174	158
Taiwan	46	57	56
Other	558	469	463
Total	2,604	2,368	2,282

4 Operating profit from business in force

(i) Group summary for long-term business operations

	2018 £m			
	Asia note (ii)	**US** note (iii)	**UK and Europe** note (iv)	**Group Total**
Unwind of discount and other expected returns	1,218	881	474	2,573
Effect of changes in operating assumptions	342	115	330	787
Experience variances and other items	223	198	218	639
Group total	1,783	1,194	1,022	3,999

	2017 £m			
	Asia note (ii)	**US** note (iii)	**UK and Europe** note (iv)	**Group Total**
Unwind of discount and other expected returns	1,007	694	465	2,166
Effect of changes in operating assumptions	241	196	195	632
Experience variances and other items	89	347	13	449
Group total	1,337	1,237	673	3,247

Note

The movement in operating profit from business in force of £752 million from £3,247 million for 2017 to £3,999 million for 2018 comprises:

	£m
Movement in unwind of discount and other expected returns:	
Growth in opening value of in-force business	368
Effect of interest rates and other economic assumptions	101
Foreign exchange movements	(62)
	407
Movement in effect of changes in operating assumptions, experience variances and other items	345
Net movement in operating profit from business in force	752

4 Operating profit from business in force continued

(ii) Asia

	2018 £m	**2017** £m
Unwind of discount and other expected returns note (a)	1,218	1,007
Effect of changes in operating assumptions note (b)	342	241
Experience variances and other items note (c)	223	89
Total	1,783	1,337

Notes

(a) The £211 million increase in unwind of discount and other expected returns from £1,007 million in 2017 to £1,218 million in 2018 is primarily driven by the growth in the in-force book and a positive £51 million impact from movements in long-term interest rates and other economic assumptions, partially offset by a negative effect of foreign exchange movements of £(38) million.

(b) The effects of changes in operating assumptions of £342 million reflects the outcome from the annual review of persistency, claims and expense experience together with the benefit of medical repricing management actions. It also reflects profits arising after reflection of a number of tax changes across a number of countries.

(c) The £223 million effect of experience variances and other items in 2018 is driven by positive mortality and morbidity experiences in a number of local business units, together with positive persistency variances from participating and health and protection products.

(iii) US

	2018 £m	**2017** £m
Unwind of discount and other expected returns note (a)	881	694
Effect of changes in operating assumptions note (b)	115	196
Experience variances and other items:		
Spread experience variance	39	71
Amortisation of interest-related realised gains and losses	92	91
Other note (c)	67	185
	198	347
Total	1,194	1,237

Notes

(a) The £187 million increase in unwind of discount and other expected returns from £694 million in 2017 to £881 million in 2018 reflects prior period growth in the in-force book, a £30 million benefit from a 30 basis point increase in the US 10-year treasury yield in the year offset by a £(24) million negative effect for foreign exchange movements.

(b) The effect of operating assumption changes of £115 million (2017: £196) million mainly relates to routine updates for persistency and policyholder utilisation.

(c) Other experience variances of £198 million include the effects of positive mortality and persistency experience in the year.

(iv) UK and Europe

	2018 £m	**2017** £m
Unwind of discount and other expected returns note (a)	474	465
Change in longevity assumption basis note (b)	330	195
Other items note (c)	218	13
Total	1,022	673

Notes

(a) Unwind of discount and expected returns for 2018 is broadly consistent with 2017 and reflects the benefit from a 10 basis point increase in the 15-year swap yields offset by the impact from the reinsurance of part of its shareholder annuity portfolio to Rothesay Life as discussed in note 17.

(b) The credit of £330 million (2017: £195 million) relates to changes to annuitant mortality assumptions to reflect current mortality experience, which has shown a slowdown in life expectancy improvements in recent periods, and the adoption of the Continuous Mortality Investigation (CMI) 2016 model (2017: CMI 2015) model as the basis for future mortality improvements.

(c) Other items comprise the following:

	2018 £m	**2017** £m
Longevity reinsurance	–	(6)
Impact of specific management actions to improve solvency position	141	127
Provision for cost of undertaking past non-advised annuity sales review and related redress note (d)	–	(187)
Insurance recoveries in respect of the above costs note (d)	138	–
Provision for guaranteed minimum pension equalisation note (e)	(48)	–
Other	(13)	79
	218	13

(d) The UK business 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. A gross provision of £(330) million, post-tax and before costs incurred, was established at 31 December 2017, of which £(187) million was charged in full year 2017. During 2018, the Group agreed with its professional indemnity insurers that they will meet £166 million of the Group's claims costs, which will be paid as the Group incurs costs/redress. This has been recognised on the Group balance sheet at 31 December 2018 and a post-tax credit of £138 million is recognised in the EEV operating profit. For more details, refer to note C11 of the IFRS financial statements.

(e) An allowance has been made for higher liabilities that may arise when applying the recent High Court decision to equalise guaranteed minimum pension (GMP) benefits between males and females for certain pension products sold by the UK business.

5 Short-term fluctuations in investment returns

(i) Group summary

	2018 £m	2017 £m
Asia operations note (ii)	(1,029)	887
US operations note (iii)	(1,481)	582
UK and Europe operations note (iv)	(721)	621
Other operations	12	21
Group total	(3,219)	2,111

(ii) Asia operations

	2018 £m	2017 £m
Hong Kong	(552)	531
Singapore	(233)	126
Other	(244)	230
Total	(1,029)	887

Note
For 2018, the charge of £(1,029) million mainly represents the reduction of bond and equity values in Hong Kong and lower than expected investment returns on participating and unit-linked business in Indonesia, Singapore and Malaysia.

(iii) US operations

	2018 £m	2017 £m
Investment return related experience on fixed income securities note (a)	60	(46)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current year separate account return, net of related hedging activity and other items note (b)	(1,541)	628
Total	(1,481)	582

Notes

(a) The net result relating to fixed income securities reflects a number of offsetting items as follows:
  - The impact on portfolio yields of changes in the asset portfolio in the year;
  - The difference between actual realised gains and losses and the amortisation of interest-related realised gains and losses that is recorded within operating profit; and
  - Credit experience (versus the longer-term assumption).

(b) This item reflects the net impact of:
  - Changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values of negative (5.4) per cent and that assumed of 6.2 per cent (2017: actual growth of 17.5 per cent compared to assumed growth of 5.9 per cent); and
  - Related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

(iv) UK and Europe operations

	2018 £m	2017 £m
Insurance operations:		
Shareholder-backed annuity business	(151)	387
With-profits and other business	(557)	229
Asset management	(13)	5
Total	(721)	621

Note
The £(721) million fluctuation in 2018 primarily represents the impact of achieving a (2.5) per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 4.2 per cent (2017: achieved return of 9 per cent compared to assumed rate of 5 per cent), partially offset by the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from movements in the UK equity market. It also reflects losses on corporate bonds backing shareholder annuity business, reflecting changes to interest rates and credit spreads over the period.

6 Effect of changes in economic assumptions

(i) Group summary for long-term business operations

	2018 £m	**2017** £m
Asia note (ii)	115	(95)
US note (iii)	197	(136)
UK and Europe note (iv)	(166)	129
Group total	146	(102)

(ii) Asia

	2018 £m	**2017** £m
Hong Kong	165	(321)
Indonesia	(94)	81
Malaysia	(19)	59
Singapore	70	131
Other	(7)	(45)
Total	115	(95)

Note

The positive effect in 2018 of £115 million largely arises from movements in long-term interest rates, resulting in higher assumed fund earned rates in Hong Kong and Singapore, partially offset by the impact of valuing future profits for health and protection business at higher discount rates in Indonesia and Malaysia.

(iii) US

	2018 £m	**2017** £m
Variable annuity business	365	(101)
Fixed annuity and other general account business	(168)	(35)
Total	197	(136)

Note

For 2018, the credit of £197 million mainly reflects the increase in the assumed separate account return following the 30 basis points increase in the US 10-year treasury yield over the year, resulting in higher projected fee income and a decrease in projected benefit costs for variable annuity business. For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income from the combined increase in interest rates and credit spreads in the year. In June 2018, the National Association of Insurance Commissioners (NAIC) formally approved changes to RBC capital factors that reflected the December 2017 US tax reform. Consequently, the effect of changes in economic assumptions for 2018 of £197 million includes a negative £(23) million impact resulting from these changes.

(iv) UK and Europe

	2018 £m	**2017** £m
Shareholder-backed annuity business	1	28
With-profits and other business	(167)	101
Total	(166)	129

Note

The charge of £(166) million includes the impact of the movement in expected long-term rates of investment return, resulting from market movements and changes in the asset mix in the year, and risk discount rates. In addition, the effect of changes in economic assumptions for with-profits and other business of £(167) million includes a £(78) million charge for the effect on lower fund earned rates on equities and property as a result of the change in UK indexation of capital gains rules effective from 1 January 2018.

7 Net core structural borrowings of shareholder-financed businesses

	31 Dec 2018 £m			31 Dec 2017 £m		
	IFRS basis	**Mark to market value adjustment**	**EEV basis at market value**	**IFRS basis**	**Mark to market value adjustment**	**EEV basis at market value**
Holding company (including central finance subsidiaries) cash and short-term investments	(3,236)	–	(3,236)	(2,264)	–	(2,264)
Central funds						
Subordinated debt	6,676	(44)	6,632	5,272	515	5,787
Senior debt	517	174	691	549	167	716
	7,193	130	7,323	5,821	682	6,503
Bank loan	275	–	275	–	–	–
Holding company net borrowings	4,232	130	4,362	3,557	682	4,239
Prudential Capital bank loan	–	–	–	275	–	275
Jackson surplus notes	196	53	249	184	61	245
Group total	4,428	183	4,611	4,016	743	4,759

Note
In October 2018, the Company issued three tranches of substitutable core structural borrowings as part of the process required before demerger, to rebalance debt across M&GPrudential and Prudential plc. Total proceeds, net of costs, were £1,630 million. In December 2018, the Company paid £434 million to redeem its US$550 million 7.75 per cent Tier 1 perpetual subordinated notes. The movement in the value of core structural borrowings also includes foreign exchange effects for US dollar denominated debts. For more details on the core structural borrowings, refer to note C6.1 of the IFRS financial statement.

8 Reconciliation of movement in shareholders' equity

	2018 £m				
	Asia operations note (i)	**US operations**	**UK and Europe operations**	**Other operations** note (i)	**Group total** note (iv)
Long-term business:					
New business note 3	2,604	921	352	–	3,877
Business in force note 4	1,783	1,194	1,022	–	3,999
	4,387	2,115	1,374	–	7,876
Asset management and general insurance commission	159	3	407	–	569
Restructuring costs	(19)	(17)	(109)	(11)	(156)
Other results	–	–	–	(726)	(726)
Operating profit based on longer-term investment returns	4,527	2,101	1,672	(737)	7,563
Non-operating items	(925)	(1,313)	(1,263)	526	(2,975)
Non-controlling interests	(1)	–	–	(2)	(3)
Profit for the year attributable to equity holders of the Company	3,601	788	409	(213)	4,585
Other items taken directly to equity:					
Exchange movements on foreign operations and net investment hedges	1,028	862	–	(184)	1,706
Intra-group dividends and investment in operations note (ii)	(1,177)	(337)	(447)	1,961	–
External dividends	–	–	–	(1,244)	(1,244)
Mark to market value movements on Jackson assets backing surplus and required capital	–	(95)	–	–	(95)
Other movements note (iii)	81	(20)	(5)	76	132
Net increase in shareholders' equity	3,533	1,198	(43)	396	5,084
Shareholders' equity at beginning of year	21,348	13,492	13,627	(3,769)	44,698
Shareholders' equity at end of year	24,881	14,690	13,584	(3,373)	49,782
Representing:					
IFRS basis shareholders' equity:					
Net assets (liabilities)	5,921	5,624	7,547	(3,494)	15,598
Goodwill	247	–	1,153	251	1,651
IFRS basis shareholders' equity	6,168	5,624	8,700	(3,243)	17,249
Additional retained profit (loss) on an EEV basis	18,713	9,066	4,884	(130)	32,533
EEV basis shareholders' equity	24,881	14,690	13,584	(3,373)	49,782
Balance at beginning of year:					
IFRS basis shareholders' equity:					
Net assets (liabilities)	5,620	5,248	7,092	(3,331)	14,629
Goodwill	61	–	1,153	244	1,458
IFRS basis shareholders' equity	5,681	5,248	8,245	(3,087)	16,087
Additional retained profit (loss) on an EEV basis	15,667	8,244	5,382	(682)	28,611
EEV basis shareholders' equity	21,348	13,492	13,627	(3,769)	44,698

Notes

(i) Other operations of £(3,373) million represents the shareholders' equity of £(3,624) million as shown in the movement in shareholders' equity and includes goodwill of £251 million (2017: £244 million) related to Asia long-term operations.

(ii) Intra-group dividends represent dividends that have been declared in the year and investment in operations reflect movements in share capital. The amounts included for these items in the analysis of movement in free surplus (note 10) are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.

(iii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments and treasury shares and intra-group transfers between operations which have no overall effect on the Group's embedded value. Also included is the put option recognised on acquisition of TMB Asset Management Co., Ltd. as discussed in note D1.2 of the IFRS financial statements.

(iv) Group total EEV basis shareholders' equity can be further analysed as follows:

	31 Dec 2018 £m				**31 Dec 2017** £m			
	Total long-term business operations note 9	**Asset management and general insurance commission**	**Other operations** note (v)	**Group total**	**Total long-term business operations** note 9	**Asset management and general insurance commission**	**Other operations** note (v)	**Group total**
IFRS basis shareholders' equity	17,725	2,767	(3,243)	17,249	16,624	2,550	(3,087)	16,087
Additional retained profit (loss) on an EEV basis note (v)	32,663	–	(130)	32,533	29,293	–	(682)	28,611
EEV basis shareholders' equity	50,388	2,767	(3,373)	49,782	45,917	2,550	(3,769)	44,698

(v) The additional retained loss on an EEV basis for other operations represents the mark to market value adjustment for holding company net borrowings of a cumulative charge of £(130) million (31 December 2017: £(682) million) as shown in note 7.

9 Analysis of movement in net worth and value of in-force for long-term business

	2018 £m				
	Free surplus	**Required capital**	**Total net worth**	**Value of in-force business** note (i)	**Total embedded value**
Group					
Shareholders' equity at beginning of year	6,242	10,265	16,507	29,410	45,917
New business contribution [note 3]	(815)	619	(196)	4,073	3,877
Existing business – transfer to net worth	3,439	(776)	2,663	(2,663)	–
Expected return on existing business [note 4]	201	195	396	2,177	2,573
Changes in operating assumptions and experience variances [note 4]	778	69	847	579	1,426
Restructuring costs	(68)	–	(68)	(20)	(88)
Operating profit based on longer-term investment returns	3,535	107	3,642	4,146	7,788
Non-operating items	(720)	(730)	(1,450)	(2,008)	(3,458)
Profit for the year	2,815	(623)	2,192	2,138	4,330
Exchange movements on foreign operations and net investment hedges	201	206	407	1,465	1,872
Intra-group dividends and investment in operations	(1,654)	–	(1,654)	–	(1,654)
Other movements	(77)	–	(77)	–	(77)
Shareholders' equity at end of year	7,527	9,848	17,375	33,013	50,388
Asia					
New business contribution [note 3]	(488)	158	(330)	2,934	2,604
Existing business – transfer to net worth	1,370	(253)	1,117	(1,117)	–
Expected return on existing business [note 4]	68	55	123	1,095	1,218
Changes in operating assumptions and experience variances [note 4]	62	185	247	318	565
Operating profit based on longer-term investment returns	1,012	145	1,157	3,230	4,387
Non-operating items	(393)	15	(378)	(547)	(925)
Profit for the year	619	160	779	2,683	3,462
US					
New business contribution [note 3]	(225)	288	63	858	921
Existing business – transfer to net worth	1,462	(171)	1,291	(1,291)	–
Expected return on existing business [note 4]	54	69	123	758	881
Changes in operating assumptions and experience variances [note 4]	125	6	131	182	313
Restructuring costs	(17)	–	(17)	–	(17)
Operating profit based on longer-term investment returns	1,399	192	1,591	507	2,098
Non-operating items [note (ii)]	(812)	164	(648)	(635)	(1,283)
Profit for the year	587	356	943	(128)	815

	2018 £m				
	Free surplus	Required capital	Total net worth	Value of in-force business note (i)	Total embedded value
UK and Europe					
New business contribution note 3	(102)	173	71	281	352
Existing business – transfer to net worth	607	(352)	255	(255)	–
Expected return on existing business note 4	79	71	150	324	474
Changes in operating assumptions and experience variances note 4	591	(122)	469	79	548
Restructuring costs	(51)	–	(51)	(20)	(71)
Operating profit based on longer-term investment returns	1,124	(230)	894	409	1,303
Non-operating items	485	(909)	(424)	(826)	(1,250)
Profit for the year	1,609	(1,139)	470	(417)	53

Notes

(i) The net value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital for long-term business as shown below:

	31 Dec 2018 £m				31 Dec 2017 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
Value of in-force business before deduction of cost of capital and time value of guarantees	21,867	11,811	3,083	36,761	17,539	10,486	3,648	31,673
Cost of capital	(566)	(296)	(459)	(1,321)	(588)	(232)	(607)	(1,427)
Cost of time value of guarantees*	(981)	(1,446)	–	(2,427)	(186)	(650)	–	(836)
Net value of in-force business	20,320	10,069	2,624	33,013	16,765	9,604	3,041	29,410
Total net worth	4,009	4,581	8,785	17,375	4,182	3,653	8,672	16,507
Total embedded value note 8(iv)	24,329	14,650	11,409	50,388	20,947	13,257	11,713	45,917

* The cost of time value of guarantees arises from the variability of economic outcomes in the future and is, where appropriate, calculated as the difference between a full stochastic valuation and a single deterministic valuation as described in note 13(i)(d). Both valuations reflect the level of policyholder benefits (including guaranteed benefits and discretionary bonuses) and associated charges, together with management actions in response to emerging investment and fund solvency conditions. The increase in the cost of time value of guarantees for Asia operations from £(186) million at 31 December 2017 to £(981) million at 31 December 2018 reflects the interaction between these effects on the two valuations at the respective level of interest rates and equity markets, as well as growth in the business over the year. The increase in the cost of time value of guarantees for the US operations from £(650) million at 31 December 2017 to £(1,446) million at 31 December 2018 primarily reflects the reduction in US equity markets during the fourth quarter of 2018.

(ii) In June 2018, the National Association of Insurance Commissioners (NAIC) formally approved changes to RBC capital factors that reflected the December 2017 US tax reform. The 2018 EEV results reflect these changes, with a resulting increase in required capital and a corresponding reduction in free surplus of £(165) million.

10 Analysis of movement in free surplus

For EEV covered business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles. In Asia and the US operations, assets deemed to be inadmissible on local regulatory basis are included in net worth where considered fully recognisable on an EEV basis. Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity net of goodwill. Free surplus for other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital) is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

(i) Underlying free surplus generated – insurance and asset management operations

The 2017 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2017 CER comparative results are translated at 2018 average exchange rates.

	2018 £m	**2017** £m		**% change**	
		AER	**CER**	**AER**	**CER**
Asia operations					
Underlying free surplus generated from in-force life business	**1,500**	1,407	1,343	7%	12%
Investment in new business note (iii)(a)	**(488)**	(484)	(466)	(1)%	(5)%
Long-term business	**1,012**	923	877	10%	15%
Asset management	**159**	155	150	3%	6%
Total	**1,171**	1,078	1,027	9%	14%
US operations					
Underlying free surplus generated from in-force life business	**1,641**	1,575	1,520	4%	8%
Investment in new business note (iii)(a)	**(225)**	(254)	(245)	11%	8%
Long-term business	**1,416**	1,321	1,275	7%	11%
Asset management	**3**	7	7	(57)%	(57)%
Total	**1,419**	1,328	1,282	7%	11%
UK and Europe operations					
Underlying free surplus generated from in-force life business	**1,277**	1,070	1,070	19%	19%
Investment in new business note (iii)(a)	**(102)**	(175)	(175)	42%	42%
Long-term business	**1,175**	895	895	31%	31%
General insurance commission	**15**	13	13	15%	15%
Total insurance operations	**1,190**	908	908	31%	31%
Asset management	**392**	403	403	(3)%	(3)%
Total	**1,582**	1,311	1,311	21%	21%
Underlying free surplus generated from insurance and asset management operations before restructuring costs	**4,172**	3,717	3,620	12%	15%
Restructuring costs	**(125)**	(77)	(77)	(62)%	(62)%
Underlying free surplus generated from insurance and asset management operations	**4,047**	3,640	3,543	11%	14%

	2018 £m	2017 £m		% change	
		AER	CER	AER	CER
Representing:					
Expected in-force cash flows (including expected return on net assets)	3,640	3,417	3,315	7%	10%
Effects of changes in operating assumptions, operating experience variances and other items before restructuring costs	778	635	618	23%	26%
Underlying free surplus generated from in-force life business before restructuring costs	4,418	4,052	3,933	9%	12%
Investment in new business[note (iii)(a)]	(815)	(913)	(886)	11%	8%
Total long-term business	3,603	3,139	3,047	15%	18%
Asset management and general insurance commission	569	578	573	(2)%	(1)%
Restructuring costs	(125)	(77)	(77)	(62)%	(62)%
	4,047	3,640	3,543	11%	14%

(ii) Underlying free surplus generated – Group total

	2018 £m	2017 £m		% change	
		AER	CER	AER	CER
Underlying free surplus generated from insurance and asset management operations[note (i)]	4,047	3,640	3,543	11%	14%
Other income and expenditure	(737)	(756)	(750)	3%	2%
Group total	3,310	2,884	2,793	15%	19%

(iii) Movement in free surplus

	2018 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Underlying free surplus generated before restructuring costs	1,171	1,419	1,582	4,172	(726)	3,446
Restructuring costs	(19)	(17)	(89)	(125)	(11)	(136)
Underlying free surplus generated[notes (i)(ii)]	1,152	1,402	1,493	4,047	(737)	3,310
Non-operating items[note (b)]	(393)	(842)	472	(763)	(22)	(785)
	759	560	1,965	3,284	(759)	2,525
Net cash flows to parent company[note (c)]	(699)	(342)	(691)	(1,732)	1,732	–
External dividends	–	–	–	–	(1,244)	(1,244)
Exchange rate movements, timing differences and other items[note (d)]	(496)	21	239	(236)	1,505	1,269
Net movement in free surplus	(436)	239	1,513	1,316	1,234	2,550
Balance at beginning of year	2,470	1,928	3,180	7,578	1,774	9,352
Balance at end of year	2,034	2,167	4,693	8,894	3,008	11,902

10 Analysis of movement in free surplus continued

(iii) Movement in free surplus continued

	2017 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Underlying free surplus generated before restructuring costs	1,078	1,328	1,311	3,717	(746)	2,971
Restructuring costs	(14)	–	(63)	(77)	(10)	(87)
Underlying free surplus generated notes(i)(ii)	1,064	1,328	1,248	3,640	(756)	2,884
Non-operating items note (b)	330	(1,203)	572	(301)	27	(274)
	1,394	125	1,820	3,339	(729)	2,610
Net cash flows to parent company note (c)	(645)	(475)	(668)	(1,788)	1,788	–
External dividends	–	–	–	–	(1,159)	(1,159)
Exchange rate movements, timing differences and other items note (d)	(421)	(140)	22	(539)	226	(313)
Net movement in free surplus	328	(490)	1,174	1,012	126	1,138
Balance at beginning of year	2,142	2,418	2,006	6,566	1,648	8,214
Balance at end of year	2,470	1,928	3,180	7,578	1,774	9,352

Notes

(a) Free surplus invested in new business primarily represents acquisition costs and amounts set aside for required capital.

(b) Non-operating items include short-term fluctuations in investment returns, the effect of changes in economic assumptions for long-term business operations and the effect of corporate transactions as described in note 17. In addition, for 2018 this includes the impact of a capital modelling enhancement in the UK and in the US changes to RBC factors following the US tax reform, which were formally approved by the National Association of Insurance Commissioners (NAIC) in June 2018. For 2017 this included the impact of US tax reform (see note 16).

(c) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(d) Exchange rate movements, timing differences and other items represent:

	2018 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Exchange rate movements	88	131	–	219	(6)	213
Mark to market value movements on Jackson assets backing surplus and required capital	–	(95)	–	(95)	–	(95)
Other items note (e)	(584)	(15)	239	(360)	1,511	1,151
	(496)	21	239	(236)	1,505	1,269

	2017 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Exchange rate movements	(113)	(190)	6	(297)	(13)	(310)
Mark to market value movements on Jackson assets backing surplus and required capital	–	40	–	40	–	40
Other items note (e)	(308)	10	16	(282)	239	(43)
	(421)	(140)	22	(539)	226	(313)

(e) Other items include the effect of the net issuance of £1.2 billion of subordinated debt for other operations in 2018, intra-group loans and other intra-group transfers between operations and other non-cash items.

11 Expected transfer of value of in-force business and required capital to free surplus

The discounted value of in-force business and required capital for long-term business operations can be reconciled to the 2018 and 2017 total emergence of free surplus as follows:

	2018 £m	**2017** £m
Required capital note 9	9,848	10,265
Value of in-force business (VIF) note 9	33,013	29,410
Add back: deduction for cost of time value of guarantees note 9	2,427	836
Other items*	(2,169)	(1,371)
Total long-term business operations	43,119	39,140

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* 'Other items' represent amounts incorporated into VIF where there is no definitive time frame for when the payments will be made or receipts received. In particular, other items include the deduction of the shareholders' interest in the with-profits estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital for long-term business operations is modelled as emerging into free surplus over future years.

		2018 £m					
		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
	2018 total as shown above	**1-5 years**	**6-10 years**	**11-15 years**	**16-20 years**	**21-40 years**	**40+ years**
Asia	23,332	6,276	4,185	2,762	2,053	5,399	2,657
US	13,294	6,928	4,094	1,771	378	123	–
UK and Europe	6,493	2,616	1,713	1,053	633	476	2
Total	43,119	15,820	9,992	5,586	3,064	5,998	2,659
	100%	37%	23%	13%	7%	14%	6%

		2017 £m					
		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
	2017 total as shown above	**1-5 years**	**6-10 years**	**11-15 years**	**16-20 years**	**21-40 years**	**40+ years**
Asia	18,692	5,583	3,638	2,418	1,655	3,845	1,553
US	12,455	6,247	3,993	1,697	401	117	–
UK and Europe	7,993	3,012	2,066	1,289	899	704	23
Total	39,140	14,842	9,697	5,404	2,955	4,666	1,576
	100%	38%	25%	14%	7%	12%	4%

12 Sensitivity of results to alternative assumptions

(i) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2018 and 31 December 2017 and the new business contribution after the effect of required capital for 2018 and 2017 for long-term business operations to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates and risk discount rates, including consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets);
- 0.5 per cent decrease in interest rates and risk discount rates, including consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level in contrast to EEV basis required capital (embedded value only); and
- 5 basis points increase in UK long-term expected defaults.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

12 Sensitivity of results to alternative assumptions continued

(i) Sensitivity analysis – economic assumptions continued

New business contribution from long-term business operations

	2018 £m				2017 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
New business contribution note 3	2,604	921	352	3,877	2,368	906	342	3,616
Discount rates – 1% increase	(549)	(42)	(33)	(624)	(477)	(34)	(48)	(559)
Interest rates – 1% increase	(202)	94	43	(65)	(103)	124	44	65
Interest rates – 0.5% decrease	58	(66)	(23)	(31)	(59)	(85)	(23)	(167)
Equity/property yields – 1% rise	130	115	45	290	130	130	52	312
Long-term expected defaults – 5 bps increase	–	–	–	–	–	–	(1)	(1)

Embedded value of long-term business operations

	31 Dec 2018 £m				31 Dec 2017 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
Shareholders' equity note 8	24,329	14,650	11,409	50,388	20,947	13,257	11,713	45,917
Discount rates – 1% increase	(3,292)	(513)	(648)	(4,453)	(2,560)	(440)	(774)	(3,774)
Interest rates – 1% increase	(1,564)	119	(668)	(2,113)	(944)	26	(635)	(1,553)
Interest rates – 0.5% decrease	366	(273)	363	456	121	(166)	384	339
Equity/property yields – 1% rise	1,041	1,011	377	2,429	873	896	425	2,194
Equity/property market values – 10% fall	(473)	(498)	(461)	(1,432)	(429)	(209)	(479)	(1,117)
Statutory minimum capital	110	217	–	327	169	158	–	327
Long-term expected defaults – 5 bps increase	–	–	(76)	(76)	–	–	(135)	(135)

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumptions shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year, namely the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for changes in interest rates, the effect shown above for Jackson would also be recorded within the fair value movements on assets backing surplus and required capital, which are taken directly to shareholders' equity.

(ii) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2018 and 31 December 2017 and the new business contribution after the effect of required capital for 2018 and 2017 for long-term business operations to:

- 10 per cent proportionate decrease in maintenance expenses (for example a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 per cent proportionate decrease in lapse rates (for example a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
- 5 per cent proportionate decrease in base mortality and morbidity rates (ie increased longevity).

New business contribution from long-term business operations

	2018 £m				2017 £m			
	Asia	**US**	**UK and Europe**	**Total**	**Asia**	**US**	**UK and Europe**	**Total**
New business contribution[note 3]	2,604	921	352	3,877	2,368	906	342	3,616
Maintenance expenses – 10% decrease	40	11	2	53	38	14	3	55
Lapse rates – 10% decrease	154	24	17	195	133	24	20	177
Mortality and morbidity – 5% decrease	70	4	1	75	69	4	(2)	71

Embedded value of long-term business operations

	31 Dec 2018 £m				31 Dec 2017 £m			
	Asia	**US**	**UK and Europe**	**Total**	**Asia**	**US**	**UK and Europe**	**Total**
Shareholders' equity[note 8]	24,329	14,650	11,409	50,388	20,947	13,257	11,713	45,917
Maintenance expenses – 10% decrease	254	178	80	512	213	169	64	446
Lapse rates – 10% decrease	972	619	87	1,678	753	659	64	1,476
Mortality and morbidity – 5% decrease	835	141	(294)	682	668	214	(442)	440
Change representing effect on:								
Life business	835	196	13	1,044	668	214	13	895
Annuities	–	(55)	(307)	(362)	–	–	(455)	(455)

13 Methodology and accounting presentation

(i) Methodology

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- The present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - The cost of locked-in required capital; and
  - The time value of cost of options and guarantees;
- Locked-in required capital; and
- The shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results as explained in note 13(ii)(c), no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 13(ii)(a).

(a) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business, including the Group's investments in joint venture and associate insurance operations, for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's asset management and other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital). Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 13(i)(g).

The definition of long-term business operations comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group's long-term business operations, with two exceptions:

- The closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of The Prudential Assurance Company Limited (PAC) long-term fund, established by a Court Approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund; and
- The presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

13 Methodology and accounting presentation continued

(i) Methodology continued

(b) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency, mortality and morbidity, as described in note 14(vii). These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating and economic assumptions as at the end of the year. New business profitability is a key metric for the Group's management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums on new business written in the period and one-tenth of single premiums. PVNBP is calculated as the aggregate of single premiums and the present value of expected future premiums from regular premium new business, allowing for lapses and the other assumptions made in determining the EEV new business contribution.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on an IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the EEV result for Jackson acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that, broadly speaking, are held for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation/depreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

(c) Cost of capital

A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its expected release over time and no further adjustment is necessary in respect of required capital.

(d) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK and Europe business broadly apply to similar types of participating contracts in Asia which are principally written in Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US (Jackson)

The principal financial options and guarantees in Jackson are associated with the fixed annuity (FA) and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for both years, depending on the particular product, jurisdiction where issued, and date of issue. At 31 December 2018, 88 per cent of the account values on fixed annuities are for policies with guarantees of 3 per cent or less (31 December 2017: 87 per cent), and the average guarantee rate is 2.6 per cent for both years.

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues variable annuity (VA) contracts for which it contractually guarantees to the contract holder, subject to specific conditions, either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable upon depletion of funds (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)) or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholders' value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, and essentially fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities (FIA) that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

UK and Europe (M&GPrudential)

The only significant financial options and guarantees in M&GPrudential's covered business arise in the with-profits fund.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Final bonuses are guaranteed only until the next bonus declaration. The UK with-profits fund also held a provision of £49 million at 31 December 2018 (31 December 2017: £53 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in M&GPrudential is through the non-covered business of SAIF. A provision of £361 million was held in SAIF at 31 December 2018 (31 December 2017: £503 million) to honour the guarantees. As described in note 13(i)(a), the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders' funds.

Time value

The value of financial options and guarantees comprises two parts:

- The first part arises from a deterministic valuation on best estimate assumptions (the intrinsic value); and
- The second part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 14(iv), (v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the UK with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

13 Methodology and accounting presentation continued

(i) Methodology continued

(e) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on the applicable local statutory regulations, including any amounts considered to be required above the local statutory minimum requirements to satisfy regulatory constraints.

For with-profits business in Asia and the UK, the available capital in the fund is sufficient to meet the capital requirements. For M&GPrudential, a portion of future shareholder transfers expected from the with-profits fund is recognised within net worth, together with the associated capital requirements.

For shareholder-backed business, the following capital requirements for long-term business operations apply:

- Asia: the level of required capital has been set to an amount at least equal to local statutory notification requirements. For China operations, the level of required capital follows the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime;
- US: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK and Europe: the capital requirements are set at the Solvency II Solvency Capital Requirement (SCR) for shareholder-backed business as a whole. Following the announced demerger, from 1 January 2018 this does not allow for diversification outside the planned perimeter of the business to be demerged.

(f) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the UK with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

(g) Internal asset management

The in-force and new business results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current year profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the year as included in 'Other operations'. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the assets for covered business.

(h) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin.

For Asia and the US, the risk-free rates are based on 10-year local government bond yields. For UK and Europe, the EEV risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period.

The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. In order to better reflect differences in relative market risk volatility inherent in each product group, Prudential sets the risk discount rates to reflect the expected volatility associated with the cash flows for each product category in the embedded value model, rather than at a Group level.

Since financial options and guarantees are explicitly valued under the EEV methodology, risk discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below), such an approach has been used for the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return, it is possible to derive a product-specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

- Expected long-term defaults;
- Credit risk premium (to reflect the volatility in downgrade and default levels); and
- Short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses largely backed by holdings of debt securities, these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below:

Asia

For Asia, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are considered to be sufficient. Accordingly, no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

US (Jackson)

For Jackson business, the allowance for long-term defaults of 0.17 per cent (31 December 2017: 0.19 per cent) is reflected in the risk margin reserve (RMR) charge that is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults (0.2 per cent for variable annuity business and 1.0 per cent for non-variable annuity business for both years), as shown in note 14(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

- How much of the credit spread on debt securities represents an increased short-term credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
- Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment returns credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

UK and Europe (M&GPrudential)

(1) Shareholder-backed annuity business

For shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, as the assets are generally held to maturity to match liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on the Solvency II allowance for credit risk. The Solvency II allowance is set by the European Insurance and Occupational Pensions Authority (EIOPA) using a prudent assumption that all future downgrades will be replaced annually, and allowing for the credit spread floor.

For the purposes of presentation in the EEV results, the results produced on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for a best estimate credit risk allowance. The remaining elements of prudence within the Solvency II allowance are incorporated into the risk margin included in the discount rate, shown in note 14(iii).

(2) With-profits fund non-profit annuity business

For non-profit annuity business attributable to the UK with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows from the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows from the fund.

(3) With-profits fund holdings of debt securities

The with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over riskfree, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

13 Methodology and accounting presentation continued

(i) Methodology continued

Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. An allowance for non-diversifiable non-market risks is estimated as set out below:

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's Asia operations in Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. The level of these allowances are reviewed and updated based on an assessment of a range of pre-defined emerging market risk indicators, as well as the Group's exposure and experience in the business units. At 31 December 2018, the China allowance for non-market risk was reduced reflecting the growth in the size of the business, increasing management exposure and experience in the country and an improvement in our risk assessment of the market. For the Group's US business and UK and Europe business, no additional allowance is necessary.

(i) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year-end exchange rates. The principal exchange rates are shown in note A1 of the IFRS financial statements.

(j) Taxation

In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting period.

(k) Inter-company arrangements

The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to the PAC non-profit sub-fund.

(ii) Accounting presentation

(a) Analysis of post-tax profit

To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent with the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns, which are determined as described in note 13(ii)(b) and incorporate the following:

- New business contribution, as defined in note 13(i)(b);
- Unwind of discount on the value of in-force business and other expected returns, as described in note 13(ii)(c);
- The impact of routine changes of estimates relating to operating assumptions, as described in note 13(ii)(d); and
- Operating experience variances, as described in note 13(ii)(e).

Non-operating results comprise:

- Short-term fluctuations in investment returns;
- The mark to market value movements on core structural borrowings;
- The effect of changes in economic assumptions; and
- The impact of corporate transactions undertaken in the year.

In addition, operating results include the effect of changes in tax legislation, unless these changes are one-off and structural in nature, such as the impact of the US tax reform in 2017 (see note 16), or primarily affect the level of projected investment returns, in which case they are reflected as a non-operating result.

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

For M&GPrudential, the embedded value incorporates Solvency II transitional measures, which are recalculated using management's estimate of the impact of operating and market conditions at the valuation date. The impact of this recalculation is recorded within the corresponding component of the analysis of post-tax profit.

(b) Investment returns included in operating profit

For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the with-profits fund of M&GPrudential, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 13(ii)(c).

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin reserve charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end-of-period risk-free rates and the equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force business adjusted to reflect end-of-period projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the operating result for the year.

(c) Unwind of discount and other expected returns

The Group's methodology in determining the unwind of discount and other expected returns is by reference to:

- The value of in-force business at the beginning of the year (adjusted for the effect of current year economic and operating assumption changes); and
- Required capital and surplus assets.

In applying this general approach, the unwind of discount included in operating profit for M&GPrudential is described below.

M&GPrudential

The unwind is determined by reference to an implied single risk discount rate. The EEV risk-free rate is based on a yield curve (as set out in note 13(i)(h)), which is used to derive an implied single discount rate which, if this rate had been used, would reproduce the same embedded value as that calculated by reference to the yield curve. The difference between the operating profit determined using the single implied discount rate and that derived using the yield curve is included within non-operating profit.

For with-profits business, the opening value of in-force is adjusted for the effect of short-term investment volatility due to market movements (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2018, the shareholders' interest in the smoothed surplus assets used for this purpose only were £12 million higher (31 December 2017: £57 million lower) than the surplus assets carried in the statement of financial position.

(d) Effect of changes in operating assumptions

Operating profit includes the effect of changes to non-economic assumptions on the value of in-force at the end of the year. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force as operating assumption changes, with the experience variances subsequently being determined by reference to the end-of-year assumptions (see note 13(ii)(e)).

(e) Operating experience variances

Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality and morbidity, expenses and other factors, which are calculated with reference to the end-of-year assumptions.

(f) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the year caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results.

14 Assumptions

Principal economic assumptions

The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to year-end risk-free rates of return (defined below for each of the Group's insurance operations). Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same over time as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under the EEV methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the year.

14 Assumptions continued

Principal economic assumptions continued

(i) Asia

The risk-free rates of return for Asia are defined as 10-year government bond yields at the end of the year.

	Risk discount rate %				10-year government bond yield %		Expected long-term Inflation %	
	New business		In-force business					
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
China	8.1	9.7	8.1	9.7	3.3	3.9	3.0	3.0
Hong Kong notes (b)(d)	4.4	4.1	4.4	4.1	2.7	2.4	2.5	2.5
Indonesia	12.4	10.6	12.4	10.6	8.2	6.4	4.5	4.5
Malaysia note (d)	6.6	6.4	6.6	6.5	4.1	3.9	2.5	2.5
Philippines	14.5	12.7	14.5	12.7	7.0	5.2	4.0	4.0
Singapore note (d)	3.4	3.5	4.2	4.4	2.1	2.0	2.0	2.0
Taiwan	4.5	4.3	4.4	3.9	0.9	0.9	1.5	1.5
Thailand	10.0	9.8	10.0	9.8	2.5	2.3	3.0	3.0
Vietnam	12.6	12.6	12.6	12.6	5.1	5.1	5.5	5.5
Total weighted risk discount rate note (a)	5.4	5.3	5.8	5.7				

Notes

(a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each market's risk discount rates by reference to the post-tax EEV basis new business contribution and the closing value of in-force business. The changes in the risk discount rates for individual Asia business units reflect the movements in 10-year government bond yields, changes in the economic basis and changes in product mix.

(b) For Hong Kong the assumptions shown are for US dollar denominated business. For other business units, the assumptions are for local currency denominated business.

(c) Equity risk premiums in Asia range from 4.0 per cent to 9.4 per cent (2017: 4.0 per cent to 9.4 per cent).

(d) The mean equity return assumptions for the most significant equity holdings of the Asia operations are:

	31 Dec 2018 %	31 Dec 2017 %
Hong Kong	6.7	6.4
Malaysia	10.6	10.4
Singapore	8.6	8.5

(ii) US

The risk-free rates of return for the US are defined as the 10-year treasury bond yield at the end of the year.

	31 Dec 2018 %	31 Dec 2017 %
Risk discount rate:		
Variable annuity:		
Risk discount rate	7.1	6.8
Additional allowance for credit risk included in risk discount rate note 13(i)(h)	0.2	0.2
Non-variable annuity:		
Risk discount rate	4.4	4.1
Additional allowance for credit risk included in risk discount rate note 13(i)(h)	1.0	1.0
Weighted average total:		
New business	6.9	6.7
In-force business	6.8	6.5
US 10-year treasury yield	2.7	2.4
Allowance for long-term defaults included in projected spread note 13(i)(h)	0.17	0.19
Pre-tax expected long-term nominal rate of return for US equities	6.7	6.4
Expected long-term rate of inflation	2.9	3.0
Equity risk premium	4.0	4.0
S&P equity return volatility	17.5	18.0

Note

Assumed new business spread margins are as follows:

	31 Dec 2018 %		31 Dec 2017 %	
	January to June issues	July to December issues	January to June issues	July to December issues
Fixed annuity business*†	1.75	1.75	1.50	1.25
Fixed index annuity business*	2.00	2.00	1.75	1.50
Institutional business	0.50	0.50	0.50	0.50

* The assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

† Including the proportion of variable annuity business invested in the general account.

(iii) UK and Europe

The risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period. These yield curves are used to derive pre-tax expected long-term nominal rates of investment return and risk discount rates. For the purpose of determining the unwind of discount in the analysis of operating profit, these yield curves are used to derive a single implied risk discount rate, as explained in note 13(i)(h).

This single implied risk discount rate is shown, along with the 15-year nominal rate of investment return and 15-year rate of inflation based on the inflation yield curve.

	31 Dec 2018 %	31 Dec 2017 %
Shareholder-backed annuity in-force business: note (a)		
Risk discount rate	4.7	4.0
Pre-tax expected 15-year nominal rates of investment return note (c)	3.1	2.6
With-profits and other business:		
Risk discount rate: note (b)		
New business	4.9	4.7
In-force business	5.0	4.8
Pre-tax expected 15-year nominal rates of investment return: note (c)		
Overseas equities	6.5 to 10.1	6.2 to 10.1
Property	4.4	4.4
15-year gilt yield	1.7	1.6
Corporate bonds	3.5	3.4
Expected 15-year rate of inflation	3.6	3.5
Equity risk premium	4.0	4.0

Notes

(a) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates reflect the effect of changes in asset yields.

(b) The risk discount rates for with-profits and other business shown above represents a weighted average total of the rates applied to determine the present value of future cash flows, including the portion of future with-profits business shareholders' transfers recognised in net worth.

(c) The table below shows the pattern of the UK risk-free Solvency II spot yield curve at the end of 31 December:

	1 year	5 year	10 year	15 year	20 year
31 Dec 2018	1.0%	1.2%	1.3%	1.4%	1.5%
31 Dec 2017	0.6%	0.9%	1.2%	1.3%	1.4%

Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 13(i)(d).

(iv) Asia

- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore and Taiwan operations;
- The principal asset classes are government and corporate bonds;
- The asset return models are similar to the models as described for M&GPrudential below; and
- The volatility of equity returns ranges from 18 per cent to 35 per cent for both years, and the volatility of government bond yields ranges from 1.1 per cent to 2.0 per cent (2017: from 1.1 per cent to 2.0 per cent).

(v) US (Jackson)

- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data;
- Corporate bond returns are based on treasury yields plus a spread that reflects current market conditions; and
- The volatility of equity returns ranges from 17 per cent to 26 per cent (2017: from 18 per cent to 27 per cent), and the standard deviation of interest rates ranges from 3.4 per cent to 3.7 per cent (2017: from 2.5 per cent to 2.8 per cent).

(vi) UK and Europe (M&GPrudential)

- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields;
- Equity returns are assumed to follow a log-normal distribution;
- The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread;
- Property returns are also modelled based on a risk-free return plus a risk premium with a stochastic process reflecting total property returns; and
- The standard deviation of equities and property ranges from 14 per cent to 20 per cent for both years.

14 Assumptions continued

Operating assumptions

(vii) Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations. When projecting cash flows for medical reimbursement business that is repriced annually, explicit allowance is made for expected future premiums inflation and separately for future medical claims inflation. The 2018 EEV results reflect this approach. Previously, medical claims inflation was implicitly allowed for by assuming that all increases in medical claim costs were directly offset by future premium increases with no impact on profits.

Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis and are appropriately allocated to acquisition of new business and renewal of in-force business. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. An allowance is made for short-term required expenses, that are not representative of the longer-term expense loadings of the relevant businesses. At 31 December 2018, the allowance held for these costs across the Group was £(436) million mainly arising in Asia. Expense overruns are reported where these are expected to be short-lived, including businesses that are growing rapidly or are sub-scale.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia Regional Head Office that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

- Expenditure for Group Head Office, to the extent not allocated to the UK with-profits funds, together with restructuring costs incurred across the group; and
- Expenditure of the Asia Regional Head Office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate related activities and are included within corporate expenditure.

(viii) Tax rates

The assumed long-term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 13(i)(j).

The local statutory corporate tax rates applicable for the most significant operations for 2018 and 2017 are as follows:

	%
Asia operations:	
Hong Kong	16.5 per cent on 5 per cent of premium income
Indonesia	25.0
Malaysia	24.0
Singapore	17.0
US operations	2017: 35.0; 2018: 21.0
UK operations	2017 and 2018: 19.0; from 1 April 2020: 17.0

15 Insurance new business premiums note (i)

	Single premiums		Regular premiums		Annual premium equivalents (APE) note 13(i)(b)		Present value of new business premiums (PVNBP) note 13(i)(b)	
	2018 £m	**2017 £m**	**2018 £m**	**2017 £m**	**2018 £m**	**2017 £m**	**2018 £m**	**2017 £m**
Asia	2,316	2,299	3,513	3,575	3,744	3,805	20,754	20,405
US	15,423	16,622	–	–	1,542	1,662	15,423	16,622
UK and Europe	13,382	13,044	177	187	1,516	1,491	14,073	13,784
Group total	31,121	31,965	3,690	3,762	6,802	6,958	50,250	50,811
Asia								
Cambodia	–	–	20	16	20	16	89	70
Hong Kong	343	582	1,663	1,667	1,697	1,725	10,200	10,027
Indonesia	205	288	215	268	236	297	910	1,183
Malaysia	84	73	243	271	251	278	1,322	1,398
Philippines	43	62	83	71	87	77	296	287
Singapore	930	859	369	361	462	447	3,611	3,463
Thailand	217	139	95	70	117	84	609	421
Vietnam	20	8	144	133	146	134	708	659
South-east Asia operations including Hong Kong	1,842	2,011	2,832	2,857	3,016	3,058	17,745	17,508
China note (ii)	103	179	292	276	302	294	1,313	1,299
Taiwan	292	46	182	208	211	213	788	634
India note (iii)	79	63	207	234	215	240	908	964
Total	2,316	2,299	3,513	3,575	3,744	3,805	20,754	20,405
US								
Variable annuities	10,810	11,536	–	–	1,081	1,154	10,810	11,536
Elite Access (variable annuity)	1,681	2,013	–	–	168	201	1,681	2,013
Fixed annuities	340	454	–	–	34	45	340	454
Fixed index annuities	251	295	–	–	25	30	251	295
Wholesale	2,341	2,324	–	–	234	232	2,341	2,324
Total	15,423	16,622	–	–	1,542	1,662	15,423	16,622
UK and Europe								
Bonds	3,539	3,509	–	–	354	351	3,540	3,510
Corporate pensions	69	103	117	130	124	140	443	533
Individual pensions	5,681	5,747	35	32	603	607	5,832	5,897
Income drawdown	2,555	2,218	–	–	256	222	2,555	2,218
Other products	1,538	1,467	25	25	179	171	1,703	1,626
Total	13,382	13,044	177	187	1,516	1,491	14,073	13,784
Group total	31,121	31,965	3,690	3,762	6,802	6,958	50,250	50,811

Notes

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement. A reconciliation of APE and gross earned premiums on an IFRS basis is provided in note III(g) within the unaudited financial information.

(ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

16 Impact of US tax reform

On 22 December 2017, The Tax Cuts and Jobs Act in the US was enacted into law effective from 1 January 2018. The tax reform package as a whole, which included 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, resulted in a £390 million benefit in non-operating profit reflected within the 2017 results. The positive impact on an EEV basis represented the benefit of future profits being taxed at a lower rate, partially offset by a reduction in the net deferred tax asset held in the balance sheet to reflect remeasurement at the new lower tax rate, together with a reduction in the benefit from the dividend received deduction on taxable profits from variable annuity business. In June 2018, the National Association of Insurance Commissioners (NAIC) formally approved changes to RBC capital factors that reflected the December 2017 US tax reform and the 2018 EEV results reflect these changes as shown in notes 6 and 9.

17 Corporate transactions

Disposals and other corporate transactions

	2018 £m	**2017** £m
Transactions associated with M&GPrudential note (i)	(376)	–
Other transactions note (ii)	(75)	80
	(451)	80

Notes

(i) *Transactions associated with M&GPrudential*

The following transactions reduced the Group's EEV by £(376) million, which primarily reflects the loss of profits on the portion of annuity liabilities sold.

Intention to demerge the Group's UK and Europe business and transfer of Hong Kong insurance subsidiaries

In March 2018, the Group announced its intention to demerge its UK and Europe business (M&GPrudential) from Prudential plc, resulting in two separately listed companies. In preparation for the UK demerger process, during December 2018, the legal ownership of Prudential plc's Hong Kong insurance subsidiaries was transferred from The Prudential Assurance Company Limited (M&GPrudential's UK regulated Insurance entity) to Prudential Corporation Asia Limited.

Sale of shareholder annuity portfolio

In March 2018, M&GPrudential reinsured £12.0 billion of its shareholder annuity portfolio (IFRS liabilities valued as at 31 December 2017) to Rothesay Life. Under the terms of the agreement, the reinsurance is expected to be followed by a Part VII transfer of most of the reinsured portfolio by 30 June 2019. The 2018 EEV results include the impact on EEV resulting from this transfer.

(ii) *Other transactions*

In 2018, other corporate transactions resulted in an EEV loss of £(75) million (2017: £80 million gain). This primarily relates to additional costs incurred in exiting the US broker-dealer business (which realised a post-tax gain of £80 million when the independent broker-dealer network was sold to LPL Financial LLC in 2017) and costs related to the preparation for the announced demerger discussed above.

18 Post balance sheet events

Renewal of strategic bancassurance alliance with United Overseas Bank Limited

In January 2019, the Group announced the renewal of its regional strategic bancassurance alliance with United Overseas Bank Limited (UOB). The new agreement extends the original alliance which commenced in 2010 to 2034 and increases the geographical scope to include a fifth market, Vietnam, alongside the existing markets across Singapore, Malaysia, Thailand and Indonesia.

As part of this transaction, Prudential has agreed to pay UOB an initial fee of £662 million (translated using a Singapore dollar: £ foreign exchange rate of 1.7360) for distribution rights which is not dependent on future sales volumes. This amount will be paid in three instalments of £230 million in February 2019, £331 million in January 2020 and £101 million in January 2021. In line with the Group's policy, these amounts will be capitalised as distribution rights intangible asset.

Statement of Directors' responsibilities in respect of the European Embedded Value (EEV) basis supplementary information

The directors have chosen to prepare supplementary information in accordance with the European Embedded Value Principles dated April 2016 by the European Insurance CFO Forum ('the EEV Principles') using the methodology and assumptions set out in the Notes on the EEV basis results.

When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV guidance included in the EEV Principles.

In preparing the EEV supplementary information, the directors have:

- Prepared the supplementary information in accordance with the EEV Principles;
- Identified and described the business covered by the EVM;
- Applied the EVM consistently to the covered business;
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently;
- Made estimates that are reasonable and consistent; and
- Described the basis on which business that is not covered business has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's financial statements.

Independent auditor's report to Prudential plc on the European Embedded Value (EEV) basis supplementary information

Opinions and conclusions arising from our audit

Our opinion on the EEV basis supplementary information is unmodified

We have audited the EEV basis supplementary information of Prudential plc ("the Company") for the year ended 31 December 2018 set out in the EEV basis results and Notes on the EEV basis results pages. The EEV basis supplementary information should be read in conjunction with the Group financial statements.

In our opinion, the EEV basis supplementary information of the Company for the year ended 31 December 2018 has been properly prepared, in all material respects, in accordance with the European Embedded Value Principles dated April 2016 by the European Insurance CFO Forum ("the EEV Principles") using the methodology and assumptions set out in the Notes on the EEV basis results.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 375, the directors have accepted responsibility for the preparation of the supplementary information on the EEV basis in accordance with the EEV Principles.

Our responsibility is to audit, and express an opinion on, the supplementary information in accordance with the terms of our engagement and in accordance with International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard.

Scope of an audit of financial statements performed in accordance with ISAs (UK)

A description of the scope of an audit of financial statements is provided on our website at www.kpmg.com/uk/auditscopeukco2014a. This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The purpose of this report and restrictions on its use by persons other than the Company

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Philip Smart

Philip Smart
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
London

12 March 2019

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Additional information

Index to the additional unaudited financial information*

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* In this additional unaudited financial information 'operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns.

Additional unaudited financial information

I IFRS profit and loss information

I(a) Analysis of long-term insurance business adjusted IFRS operating profit based on longer-term investment returns by driver

This schedule classifies the Group's adjusted IFRS operating profit based on longer-term investment returns from long-term insurance operations into the underlying drivers, using the following categories:

- **Spread income** represents the difference between net investment income 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** represent the pre-tax shareholders' transfer from the with-profits funds 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. These exclude items such as restructuring 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 adjusted IFRS operating profit based on longer-term investment returns by source and margin analysis of Group long-term insurance business

The following analysis expresses certain of the Group's sources of adjusted IFRS operating profit based on long-term investment returns 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.

	2018 £m					
	Asia	**US**	**UK and Europe**	**Total**	**Average liability** note (iv)	**Margin** bps note (ii)
Spread income	232	583	84	899	85,850	105
Fee income	210	2,445	56	2,711	175,443	155
With-profits	71	–	320	391	147,318	27
Insurance margin	1,481	949	50	2,480		
Margin on revenues	2,105	–	149	2,254		
Expenses:						
Acquisition costs note (i)	(1,503)	(759)	(57)	(2,319)	6,802	(34)%
Administration expenses	(1,029)	(1,204)	(180)	(2,413)	265,597	(91)
DAC adjustments note (v)	326	(114)	4	216		
Expected return on shareholder assets	129	11	102	242		
	2,022	1,911	528	4,461		
Share of related tax charges from joint ventures and associate note (vi)	(40)		–	(40)		
Longevity reinsurance and other management actions to improve solvency			58	58		
Changes in longevity assumption basis			441	441		
Provision for guaranteed minimum pension equalisation			(55)	(55)		
Insurance recoveries of costs associated with review of past annuity sales			166	166		
Long-term business adjusted IFRS operating profit based on longer-term investment returns	1,982	1,911	1,138	5,031		

I IFRS profit and loss information continued

I(a) Analysis of long-term insurance business adjusted IFRS operating profit based on longer-term investment returns by driver continued

	2017 AER £m					
	Asia	**US**	**UK and Europe**	**Total**	**Average liability** note (iv)	**Margin** bps note (ii)
Spread income	234	751	137	1,122	88,908	126
Fee income	205	2,343	61	2,609	166,839	156
With-profits	59	–	288	347	136,474	25
Insurance margin	1,341	906	55	2,302		
Margin on revenues	2,098	–	189	2,287		
Expenses:						
Acquisition costs note (i)	(1,499)	(876)	(68)	(2,443)	6,958	(35)%
Administration expenses	(967)	(1,174)	(164)	(2,305)	261,114	(88)
DAC adjustments note (v)	241	260	4	505		
Expected return on shareholder assets	126	4	104	234		
	1,838	2,214	606	4,658		
Share of related tax charges from joint ventures and associate note (vi)	(39)	–	–	(39)		
Longevity reinsurance and other management actions to improve solvency	–	–	276	276		
Changes in longevity assumption basis	–	–	204	204		
Provision for review of past annuity sales	–	–	(225)	(225)		
Long-term business adjusted IFRS operating profit based on longer-term investment returns	1,799	2,214	861	4,874		

	2017 CER £m note (iii)					
	Asia	**US**	**UK and Europe**	**Total**	**Average liability** note (iv)	**Margin** bps note (ii)
Spread income	228	725	137	1,090	87,553	124
Fee income	195	2,262	61	2,518	162,267	155
With-profits	57	–	288	345	136,496	25
Insurance margin	1,293	875	55	2,223		
Margin on revenues	2,021	–	189	2,210		
Expenses:						
Acquisition costs note (i)	(1,450)	(846)	(68)	(2,364)	6,767	(35)%
Administration expenses	(933)	(1,134)	(164)	(2,231)	255,313	(87)
DAC adjustments note (v)	235	251	4	490		
Expected return on shareholder assets	120	4	104	228		
	1,766	2,137	606	4,509		
Share of related tax charges from joint ventures and associate note (vi)	(39)	–	–	(39)		
Longevity reinsurance and other management actions to improve solvency	–	–	276	276		
Changes in longevity assumption basis	–	–	204	204		
Provision for review of past annuity sales	–	–	(225)	(225)		
Long-term business adjusted IFRS operating profit based on longer-term investment returns	1,727	2,137	861	4,725		

Notes to sources of earnings tables throughout I(a)

(i) The ratio of 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 average policyholder liabilities excluding unallocated surplus.

(iii) The 2017 comparative information has been presented at AER and CER to eliminate the impact of foreign 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 policyholder liability calculations, the amounts have been translated using current year opening and closing exchange rates. For the US CER average liability calculations, the amounts have been translated at the current year month-end closing exchange rates. See note A1 in the IFRS financial statements for foreign exchange rates used.

(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.

(v) The DAC adjustments contain a credit of £55 million in respect of joint ventures and associate in 2018 (2017: AER credit of £43 million).

(vi) Under IFRS, the Group's share of results from its investments in joint ventures and associate accounted for using the equity method is included in the Group's profit before tax on a net of related tax basis. In 2018, the Group altered the presentation of its analysis of Asia adjusted IFRS operating profit based on longer-term investment returns by driver to show these tax charges separately in order for the contribution from the joint ventures and associate to be included in the margin analysis on a consistent basis as the rest of the Asia operations. 2017 comparatives have been re-presented accordingly.

Margin analysis of long-term insurance business – Asia

	2018			**2017 AER**			**2017 CER** note (iii)		
	Profit £m	**Average liability** note (iv) £m	**Margin** note (ii) bps	**Profit** £m	**Average liability** note (iv) £m	**Margin** note (ii) bps	**Profit** £m	**Average liability** note (iv) £m	**Margin** note (ii) bps
Spread income	232	18,895	123	234	16,359	143	228	16,351	139
Fee income	210	20,105	104	205	18,767	109	195	18,638	105
With-profits	71	36,309	20	59	30,115	20	57	30,137	19
Insurance margin	1,481			1,341			1,293		
Margin on revenues	2,105			2,098			2,021		
Expenses:									
Acquisition costs note (i)	(1,503)	3,744	(40)%	(1,499)	3,805	(39)%	(1,450)	3,671	(39)%
Administration expenses	(1,029)	39,000	(264)	(967)	35,126	(275)	(933)	34,989	(267)
DAC adjustments note (v)	326			241			235		
Expected return on shareholder assets	129			126			120		
	2,022			1,838			1,766		
Share of related tax charges from joint ventures and associate note (vi)	(40)			(39)			(39)		
Adjusted IFRS operating profit based on longer-term investment returns	1,982			1,799			1,727		

Analysis of Asia adjusted IFRS operating profit based on longer-term investment returns by driver:

— Spread income has increased on a CER basis by 2 per cent (AER: decreased by 1 per cent) to £232 million in 2018, with a decrease in the margin on a CER basis from 139 basis points in 2017 to 123 basis points in 2018 (AER: decreased from 143 basis points in 2017 to 123 basis points in 2018) predominantly reflecting the change in investment mix, country and product mix.

— Fee income has increased by 8 per cent on a CER basis (AER: 2 per cent) to £210 million in 2018, broadly in line with the increase in movement in average unit-linked policyholder liabilities.

— Insurance margin has increased by 15 per cent on a CER basis (AER: 10 per cent) to £1,481 million in 2018, primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products.

— Margin on revenues has increased by 4 per cent on a CER basis (AER: less than 1 per cent) to £2,105 million in 2018, primarily reflecting higher premiums together with the effect of changes in product mix and higher premium allocation to policyholders.

— Acquisition costs have increased by 4 per cent on a CER basis (AER: less than 1 per cent) to £1,503 million in 2018, compared to a 2 per cent increase in APE sales on a CER basis, resulting in an increase in the acquisition costs ratio. The analysis in the table above uses shareholder acquisition costs as a proportion of total APE sales. If with-profits sales were excluded from the denominator, the acquisition cost ratio would become 69 per cent (2017: 67 per cent on a CER basis), the increase being the result of product and country mix.

— Administration expenses including renewal commissions have increased by 10 per cent on a CER basis (AER: 6 per cent) to £1,029 million in 2018 as the business continues to expand. On a CER basis, the administration expense ratio has decreased from 267 basis points in 2017 to 264 basis points in 2018 as a result of changes in country and product mix.

I IFRS profit and loss information continued

I(a) Analysis of long-term insurance business adjusted IFRS operating profit based on longer-term investment returns by driver continued

Margin analysis of long-term insurance business – US

	2018			2017 AER			2017 CER note (iii)		
	Profit £m	**Average liability** note (iv) £m	**Margin** note (ii) bps	**Profit** £m	**Average liability** note (iv) £m	**Margin** note (ii) bps	**Profit** £m	**Average liability** note (iv) £m	**Margin** note (ii) bps
Spread income	583	37,608	155	751	38,918	193	725	37,571	193
Fee income	2,445	133,407	183	2,343	125,440	187	2,262	120,997	187
Insurance margin	949			906			875		
Expenses:									
Acquisition costs[note (i)]	(759)	1,542	(49)%	(876)	1,662	(53)%	(846)	1,605	(53)%
Administration expenses	(1,204)	175,319	(69)	(1,174)	169,725	(69)	(1,134)	164,061	(69)
DAC adjustments	(114)			260			251		
Expected return on shareholder assets	11			4			4		
Adjusted IFRS operating profit based on longer-term investment returns	1,911			2,214			2,137		

Analysis of US adjusted IFRS operating profit based on long-term investment returns by driver:

- Spread income has decreased by 20 per cent on a CER basis (AER: 22 per cent) to £583 million in 2018. The reported spread margin decreased to 155 basis points from 193 basis points in 2017, primarily due to the impact of increasing LIBOR on interest rate swaps, lower investment yields and maturing of swaps previously entered into to more closely match the asset and liability duration. Excluding the effect of these historic swap transactions, the spread margin would have been 130 basis points (2017: 144 basis points at CER and AER).
- Fee income has increased by 8 per cent on a CER basis (AER: 4 per cent) to £2,445 million during 2018, primarily due to higher average separate account balances resulting from positive net flows from variable annuity business and market appreciation during most of 2018 before a decline in the fourth quarter of 2018. Fee income margin has decreased to 183 basis points (2017:187 basis points at CER and AER) primarily reflecting a change in business mix.
- Insurance margin represents profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin increased by 8 per cent on a CER basis (AER: 5 per cent) to £949 million in 2018 mainly due to higher income from variable annuity guarantees and favourable mortality experience.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 10 per cent on a CER basis (AER: 13 per cent). This reflects a 4 per cent decrease in APE sales and lower level of front-ended commissions.
- Administration expenses increased by 6 per cent on a CER basis (AER: 3 per cent) to £(1,204) million during 2018, primarily as a result of higher asset-based commissions. Excluding these asset-based commissions, the resulting administration expense ratio would be lower at 34 basis points (2017: 35 basis points at CER and AER).
- DAC adjustments in 2018 was negative £(114) million (compared to £251 million credit in 2017 on a CER basis) due to an increase in the DAC amortisation charge. The higher DAC amortisation charge arises largely from an acceleration of amortisation of £(194) million (2017: credit for deceleration of £83 million on a CER basis) primarily relating to the market returns in 2018 and the reversal of the benefit received in 2015 under the mean reversion formula.

Analysis of adjusted IFRS operating profit based on longer-term investment returns before and after acquisition costs and DAC adjustments

	2018 £m				**2017 AER** £m				**2017 CER** £m note (iii)			
	Acquisition costs				**Acquisition costs**				**Acquisition costs**			
	Before acquisition costs and DAC adjustments	**Incurred**	**Deferred**	**After acquisition costs and DAC adjustments**	**Before acquisition costs and DAC adjustments**	**Incurred**	**Deferred**	**After acquisition costs and DAC adjustments**	**Before acquisition costs and DAC adjustments**	**Incurred**	**Deferred**	**After acquisition costs and DAC adjustments**
Total adjusted IFRS operating profit based on longer-term investment returns before acquisition costs and DAC adjustments	2,784			2,784	2,830			2,830	2,732			2,732
Less new business strain		(759)	569	(190)		(876)	663	(213)		(846)	640	(206)
Amortisation of previously deferred acquisition costs:												
Normal			(489)	(489)			(489)	(489)			(472)	(472)
(Accelerated) decelerated			(194)	(194)			86	86			83	83
Total	2,784	(759)	(114)	1,911	2,830	(876)	260	2,214	2,732	(846)	251	2,137

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

	2018 £m	**2017** £m		**2018 vs 2017** %	
		AER	**CER**	**AER**	**CER**
Spread business	297	317	306	(6)%	(3)%
Fee business	1,532	1,788	1,726	(14)%	(11)%
Life and other business	82	109	105	(25)%	(22)%
Total insurance operationsnote	1,911	2,214	2,137	(14)%	(11)%
US asset management and broker-dealer	8	10	9	(20)%	(11)%
Total US operations	1,919	2,224	2,146	(14)%	(11)%

Note

The analysis of adjusted IFRS 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:

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

I IFRS profit and loss information continued

I(a) Analysis of long-term insurance business adjusted IFRS operating profit based on longer-term investment returns by driver continued

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

	2018			2017		
	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps
Spread income	84	29,347	29	137	33,631	41
Fee income	56	21,931	26	61	22,632	27
With-profits	320	111,009	29	288	106,359	27
Insurance margin	50			55		
Margin on revenues	149			189		
Expenses:						
Acquisition costs note (i)	(57)	1,516	(4)%	(68)	1,491	(5)%
Administration expenses	(180)	51,278	(35)	(164)	56,263	(29)
DAC adjustments	4			4		
Expected return on shareholder assets	102			104		
	528			606		
Longevity reinsurance and other management actions to improve solvency	58			276		
Changes in longevity assumption basis	441			204		
Provision for guaranteed minimum pension equalisation	(55)			–		
Insurance recoveries of costs associated with review of past annuity sales	166			–		
Provision for review of past annuity sales	–			(225)		
Adjusted IFRS operating profit based on longer-term investment returns	1,138			861		

Analysis of UK and Europe adjusted IFRS operating profit based on longer-term investment returns by driver:

- Spread income has reduced from £137 million in 2017 to £84 million in 2018 reflecting the run-off of the in-force annuity portfolio and the effect of the reinsurance of £12.0 billion of annuity portfolios to Rothesay Life entered into in March 2018.
- 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 mostly arises within the UK and Europe asset management business). Fee income is after costs relating to managing the underlying funds which include recent rationalisation activity to remove sub-scale funds. If these costs and the direct investment only schemes are excluded, the fee margin on the remaining balances would be 36 basis points (2017: 40 basis points).
- Margin on revenues represents premium charges for expenses of shareholder-backed business and other sundry net income.
- The £441 million favourable effect of longevity assumption relates to changes to annuitant mortality assumptions to reflect current mortality experience and the adoption of the Continuous Mortality Investigation (CMI) 2016 model. Further information on changes to mortality assumptions is given in note C4.1(d) in the IFRS financial statements.
- An allowance provision of £(55) million has been made in 2018 to reflect the costs of equalising guaranteed minimum pension benefits on pension products sold by the insurance business following the ruling by the High Court in October 2018. Further information is provided in note C9 in the IFRS financial statements.
- The 2018 insurance recoveries of costs associated with undertaking a review of past annuity sales of £166 million (2017: £nil) is explained in note C11, 'Provisions', in the IFRS financial statements.

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:

	2018 £m	AER 2017 £m	CER 2017 £m	2017 AER vs 2018	2017 CER vs 2018
Hong Kong	443	346	332	28%	33%
Indonesia	416	457	415	(9)%	0%
Malaysia	194	173	178	12%	9%
Philippines	43	41	38	5%	13%
Singapore	329	272	269	21%	22%
Thailand	113	107	108	6%	5%
Vietnam	149	135	129	10%	16%
South-east Asia operations including Hong Kong	1,687	1,531	1,469	10%	15%
China	143	121	119	18%	20%
Taiwan	51	43	41	19%	24%
Other	51	71	67	(28)%	(24)%
Non-recurrent items note	94	75	73	25%	29%
Total insurance operations	2,026	1,841	1,769	10%	15%
Share of related tax charges from joint ventures and associate*	(40)	(39)	(39)	(3)%	(3)%
Development expenses	(4)	(3)	(3)	(33)%	(33)%
Total long-term business operating profit	1,982	1,799	1,727	10%	15%
Asset management (Eastspring Investments)	182	176	171	3%	6%
Total Asia operations	2,164	1,975	1,898	10%	14%

* Under IFRS, the Group's share of results from its investments in joint ventures and associate accounted for using the equity method is included in the Group's profit before tax on a net of related tax basis. In 2018, the Group altered the presentation of its analysis of Asia operating profit to show these tax charges separately in order for the contribution from the joint ventures and associate to be included in the operating profit analysis on a consistent basis as the rest of the Asia's operations. 2017 comparatives have been re-presented accordingly.

Note

In 2018, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £94 million (2017: £75 million) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions, within Singapore.

I(c) Analysis of asset management operating profit based on longer-term investment returns

	2018 £m	
	M&GPrudential asset management note (ii)	Eastspring Investments note (ii)
Operating income before performance-related fees	1,100	424
Performance-related fees	15	17
Operating income (net of commission) note (i)	1,115	441
Operating expense note (i)	(654)	(232)
Share of associate's results	16	–
Group's share of tax on joint ventures' operating profit	–	(27)
Operating profit based on longer-term investment returns	477	182
Average funds under management	£276.6bn	£146.3bn
Margin based on operating income*	40bps	29bps
Cost/income ratio†	59%	55%

I IFRS profit and loss information continued

I(c) Analysis of asset management operating profit based on longer-term investment returns continued

	2017 £m	
	M&GPrudential asset management note (ii)	**Eastspring Investments** note (ii)
Operating income before performance-related fees	1,034	421
Performance-related fees	53	17
Operating income (net of commission) note (i)	1,087	438
Operating expense note (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%

* 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. M&GPrudential operating expense includes £27 million of Brexit preparation costs.

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

Notes

(i) Operating income and expense include the Group's pre-tax share of contribution from joint ventures but excludes any contribution from associate. In the consolidated income statement of the IFRS financial statements, the net post-tax income of the joint ventures and associate is shown as a single line item.

(ii) Operating income before performance related fees and margin on related funds under management for M&GPrudential asset management and Eastspring Investments can be further analysed as follows:

M&GPrudential asset management

	Operating income before performance related fees					
	Retail £m	**Margin** bps	**Institutional*** £m	**Margin** bps	**Total** £m	**Margin** bps
2018	662	85	438	22	1,100	40
2017	604	85	430	21	1,034	37

Eastspring Investments

	Operating income before performance related fees					
	Retail £m	**Margin** bps	**Institutional*** £m	**Margin** bps	**Total** £m	**Margin** bps
2018	252	50	172	18	424	29
2017	249	57	172	20	421	33

* Institutional includes internal funds.

I(d) Contribution to UK long-term financial metrics from specific management actions undertaken to position the balance sheet more efficiently under the Solvency II regime

In 2018, further management actions were taken to improve the solvency of the UK and Europe insurance operations and to mitigate market risks. These actions included repositioning the fixed income asset portfolio to improve the trade-off between yield and credit risk. No new longevity reinsurance transactions were undertaken in 2018 (2017: longevity reinsurance transactions entered into covering £0.5 billion of IFRS annuity liabilities).

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 before tax

	2018 £m	**2017** £m
Shareholder-backed annuity new business	9	9
In-force business:		
Longevity reinsurance transactions	–	31
Other management actions to improve solvency	58	245
Changes in longevity assumption basis	441	204
Provision for the review of past annuity sales	–	(225)
Insurance recoveries in respect of above costs	166	–
Provision for guaranteed minimum pension equalisation	(55)	–
	610	255
With-profits and other in-force	519	597
Total IFRS operating profit before restructuring costs	1,138	861

Underlying free surplus generation of UK long-term business

	2018 £m	**2017** £m
Expected in-force and return on net worth	686	706
Longevity reinsurance transactions	–	15
Other management actions to improve solvency	54	385
Changes in longevity assumption basis	364	179
Provision for the review of past annuity sales	–	(187)
Insurance recoveries in respect of above costs	138	–
Provision for guaranteed minimum pension equalisation	(95)	–
	461	392
Other in-force	130	(28)
Underlying free surplus generated from in-force business	1,277	1,070
New business strain	(102)	(175)
Total free surplus generation before restructuring costs	1,175	895

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

	2018 £m	**2017** £m
Unwind of discount and other expected return	474	465
Longevity reinsurance transactions	–	(6)
Other management actions to improve solvency	141	127
Changes in longevity assumption basis	330	195
Provision for the review of past annuity sales	–	(187)
Insurance recoveries in respect of above costs	138	–
Provision for guaranteed minimum pension equalisation	(48)	–
	561	129
Other in-force	(13)	79
Operating profit from in-force business	1,022	673
New business profit	352	342
Total EEV operating profit before restructuring costs	1,374	1,015

II Other information

II(a) Holding company cash flow*

	2018 £m	**2017** £m
Net cash remitted by business units:		
Asia	699	645
US	342	475
UK and Europe:		
With-profits remittance	233	215
Shareholder-backed insurance business remittance	97	105
Asset management remittance	324	323
	654	643
Other UK paid to the Group (including Prudential Capital)	37	25
Total UK net remittances to the Group	691	668
Net remittances to the Group from business units note (i)	1,732	1,788
Net interest paid	(366)	(415)
Tax received	142	152
Corporate activities	(206)	(207)
Total central outflows	(430)	(470)
Operating holding company cash flow before dividend	1,302	1,318
Dividend paid	(1,244)	(1,159)
Operating holding company cash flow after dividend	58	159
Non-operating net cash flow note (ii)	913	(511)
Total holding company cash flow	971	(352)
Cash and short-term investments at beginning of year	2,264	2,626
Foreign exchange movements	1	(10)
Cash and short-term investments at end of year note (iii)	3,236	2,264

* 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.

Notes

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

(ii) Non-operating net cash flow principally relates to the issue of subordinated debt less repayment of debt, and payments for distribution rights and acquisition of subsidiaries.

(iii) Including central finance subsidiaries.

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.

	31 Dec 2018 £bn	31 Dec 2017 £bn
Asia operations:		
Internal funds	89.5	81.4
Eastspring Investments' external funds	61.1	55.9
	150.6	137.3
US operations: internal funds	183.1	178.3
UK and Europe operations:		
Internal funds, including PruFund-backed products	174.3	186.8
External funds	146.9	163.9
	321.2	350.7
Other operations	2.4	3.0
Group total funds under management note	657.3	669.3

Note

Total funds under management comprise:

	31 Dec 2018 £bn	31 Dec 2017 £bn
Total investments per the consolidated statement of financial position	449.6	451.4
External funds of M&GPrudential and Eastspring Investments (as analysed in note (b) below)	208.0	219.8
Internally managed funds held in joint ventures and other adjustments	(0.3)	(1.9)
Group total funds under management	657.3	669.3

(b) Investment products – external funds under management

	2018 £m					2017 £m				
	At 1 Jan 2018	Market gross inflows	Redemptions	Market and other movements	At 31 Dec 2018	At 1 Jan 2017	Market gross inflows	Redemptions	Market and other movements	At 31 Dec 2017
M&GPrudential Wholesale/Direct	79,697	24,584	(29,452)	(5,364)	69,465	64,209	30,949	(19,906)	4,445	79,697
M&GPrudential Institutional	84,158	12,954	(18,001)	(1,630)	77,481	72,554	15,220	(8,926)	5,310	84,158
Total M&GPrudential note (i)	163,855	37,538	(47,453)	(6,994)	146,946	136,763	46,169	(28,832)	9,755	163,855
Eastspring Investments note (ii)	55,885	212,070	(212,156)	5,258	61,057	45,756	215,907	(211,271)	5,493	55,885
Total note (iii)	219,740	249,608	(259,609)	(1,736)	208,003	182,519	262,076	(240,103)	15,248	219,740

Notes

(i) The results exclude contribution from PruFund products: net inflows of £8.5 billion in 2018 (2017: £9.0 billion); funds under management of £43 billion as at 31 December 2018 (31 December 2017: £35.9 billion).

(ii) Market and other movements during the year for Eastspring investments include inflow of £9.3 billion funds under management from acquisition of TMB Asset Management Co., Ltd. ('TMBAM') in Thailand. See note D1.2 of the consolidated financial statements for further details.

(iii) The £208 billion (31 December 2017: £219.7 billion) investment products comprise £196.4 billion (31 December 2017: £210.4 billion) plus Asia Money Market Funds of £11.6 billion (31 December 2017: £9.3 billion).

II Other information continued

II(b) Funds under management continued

(c) M&G and Eastspring Investments – total funds under management

M&G, the asset management business of M&GPrudential 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	
	31 Dec 2018 £bn	31 Dec 2017 £bn	31 Dec 2018 note £bn	31 Dec 2017 note £bn
External funds under management	146.9	163.9	61.1	55.9
Internal funds under management	118.2	134.6	90.2	83.0
Total funds under management	265.1	298.5	151.3	138.9

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 31 December 2018 of £11.6 billion (31 December 2017: £9.3 billion).

II(c) Solvency II capital position

The estimated Group shareholder Solvency II surplus at 31 December 2018 was £17.2 billion, before allowing for payment of the 2018 second interim ordinary dividend and reflecting approved regulatory transitional measures as at 31 December 2018.

Estimated Group shareholder Solvency II capital position*	31 Dec 2018	31 Dec 2017
Own Funds (£bn)	30.2	26.4
Solvency Capital Requirement (£bn)	13.0	13.1
Surplus (£bn)	17.2	13.3
Solvency ratio (%)	232%	202%

* 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 estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

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 2018 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 2018.

The Group shareholder Solvency II capital position excludes:

- A portion of Solvency II surplus capital (£1.7 billion at 31 December 2018) relating to the Group's Asian life operations, primarily due to the Solvency II definition of 'contract boundaries' which prevents some expected future cash flows from being recognised;
- The contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds in surplus (representing £5.5 billion of surplus capital from UK with-profits funds at 31 December 2018) 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 2018 to 1 October 2019. At 31 December 2018, applying this approval had the effect of decreasing local available statutory capital and surplus (and by extension Solvency II Own Funds and Solvency II surplus) by £0.1 billion, net of tax. This arrangement reflects an elective long-standing practice first put in place in 2009, which can be unwound at Jackson's discretion.

The 31 December 2018 Solvency II results above allow for the reinsurance of £12.0 billion of the UK annuity portfolio to Rothesay Life effective from 14 March 2018 and the transfer of Prudential plc's Hong Kong subsidiaries to Prudential Corporation Asia Limited. In total these items have resulted in a decrease to UK Solvency II surplus in 2018 of £3.3 billion with Group Solvency II surplus increasing by £0.4 billion.

Analysis of movement in Group capital position

A summary of the estimated movement in Group Solvency II surplus from £13.3 billion at year end 2017 to £17.2 billion at year end 2018 is set out in the table below. The movement from the Group Solvency II surplus at 31 December 2016 to the Solvency II surplus at 31 December 2017 is included for comparison.

Analysis of movement in Group shareholder surplus	**2018 Surplus** £bn	**2017 Surplus** £bn
Estimated Solvency II surplus at beginning of year	13.3	12.5
Underlying operating experience	4.1	3.2
Management actions	0.1	0.4
Operating experience	4.2	3.6
Non-operating experience (including market movements)	(1.2)	(0.6)
M&GPrudential transactions	0.4	–
Other capital movements		
Net subordinated debt issuance/redemption	1.2	(0.2)
Foreign currency translation impacts	0.5	(0.7)
Dividends paid	(1.2)	(1.2)
Model changes	0.0	(0.1)
Estimated Solvency II surplus at end of year	17.2	13.3

The estimated movement in Group Solvency II surplus over 2018 is driven by:

- *Operating experience of £4.2 billion:* generated by in-force business and new business written in 2018, after allowing for amortisation of the UK transitional measures and the impact of one-off management optimisations implemented over the year. This includes a £0.4 billion benefit from the impact of updates to UK longevity best estimate assumptions and a £0.1 billion benefit from an insurance recovery relating to the costs and any related redress of reviewing internally vesting annuities sold without advice after 1 July 2008;
- *Non-operating experience of £(1.2) billion:* resulting mainly from the negative impact of market movements, after allowing for the recalculation of the UK transitional measures at the valuation date, the impact of US Risk Based Capital updates announced in June 2018 to reflect US tax reform changes and the £(0.3) billion impact from the acquisition of TMB Asset Management Co., Ltd. (see IFRS Financial Statements note D1.2 for further information);
- *M&GPrudential transactions of £0.4 billion:* the beneficial impact on the Group Solvency II surplus of the UK annuities reinsurance transaction effective from 14 March 2018 and the transfer of Prudential plc's Hong Kong subsidiaries to Prudential Corporation Asia Limited after allowing for the impact of recalculation of the UK transitional measures as a result of these transactions;
- *Other capital movements:* comprising an increase in surplus from the net impact of debt raised offset by debt redeemed during 2018, a benefit from foreign currency translation and a reduction in surplus from payment of dividends; and
- *Model changes:* reflecting internal model changes approved by the Prudential Regulation Authority and other minor internal model calibration changes made in 2018.

II Other information continued

II(c) Solvency II capital position continued

Analysis of Group Solvency Capital Requirements

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

	31 Dec 2018		31 Dec 2017	
Split of the Group's estimated Solvency Capital Requirements	% of undiversified Solvency Capital Requirements	% of diversified Solvency Capital Requirements	% of undiversified Solvency Capital Requirements	% of diversified Solvency Capital Requirements
Market	57%	70%	57%	71%
Equity	13%	23%	14%	23%
Credit	23%	38%	24%	38%
Yields (interest rates)	16%	6%	13%	7%
Other	5%	3%	6%	3%
Insurance	24%	20%	26%	21%
Mortality/morbidity	5%	2%	5%	2%
Lapse	15%	17%	14%	17%
Longevity	4%	1%	7%	2%
Operational/expense	12%	8%	11%	7%
FX translation	7%	2%	6%	1%

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds	31 Dec 2018 £bn	31 Dec 2017 £bn
IFRS shareholders' equity	17.2	16.1
Restate US insurance entities from IFRS to local US statutory basis	(2.5)	(3.0)
Remove DAC, goodwill and intangibles	(4.6)	(4.0)
Add subordinated debt	7.2	5.8
Impact of risk margin (net of transitional measures)	(3.8)	(3.9)
Add value of shareholder transfers	5.3	5.3
Liability valuation differences	13.3	12.1
Increase in net deferred tax liabilities resulting from liability valuation differences above	(1.5)	(1.6)
Other	(0.4)	(0.4)
Estimated Solvency II Shareholder Own Funds	30.2	26.4

The key items of the reconciliation as at 31 December 2018 are:

- £(2.5) 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 de-recognition of Own Funds of £1.0 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;
- £(4.6) billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;
- £7.2 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;
- £(3.8) billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of £1.6 billion from transitional measures (after allowing for recalculation of the transitional measures as at 31 December 2018) 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;
- £13.3 billion mainly 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;
- £(1.5) 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 2018		31 Dec 2017	
	Surplus £bn	**Ratio**	**Surplus** £bn	**Ratio**
Base position	17.2	232%	13.3	202%
Impact of:				
20% instantaneous fall in equity markets	(1.6)	(10)%	0.7	9%
40% fall in equity markets[1]	(4.0)	(28)%	(2.1)	(11)%
50 basis points reduction in interest rates[2,3]	(1.8)	(21)%	(1.0)	(14)%
100 basis points increase in interest rates[3]	1.2	20%	1.2	21%
100 basis points increase in credit spreads[4]	(1.7)	(9)%	(1.4)	(6)%

Notes

1 Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.
2 Subject to a floor of zero for Asia and US interest rates.
3 Allowing for further transitional measures 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[1,2]

On the same basis as above, the estimated shareholder Solvency II surplus for The Prudential Assurance Company Limited ('PAC') and its subsidiaries[2] at 31 December 2018 was £3.7 billion, after allowing for recalculation of transitional measures as at 31 December 2018. 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 2018	31 Dec 2017
Own Funds (£bn)	8.8	14.0
Solvency Capital Requirement (£bn)	5.1	7.9
Surplus (£bn)	3.7	6.1
Solvency ratio (%)	172%	178%

* 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 estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

The Prudential Assurance Company Limited shareholder Solvency II position at 31 December 2018 includes the actual impact of the transfer of Prudential plc's Hong Kong subsidiaries to Prudential Corporation Asia Limited, and the impact of the reinsurance of £12.0 billion of the UK annuity portfolio to Rothesay Life. In total these items have resulted in a decrease to UK Solvency II surplus in 2018 of £3.3 billion.

Upon completion of the Part VII transfer a further circa £0.1 billion of Solvency Capital Requirement is expected to be released.

Whilst 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 2018 was £5.5 billion, after allowing for recalculation of transitional measures as at 31 December 2018.

Estimated UK with-profits Solvency II capital position*	31 Dec 2018	31 Dec 2017
Own Funds (£bn)	9.7	9.6
Solvency Capital Requirement (£bn)	4.2	4.8
Surplus (£bn)	5.5	4.8
Solvency ratio (%)	231%	201%

* The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

II Other information continued

II(c) Solvency II capital position continued

Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II Own Funds[1]

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 2018 £bn	31 Dec 2017 £bn
IFRS unallocated surplus of UK with-profits funds	13.3	13.5
Value of shareholder transfers	(2.4)	(2.7)
Risk margin (net of transitional measures)	(1.0)	(0.7)
Other valuation differences	(0.2)	(0.5)
Estimated Solvency II Own Funds	9.7	9.6

Annual regulatory reporting

The Group will publish its Solvency and Financial Condition Report and related quantitative templates no later than 4 June 2019. 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 £5.6 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 2018

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 International Assurance plc and Prudential Pensions Limited. Prudential General Insurance Hong Kong Limited and Prudential Hong Kong Limited are no longer subsidiaries of PAC following the transfer of these Hong Kong subsidiaries to Prudential Corporation Asia Limited in 2018.

3 This review is separate from that set out on page 330.

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus

The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (circa 5 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2018 results.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2018, the tables also present the expected future free surplus to be generated from the investment made in new business during 2018 over the same 40-year period for long-term business operations.

	31 Dec 2018 £m							
	Undiscounted expected generation from all in-force business*				Undiscounted expected generation from new business written*			
Expected period of emergence	**Asia**	**US**	**UK and Europe**	**Total**	**Asia**	**US**	**UK and Europe**	**Total**
2019	1,560	1,584	593	3,737	204	205	31	440
2020	1,504	1,674	609	3,787	200	153	34	387
2021	1,446	1,737	591	3,774	195	147	36	378
2022	1,441	1,674	572	3,687	206	154	38	398
2023	1,438	1,625	555	3,618	187	122	42	351
2024	1,371	1,629	537	3,537	166	73	38	277
2025	1,345	1,407	521	3,273	176	60	36	272
2026	1,332	1,249	497	3,078	167	166	35	368
2027	1,309	1,224	472	3,005	155	163	34	352
2028	1,266	1,143	448	2,857	163	147	34	344
2029	1,177	1,056	425	2,658	131	136	32	299
2030	1,169	962	402	2,533	134	129	31	294
2031	1,145	798	379	2,322	122	108	29	259
2032	1,131	645	465	2,241	120	97	30	247
2033	1,115	422	435	1,972	137	85	29	251
2034	1,061	448	405	1,914	119	74	27	220
2035	1,059	242	375	1,676	120	51	25	196
2036	1,081	135	346	1,562	120	49	24	193
2037	1,113	94	319	1,526	120	44	23	187
2038	1,104	102	292	1,498	129	44	22	195
2039-2043	6,131	320	1,137	7,588	884	84	83	1,051
2044-2048	5,843	–	696	6,539	944	–	49	993
2049-2053	5,452	–	329	5,781	922	–	31	953
2054-2058	4,964	–	157	5,121	897	–	17	914
Total free surplus expected to emerge in the next 40 years	47,557	20,170	11,557	79,284	6,718	2,291	810	9,819

* The analysis excludes amounts incorporated into VIF at 31 December 2018 where there is no definitive time frame for when the payments will be made or receipts received. In particular, it excludes the value of the shareholders' interest in the with-profits estate. It also excludes any free surplus emerging after 2058.

The above amounts can be reconciled to the new business amounts as follows:

	2018 £m			
	Asia	**US**	**UK and Europe**	**Total**
Undiscounted expected free surplus generation for years 2019 to 2058	6,718	2,291	810	9,819
Less: discount effect	(3,964)	(905)	(352)	(5,221)
Discounted expected free surplus generation for years 2019 to 2058	2,754	1,386	458	4,598
Discounted expected free surplus generation for years after 2058	863	–	1	864
Less: Free surplus investment in new business	(488)	(225)	(102)	(815)
Other items*	(525)	(240)	(5)	(770)
Post-tax EEV new business profit for long-term business operations	2,604	921	352	3,877

* Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

II Other information continued

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

The undiscounted expected free surplus generation from all in-force business at 31 December 2018 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2017 as follows:

Group	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Other £m	Total £m
2017 expected free surplus generation for years 2018 to 2057	**3,528**	3,462	3,456	3,467	3,318	3,253	49,636	**70,120**
Less: Amounts expected to be realised in the current year	**(3,528)**	–	–	–	–	–	–	**(3,528)**
Add: Expected free surplus to be generated in year 2058*	–	–	–	–	–	–	649	**649**
Foreign exchange differences	–	129	132	137	132	132	1,916	**2,578**
New business	–	440	387	378	398	351	7,865	**9,819**
Operating movements	–	(52)	(60)	(22)	23	56		
Non-operating and other movements	–	(242)	(128)	(186)	(184)	(174)	615	**(354)**
2018 expected free surplus generation for years 2019 to 2058	–	3,737	3,787	3,774	3,687	3,618	60,681	**79,284**

Asia operations	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Other £m	Total £m
2017 expected free surplus generation for years 2018 to 2057	**1,393**	1,352	1,299	1,256	1,239	1,202	30,029	**37,770**
Less: Amounts expected to be realised in the current year	**(1,393)**	–	–	–	–	–	–	**(1,393)**
Add: Expected free surplus to be generated in year 2058*	–	–	–	–	–	–	610	**610**
Foreign exchange differences	–	40	40	41	42	43	1,304	**1,510**
New business	–	204	200	195	206	187	5,726	**6,718**
Operating movements	–	(24)	(38)	(42)	(25)	(22)		
Non-operating and other movements	–	(12)	3	(4)	(21)	28	2,499	**2,342**
2018 expected free surplus generation for years 2019 to 2058	–	1,560	1,504	1,446	1,441	1,438	40,168	**47,557**

* Excluding 2018 new business.

US operations	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Other £m	Total £m
2017 expected free surplus generation for years 2018 to 2057	**1,464**	1,425	1,483	1,551	1,441	1,433	9,847	**18,644**
Less: Amounts expected to be realised in the current year	**(1,464)**	–	–	–	–	–	–	**(1,464)**
Foreign exchange differences	–	89	92	96	90	89	612	**1,068**
New business	–	205	153	147	154	122	1,510	**2,291**
Operating movements	–	(25)	(18)	27	58	85		
Non-operating and other movements	–	(110)	(36)	(84)	(69)	(104)	(93)	**(369)**
2018 expected free surplus generation for years 2019 to 2058	–	1,584	1,674	1,737	1,674	1,625	11,876	**20,170**

M&GPrudential insurance operations	**2018** £m	**2019** £m	**2020** £m	**2021** £m	**2022** £m	**2023** £m	**Other** £m	**Total** £m
2017 expected free surplus generation for years 2018 to 2056	671	685	674	660	638	618	9,760	**13,706**
Less: Amounts expected to be realised in the current year	(671)	–	–	–	–	–	–	**(671)**
Add: Expected free surplus to be generated in year 2058*	–	–	–	–	–	–	39	**39**
New business	–	31	34	36	38	42	629	**810**
Operating movements	–	(3)	(4)	(7)	(10)	(7)		
Non-operating and other movements	–	(120)	(95)	(98)	(94)	(98)	(1,791)	**(2,327)**
2018 expected free surplus generation for years 2019 to 2058	–	593	609	591	572	555	8,637	**11,557**

* Excluding 2018 new business.

At 31 December 2018, the total free surplus expected to be generated over the next five years (2019 to 2023 inclusive), using the same assumptions and methodology as those underpinning our 2018 embedded value reporting was £18.6 billion, an increase of £1.4 billion from the £17.2 billion expected over an equivalent period from the end of 2017.

This increase primarily reflects the new business written in 2018, which is expected to generate £1,954 million of free surplus over the next five years.

At 31 December 2018, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £79.3 billion, up from the £70.1 billion expected at the end of 2017, reflecting the effect of new business written across all three business operations of £9.8 billion, a positive foreign exchange translation effect of £2.6 billion and a £(0.4) billion net effect reflecting operating, market assumption changes and other items. The £2.3 billion impact in Asia of operating, non-operating and other movements includes the net benefit from changes in operating assumptions following the annual review of experience, together with the benefit of management actions and generally higher interest rates increasing projected returns. The £(0.4) billion impact in the US mainly reflects the effect of lower than expected separate account return in the year, partially offset by the positive effect from persistency assumption updates and higher interest rates increasing future separate account return. The £(2.3) billion impact in the UK and Europe reflects the effect of lower than assumed investment returns on with-profits funds and the reinsurance of part of its shareholder annuity portfolio to Rothesay Life as discussed in note 17. The overall growth in the Group's undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2018 from life business in force, before restructuring costs, at the end of 2018 was £4.4 billion including £0.8 billion of changes in operating assumptions and experience variances. This compares with the expected 2018 realisation at the end of 2017 of £3.5 billion. In the UK and Europe, the difference between the transfer to free surplus recognised in 2018 and the free surplus expected to be generated at 31 December 2017 reflects the reinsurance of the shareholder annuity portfolio to Rothesay Life (as discussed in note 17) which was not known at 2017. This can be analysed further as follows:

	Asia £m	**US** £m	**UK and Europe** £m	**Total** £m
Transfer to free surplus in 2018	1,370	1,462	607	3,439
Expected return on free assets	68	54	79	201
Changes in operating assumptions and experience variances	62	125	591	778
Underlying free surplus generated from in-force life business before restructuring costs in 2018	1,500	1,641	1,277	4,418
2018 free surplus expected to be generated at 31 December 2017	1,393	1,464	671	3,528

II Other information continued

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

	31 Dec 2018 £m							
	Discounted expected generation from all in-force business				**Discounted expected generation from new business written**			
Expected period of emergence	**Asia**	**US**	**UK and Europe**	**Total**	**Asia**	**US**	**UK and Europe**	**Total**
2019	1,495	1,497	579	3,571	194	198	31	423
2020	1,353	1,486	568	3,407	176	139	32	347
2021	1,217	1,447	531	3,195	161	126	33	320
2022	1,140	1,307	488	2,935	159	121	34	314
2023	1,071	1,191	450	2,712	138	92	35	265
2024	965	1,120	411	2,496	116	52	31	199
2025	895	910	379	2,184	118	41	28	187
2026	835	760	341	1,936	106	100	26	232
2027	776	694	308	1,778	92	92	24	208
2028	714	610	274	1,598	92	77	22	191
2029	624	527	245	1,396	68	67	20	155
2030	588	452	215	1,255	65	60	18	143
2031	548	355	187	1,090	56	46	16	118
2032	516	273	218	1,007	52	39	16	107
2033	486	164	188	838	56	32	14	102
2034	436	165	163	764	47	25	12	84
2035	415	93	139	647	45	16	10	71
2036	409	52	123	584	43	14	9	66
2037	407	33	110	550	41	12	8	61
2038	386	35	98	519	43	11	6	60
2039-2043	1,951	123	324	2,398	285	26	21	332
2044-2048	1,509	–	110	1,619	251	–	10	261
2049-2053	1,128	–	38	1,166	197	–	2	199
2054-2058	811	–	4	815	153	–	–	153
Total discounted free surplus expected to emerge in the next 40 years	20,675	13,294	6,491	40,460	2,754	1,386	458	4,598

The above amounts can be reconciled to the Group's EEV basis financial statements as follows:

	31 Dec 2018 £m
Discounted expected generation from all in-force business for years 2019 to 2058	40,460
Discounted expected generation from all in-force business for years after 2058	2,659
Discounted expected generation from all in-force business at 31 December 2018	43,119
Add: Free surplus of life operations held at 31 December 2018	7,527
Less: Time value of guarantees	(2,427)
Other non-modelled items	2,169
Total EEV for long-term business operations	50,388

II(e) Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV, metrics analysis by contribution by currency group:

Free surplus and Group IFRS results

	Underlying free surplus generated for total insurance and asset management operations note (iii)	**IFRS pre-tax operating profit** notes (ii),(iv)	**IFRS shareholders' funds** notes (ii),(iv)
US dollar linked note (i)	15%	28%	22%
Other Asia currencies	13%	17%	15%
Total Asia	28%	45%	37%
UK sterling notes (ii),(iv)	39%	15%	49%
US dollar note (iv)	33%	40%	14%
Total	100%	100%	100%

Group EEV post-tax results

	New business profit	**Operating profit** notes (ii),(iv)	**Shareholders' funds** notes (i),(iv)
US dollar linked note (i)	57%	53%	40%
Other Asia currencies	10%	7%	10%
Total Asia	67%	60%	50%
UK sterling notes (ii),(iv)	9%	12%	26%
US dollar note (iv)	24%	28%	24%
Total	100%	100%	100%

Notes

(i) US dollar linked comprise the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.

(ii) For operating profit and shareholders' funds, UK sterling includes amounts in respect of M&GPrudential and other operations (including central operations and Prudential Capital). Operating profit for central operations includes amounts for corporate expenditure for Group Head Office as well as Asia Regional Head Office which is incurred in HK dollars as well as restructuring costs incurred by the Group.

(iii) For operating free surplus generation, UK sterling includes amounts in respect of restructuring costs incurred by insurance and asset management operations.

(iv) For shareholders' funds, the US dollar grouping includes US dollar denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

II(f) Option schemes

The Group presently grants share options through four schemes, and exercises of the options are satisfied by the issue of new shares. Executive directors and eligible employees based in the UK may participate in the Prudential Savings-Related Share Option Scheme. Executives and eligible employees based in Asia as well as eligible employees based in Europe can participate in the Prudential International Savings-Related Share Option Scheme, while agents based in certain regions of Asia can participate in the Prudential International Savings-Related Share Option Scheme for Non-Employees. Employees based in Dublin are eligible to participate in the Prudential International Assurance Sharesave Plan, which currently has no outstanding options in issue. Further details of the schemes and accounting policies are detailed in note B2.2 of the IFRS basis consolidated financial statements.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the Prudential International Savings-Related Share Option Scheme for Non-employees) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- Prudential Savings-Related Share Option Scheme: 16 May 2023;
- Prudential International Savings-Related Share Option Scheme: 19 May 2021;
- Prudential International Assurance Sharesave Plan: 3 August 2019; and
- Prudential International Savings-Related Share Option Scheme for Non-Employees 2012: 12 May 2022.

The weighted average share price of Prudential plc for the year ended 31 December 2018 was £17.36 (2017: £17.51).

Particulars of options granted to directors are included in the Directors' remuneration report on page 154.

The closing price of the shares immediately before the date on which the options were granted during the year was £16.81.

The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2018.

II Other information continued

II(f) Option schemes continued

Prudential Savings-Related Share Option Scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
21 Sep 12	6.29	01 Dec 17	31 May 18	25,239	–	(24,762)	–	–	(477)	–
20 Sep 13	9.01	01 Dec 18	31 May 19	66,202	–	(37,927)	–	–	(543)	27,732
23 Sep 14	11.55	01 Dec 17	31 May 18	156,359	–	(156,048)	–	–	(311)	–
23 Sep 14	11.55	01 Dec 19	31 May 20	359,247	–	(36,474)	(3,409)	(2,901)	(12,747)	303,716
22 Sep 15	11.11	01 Dec 18	31 May 19	847,546	–	(553,825)	(9,443)	(19,537)	(7,997)	256,744
22 Sep 15	11.11	01 Dec 20	31 May 21	213,547	–	(13,870)	(4,185)	(4,266)	(10,700)	180,526
21 Sep 16	11.04	01 Dec 19	31 May 20	663,871	–	(34,921)	(44,340)	(21,317)	(24,366)	538,927
21 Sep 16	11.04	01 Dec 21	31 May 22	145,658	–	(5,372)	(7,224)	(2,715)	(9,242)	121,105
21 Sep 17	14.55	01 Dec 20	31 May 21	809,303	–	(13,978)	(58,878)	(23,350)	(44,821)	668,276
21 Sep 17	14.55	01 Dec 22	31 May 23	138,097	–	(1,226)	(11,849)	(3,833)	(5,842)	115,347
				3,425,069	–	(878,403)	(139,328)	(77,919)	(117,046)	2,212,373

The total number of securities available for issue under the scheme is 2,212,373 which represents 0.085 per cent of the issued share capital at 31 December 2018.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £16.22.

There were no options granted under the plan during the current period.

Prudential International Savings-Related Share Option Scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
21 Sep 12	6.29	01 Dec 17	31 May 18	662	–	(662)	–	–	–	–
20 Sep 13	9.01	01 Dec 18	31 May 19	38,352	–	(14,364)	(4,659)	(942)	–	18,387
23 Sep 14	11.55	01 Dec 17	31 May 18	2,414	–	(2,414)	–	–	–	–
23 Sep 14	11.55	01 Dec 19	31 May 20	4,464	–	–	(51)	–	–	4,413
22 Sep 15	11.11	01 Dec 18	31 May 19	23,556	–	(13,836)	(4,860)	–	–	4,860
22 Sep 15	11.11	01 Dec 20	31 May 21	3,240	–	–	(540)	–	–	2,700
21 Sep 16	11.04	01 Dec 19	31 May 20	15,516	–	–	(4,088)	(652)	–	10,776
21 Sep 17	14.55	01 Dec 20	31 May 21	12,542	–	–	(2,722)	–	–	9,820
21 Sep 17	14.55	01 Dec 22	31 May 23	3,298	–	–	–	–	–	3,298
18 Sep 18	13.94	01 Dec 21	31 May 22	–	22,005	–	–	–	–	22,005
18 Sep 18	13.94	01 Dec 23	31 May 24	–	1,076	–	–	–	–	1,076
				104,044	23,081	(31,276)	(16,920)	(1,594)	–	77,335

The total number of securities available for issue under the scheme is 77,335 which represents 0.003 per cent of the issued share capital at 31 December 2018.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £15.80.

The weighted average fair value of options granted under the plan in the period was £3.13.

Prudential International Assurance Sharesave Plan

There are no securities available for issue under the scheme at 31 December 2018.

Prudential International Savings-Related Share Option Scheme for Non-Employees

		Exercise period		Number of options						
Date of grant	**Exercise price £**	**Beginning**	**End**	**Beginning of year**	**Granted**	**Exercised**	**Cancelled**	**Forfeited**	**Lapsed**	**End of year**
21 Sep 12	6.29	01 Dec 17	31 May 18	15,264	–	(15,264)	–	–	–	–
20 Sep 13	9.01	01 Dec 18	31 May 19	388,250	–	(148,769)	(3,494)	–	–	235,987
23 Sep 14	11.55	01 Dec 17	31 May 18	237,637	–	(236,372)	(1,265)	–	–	–
23 Sep 14	11.55	01 Dec 19	31 May 20	472,145	–	–	(12,980)	–	–	459,165
22 Sep 15	11.11	01 Dec 18	31 May 19	452,343	–	(181,067)	(9,784)	–	(14)	261,478
22 Sep 15	11.11	01 Dec 20	31 May 21	383,962	–	–	(7,290)	–	–	376,672
21 Sep 16	11.04	01 Dec 19	31 May 20	329,712	–	–	(671)	(2,445)	–	326,596
21 Sep 16	11.04	01 Dec 21	31 May 22	198,415	–	–	(1,358)	–	–	197,057
21 Sep 17	14.55	01 Dec 20	31 May 21	267,661	–	–	(2,731)	(1,103)	–	263,827
21 Sep 17	14.55	01 Dec 22	31 May 23	174,351	–	–	(2,060)	–	–	172,291
18 Sep 18	13.94	01 Dec 21	31 May 22	–	184,780	–	–	–	–	184,780
18 Sep 18	13.94	01 Dec 23	31 May 24	–	118,243	–	–	–	–	118,243
				2,919,740	303,023	(581,472)	(41,633)	(3,548)	(14)	2,596,096

The total number of securities available for issue under the scheme is 2,596,096 which represents 0.100 per cent of the issued share capital at 31 December 2018.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £16.72.

The weighted average fair value of options granted under the plan in the period was £3.30.

II(g) Selected historical financial information of Prudential

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) and European Embedded Value (EEV).

This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document.

II Other information continued

II(g) Selected historical financial information of Prudential continued

Income statement data

IFRS basis results	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Gross premiums earned	47,224	44,005	38,981	36,663	32,832
Outward reinsurance premiums note (v)	(14,023)	(2,062)	(2,020)	(1,157)	(799)
Earned premiums, net of reinsurance	33,201	41,943	36,961	35,506	32,033
Investment return	(10,263)	42,189	32,511	3,304	25,787
Other income note (vi)	1,993	2,258	2,246	2,356	2,137
Total revenue, net of reinsurance	24,931	86,390	71,718	41,166	59,957
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(12,568)	(72,532)	(59,366)	(29,656)	(50,169)
Acquisition costs and other expenditure note (vi)	(8,855)	(9,993)	(8,724)	(8,069)	(6,583)
Finance costs: interest on core structural borrowings of shareholder-financed businesses	(410)	(425)	(360)	(312)	(341)
(Loss) gain on disposal of businesses and corporate transactions	(80)	223	–	(46)	(13)
Re-measurement of the sold Korea life business	–	5	(238)	–	–
Total charges, net of reinsurance and (loss) gain on disposal of businesses	(21,913)	(82,722)	(68,688)	(38,083)	(57,106)
Share of profits from joint ventures and associates, net of related tax	291	302	182	238	303
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)	3,309	3,970	3,212	3,321	3,154
Tax credit (charges) attributable to policyholders' returns	326	(674)	(937)	(173)	(540)
Profit before tax attributable to shareholders	3,635	3,296	2,275	3,148	2,614
Tax charges attributable to shareholders' returns	(622)	(906)	(354)	(569)	(398)
Profit for the year	3,013	2,390	1,921	2,579	2,216

	2018	2017	2016	2015	2014
Based on profit for the year attributable to the equity holders of the Company (in pence):					
Basic earnings per share	116.9p	93.1p	75.0p	101.0p	86.9p
Diluted earnings per share	116.8p	93.0p	75.0p	100.9p	86.8p
Dividend per share declared and paid in reporting period	48.17p	45.07p	49.40p	38.05p	35.03p
Interim ordinary dividend/final ordinary dividend	48.17p	45.07p	39.40p	38.05p	35.03p
Special dividend	–	–	10.00p	–	–

Supplementary IFRS income statement data

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Operating profit based on longer-term investment returns note (ii)	4,827	4,699	4,256	3,969	3,154
Non-operating items	(1,192)	(1,403)	(1,981)	(821)	(540)
Profit before tax attributable to shareholders	3,635	3,296	2,275	3,148	2,614
Operating earnings per share (in pence)	156.6p	145.2p	131.3p	124.6p	95.7p

Supplementary EEV income statement data (post-tax)

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Operating profit based on longer-term investment returns note (ii)	7,563	6,598	5,497	4,840	4,108
Non-operating items	(2,975)	2,153	(981)	(889)	235
Profit attributable to shareholders	4,588	8,751	4,516	3,951	4,343
Operating earnings per share (in pence)	293.6p	257.0p	214.7p	189.6p	161.2p

New business data

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Annual premium equivalent (APE) sales	**6,802**	6,958	6,320	5,466	4,514
EEV new business profit (NBP) (post-tax)	**3,877**	3,616	3,088	2,609	2,104
NBP margin (% of APE)	**57%**	52%	49%	48%	47%

Statement of financial position data

31 December	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Total assets	**508,645**	493,941	470,498	386,985	369,204
Total policyholder liabilities and unallocated surplus of with-profits funds	**425,146**	428,194	403,313	335,614	321,989
Core structural borrowings of shareholder-financed businesses	**7,664**	6,280	6,798	5,011	4,304
Total liabilities	**491,378**	477,847	455,831	374,029	357,392
Total equity	**17,267**	16,094	14,667	12,956	11,812

Other data

31 December	2018 £bn	2017 £bn	2016 £bn	2015 £bn	2014 £bn
Funds under management note (iii)	**657**	669	602	509	496
EEV shareholders' equity, excluding non-controlling interests	**49.8**	45	39.0	32.4	29.2
Group shareholder Solvency II surplus note (iv)	**17.2**	13.4	12.5	9.7	n/a
Insurance Groups Directive capital surplus before final dividend	**n/a**	n/a	n/a	5.5	4.7

Notes

(i) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.

(ii) Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on dilution of the Group's holdings, the costs arising from the domestication of the Hong Kong business, profit (loss) attaching to the sale of Japan life and profit (loss) attaching to the held for sale Korea life business. Separately on the IFRS basis, operating profit also excludes amortisation of acquisition accounting adjustments. In addition, for EEV basis results, operating profit excludes the effect of changes in economic assumptions, the market value movement on core borrowings and in 2012, the gain arising on the acquisition of REALIC.

(iii) Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

(iv) The 2018 surplus is estimated.

(v) Outward reinsurance premiums of £(14,023) million includes £(12,149) million paid during the year in respect of the reinsurance of the UK annuity portfolio. See note D1.1 of the IFRS financial statements for further details.

(vi) The comparative results from 2014 to 2017 have been re-presented from those previously published for the deduction of certain expenses against revenue following the adoption of IFRS 15. See note A2 of the IFRS financial statements.

III Calculation of alternative performance measures

The annual report uses alternative performance measures (APMs) to provide more relevant explanations of the Group's financial position and performance. This section sets out explanations for each APM and reconciliations to relevant IFRS balances.

III(a) Reconciliation of adjusted IFRS operating profit based on longer-term investment returns to profit before tax

The annual report uses alternative performance measures (APMs) to provide more relevant explanations of the Group's financial position and performance. This section sets out explanations for each APM and reconciliations to relevant IFRS balances.

Adjusted IFRS operating profit attributable to shareholders based on longer-term investment returns presents the operating performance of the business. This measurement basis adjusts for the following items within total IFRS profit before tax:

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business; and
- Gain or loss on corporate transactions, such as disposals undertaken in the year.

More details on how adjusted IFRS operating profit based on longer-term investment returns is determined are included in note B1.3 of the IFRS financial statements.

III Calculation of alternative performance measures continued

III(b) Calculation of 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	**2018** £m	**2017** £m
Operating profit based on longer-term investment returns	B1.1	4,827	4,699
Tax on operating profit		(792)	(971)
Profit attributable to non-controlling interests		(3)	(1)
Operating profit based on longer-term investment returns, net of tax and non-controlling interests		4,032	3,727
Opening shareholders' funds		16,087	14,666
Return on shareholders' funds		25%	25%

III(c) Calculation of 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	**31 Dec 2018** £m	**31 Dec 2017** £m
Core structural borrowings of shareholder-financed operations	C6.1	7,664	6,280
Less: Holding company cash and short-term investments	II(a)	(3,236)	(2,264)
Net core structural borrowings of shareholder-financed operations		4,428	4,016
Closing shareholders' funds		17,249	16,087
Shareholders' funds plus net core structural borrowings		21,677	20,103
Gearing ratio		20%	20%

III(d) Calculation of 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.

	Note	**31 Dec 2018**	**31 Dec 2017**
Closing shareholders' funds (£ million)		17,249	16,087
Number of issued shares at year end (millions)	C10	2,593	2,587
Shareholders' funds per share (pence)		665	622

III(e) Calculation of asset management cost/income ratio

The asset management cost/income ratio is calculated as asset management operating expenses, adjusted for commission and joint venture contribution, divided by asset management total IFRS revenue adjusted for commission, joint venture contribution, performance-related fees and non-operating items.

	M&GPrudential asset management	
	2018 £m	**2017** £m
Operating income used in cost/income ratio	1,100	1,034
Commission	313	351
Performance-related fees	15	53
Investment return	(14)	–
Short-term fluctuations in investment returns on shareholder-backed business	(15)	6
Total IFRS revenue	1,399	1,444
Operating expense used in cost/income ratio	654	602
Investment return	(14)	–
Commission	313	351
Charges	953	953
Cost/income ratio – Operating expense/operating income	59%	58%

	Eastspring Investments	
	2018 £m	**2017** £m
Operating income before performance-related fees used in cost/income ratio	424	421
Share of joint venture revenue	(188)	(176)
Commission	118	103
Performance-related fees	17	17
Total IFRS revenue	371	365
Operating expense used in cost/income ratio	232	238
Share of joint venture expense	(100)	(92)
Commission	118	103
IFRS charges	250	249
Cost/income ratio – Operating expense/operating income before performance-related fees	55%	56%

III(f) Reconciliation of Asia renewal insurance premium to gross earned premiums

Asia renewal insurance premium is calculated as IFRS gross earned premiums less new business premiums and adjusted for the contribution from joint ventures.

	Note	**2018** £m	AER **2017** £m	CER **2017** £m
Asia renewal insurance premium		12,856	11,482	11,087
Add: General insurance premium		90	89	87
Add: IFRS gross earned premium from new regular and single premium business		4,809	4,986	4,819
Less: Renewal premiums from joint ventures		(1,286)	(1,068)	(1,022)
Add: premiums relating to sold Korea life business		–	199	197
Asia segment IFRS gross earned premium	B1.4	16,469	15,688	15,168

III(g) Reconciliation of APE new business sales to earned premiums

The Group reports APE new business sales as a measure of the new policies sold in the year. This differs from the IFRS measure of premiums earned as shown below:

	Note	**2018** £m	**2017** £m
Annual premium equivalents as published		6,802	6,958
Adjustment to include 100% of single premiums on new business sold in the year note (i)		28,009	28,769
Premiums from in-force business and other adjustments note (ii)		12,413	8,278
Gross premiums earned	B1.4	47,224	44,005
Outward reinsurance premiums note (iii)	B1.4	(14,023)	(2,062)
Earned premiums, net of reinsurance as shown in the IFRS financial statements	B1.4	33,201	41,943

Notes

(i) APE new business sales only include one tenth of single premiums, recorded on policies sold in the year. Gross premiums earned include 100 per cent of such premiums.

(ii) Other adjustments principally include amounts in respect of the following:
- Gross premiums earned include premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
- In October 2018, Jackson entered into a 100 per cent reinsurance agreement with John Hancock Life Insurance Company to acquire a closed block of group pay-out annuity business. The transaction resulted in an addition to gross premiums earned of £3.7 billion. No amounts were included in APE new business sales.
- APE includes new policies written in the year which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in M&GPrudential for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
- For the purpose of reporting APE new business sales, we include the Group's share of amounts sold by the Group's insurance joint ventures and associates. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.

(iii) Outward reinsurance premiums in 2018 include £(12,149) million in respect of the reinsurance of the UK annuity portfolio.

III Calculation of alternative performance measures continued

III(h) Reconciliation between IFRS and EEV shareholders' funds

The table below shows the reconciliation of EEV shareholders' funds and IFRS shareholders' funds at the end of the year:

	31 Dec 2018 £m	31 Dec 2017 £m
EEV shareholders' funds	49,782	44,698
Less: Value of in-force business of long-term business note (i)	(33,013)	(29,410)
Deferred acquisition costs assigned zero value for EEV purposes	10,077	9,227
Other note (ii)	(9,597)	(8,428)
IFRS shareholders' funds	17,249	16,087

Notes

(i) The EEV shareholders' funds comprises the present value of the shareholders' interest in the value of in-force business, net worth of long-term business operations and IFRS shareholders' funds of asset management and other operations. The value of in-force business reflects the present value of future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Net worth represents the net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

(ii) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value net worth for long-term insurance operations. For the UK, this would be the difference between IFRS and Solvency II.

It also includes the mark to market of the Group's core structural borrowings which are fair valued under EEV but not IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson where IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset) whereas the local regulatory basis used for EEV is based on future cash flows due to the policyholder on a prudent basis with consideration of an expense allowance as applicable, but with no separate deferred acquisition cost asset.

III(i) Reconciliation of EEV operating profit based on longer-term investment returns

To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns, which are determined following the EEV Principles issued by the European Insurance CFO Forum.

Non-operating results comprise:

- Short-term fluctuations in investment returns;
- The mark to market value movements on core structural borrowings;
- The effect of changes in economic assumptions; and
- The impact of corporate transactions undertaken in the year.

More details on how EEV post-tax profit is determined and the components of EEV operating profit are included in note 13 of the EEV supplementary basis of results.

III(j) Calculation of return on embedded value

Return on embedded value is calculated as the EEV post-tax operating profit based on longer-term investment returns, as a percentage of opening EEV basis shareholders' funds.

	Note	2018	2017
EEV operating profit based on longer-term investment returns (£ million)	2	7,563	6,598
Opening EEV basis shareholders' funds (£ million)	8	44,698	38,968
Return on embedded value (%)		17%	17%

III(k) Calculation of EEV shareholders' funds per share

EEV shareholders' funds per share is calculated as closing EEV shareholders' funds divided by the number of issued shares at the balance sheet date. EEV shareholders' funds per share excluding goodwill attributable to shareholders is calculated in the same manner, except goodwill attributable to shareholders is deducted from closing EEV shareholders' funds.

	Note	31 Dec 2018	31 Dec 2017
Closing EEV shareholders' funds (£ million)	8	49,782	44,698
Less: Goodwill attributable to shareholders (£ million)	8	(1,651)	(1,458)
Closing EEV shareholders' funds excluding goodwill attributable to shareholders (£ million)		48,131	43,240
Number of issued shares at year end (millions)		2,593	2,587
Shareholders' funds per share (in pence)		1,920p	1,728p
Shareholders' funds per share excluding goodwill attributable to shareholders (in pence)		1,856p	1,671p

Risk factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified under 'Forward-looking statements'.

Prudential's approaches to managing risks are explained in the section of this document headed 'Group Chief Risk Officer's Report of the risks facing our business and how these are managed'.

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, government interest rates in the US, the UK and some Asian countries in which Prudential operates remain low relative to historical levels.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include the continuing reduction in accommodative monetary policies in the US, the UK and other jurisdictions together with its impact on the valuation of all asset classes, effects on interest rates and the risk of disorderly repricing of inflation expectations and global bond yields, concerns over sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty (including the imposition of trade barriers) and potentially negative socio-political events.

The adverse effects of such factors could be felt principally through the following items:

- Reduced investment returns arising on the Group's portfolios including impairment of debt securities and loans, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, and/or have a negative impact on its assets under management and profit;
- Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;
- Failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;
- Estimates of the value of financial instruments becoming more difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and
- Increased illiquidity, which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asia operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

Jackson writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

In addition, Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases.
In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

Also, Jackson has a significant spread based business with the significant proportion of its assets invested in fixed income securities and its results are therefore affected by fluctuations in prevailing interest rates. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

A significant part of the profit from M&GPrudential's insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers.
In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt held in such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions.
If a sovereign were to default on its obligations, or adopted policies that devalued or otherwise altered the currencies in which its obligations were denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility that Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax), capital control measures on companies and individuals, regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates (including those related to the conduct of business by Prudential or its third party distributors), or decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential. The proposed demerger of M&GPrudential from Prudential plc will result in a change to Prudential's group-wide supervisor to the Hong Kong Insurance Authority, and as a consequence will change the group-wide supervisory framework to which Prudential is subject, the final form of which remains uncertain. The impact from any regulatory changes may affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses, the regulation of selling practices, solvency requirements and could introduce changes that impact the products sold. Furthermore, as a result of interventions by governments in light of financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

Recent shifts in the focus of some national governments toward more protectionist or restrictive economic and trade policies could impact on the degree and nature of regulatory changes and Prudential's competitive position in some geographic markets. This could take effect, for example, through increased friction in cross-border trade or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies.

The European Union's Solvency II Directive came into effect on 1 January 2016. The measure of regulatory capital under Solvency II is more volatile than under the previous Solvency I regime and regulatory policy may further evolve under the regime. The European Commission began a review in late 2016 of some aspects of the Solvency II legislative package, which is expected to continue until 2021 and includes a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the 'volatility adjustment' for selected US dollar-denominated business, and UK transitional measures on technical provisions. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. For as long as Prudential or its businesses remain subject to Solvency II, there is a risk that changes may be required to Prudential's approved internal model or other Solvency II approvals, which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position.

Currently there are also a number of other global regulatory developments which could impact Prudential's businesses in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) in the area of systemic risk including the designation of Global Systemically Important Insurers (G-SIIs), the Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS), the EU Markets in Financial Instruments Directive (the 'MiFID II Directive') and associated implementing measures, which came into force on 3 January 2018 and the EU General Data Protection Regulation, which came into force on 25 May 2018. In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments under Solvency II in the UK (as referred to above), National Association of Insurance Commissioners' (NAIC) reforms in the US and amendments to certain local statutory regimes in some territories in Asia. There remains a high degree of uncertainty over the potential impact of these changes on the Group.

The Dodd-Frank Act provides for a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rule-making or other actions by various US regulators over the coming years. There is also potential uncertainty surrounding future changes to the Dodd-Frank Act under the current US administration.

Prudential's designation as a G-SII was last reaffirmed on 21 November 2016. The FSB, in conjunction with the IAIS, did not publish a new list of G-SIIs in 2017 and did not engage in G-SII identification for 2018 following IAIS' launch of the consultation on the Holistic Framework (HF) on 14 November 2018, which aims to assess and mitigate systemic risk in the insurance sector and is intended to replace the current G-SII measures. The IAIS intends to implement the HF in 2020 and it is proposed that G-SII identification be suspended from that year. In the interim, the relevant group-wide supervisors have committed to continue applying existing enhanced G-SII supervisory policy measures with some supervisory discretion, which includes a requirement to submit enhanced risk management plans. In November 2022, the FSB will review the need to either discontinue or re-establish an annual identification of G-SIIs in consultation with the IAIS and national authorities. The Higher Loss Absorbency (HLA) standard (a proposed additional capital measure for G-SII designated firms, planned to apply from

2022) is not part of the proposed HF. However, the HF proposes more supervisory powers of intervention for mitigating systemic risk including temporary financial reinforcement measures such as capital add-ons and suspension of dividends.

The IAIS is also developing the ICS as part of ComFrame – the Common Framework for the supervision of Internationally Active Insurance Groups (IAIGs). The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. ComFrame will more generally establish a set of common principles and standards designed to assist supervisors in addressing risks that arise from insurance groups with operations in multiple jurisdictions. The ComFrame proposals, including ICS, could result in enhanced capital and regulatory measures for IAIGs, for which Prudential satisfies the criteria.

In late 2018, the US NAIC concluded an industry consultation with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet and enhancing risk management. The NAIC is targeting a January 2020 effective date for the new framework, which will have an impact on Jackson's business. Jackson continues to assess and test the changes. The NAIC also has an ongoing review of the C-1 bond factors in the required capital calculation, on which further information is expected to be provided in due course. The Group's preparations to manage the impact of these reforms will continue.

On 27 July 2017, the UK FCA announced that it will no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR after 2021. The discontinuation of LIBOR in its current form and its replacement with the Sterling Overnight Index Average benchmark (SONIA) in the UK (and other alternative benchmark rates in other countries) could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to or which reference LIBOR, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise in which Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I which, under its standard IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'), which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. In November 2018, the IASB tentatively decided to delay the effective date of IFRS 17 by one year to periods beginning on or after 1 January 2022 and is considering introducing further amendments to this new standard. The European Union will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. Given the implementation of this standard is likely to require significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

Any changes or modification of IFRS accounting policies may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

The implementation of complex strategic initiatives gives rise to significant execution risks, may affect the operational capacity of the Group, and may adversely impact the Group if these initiatives fail to meet their objectives

As part of the implementation of its business strategies, Prudential has commenced a number of significant change initiatives across the Group, many of which are interconnected and/or of large scale, that may have financial, operational, regulatory, customer and reputational implications if such initiatives fail (either wholly or in part) to meet their objectives and could place strain on the operational capacity, or weaken the control environment, of the Group. Implementing further strategic initiatives may amplify these risks. The Group's current significant change initiatives include the combination of M&G and Prudential UK and Europe, the proposed demerger of M&GPrudential and the intended sale of part of the UK annuity portfolio. Significant operational execution risks arise from these initiatives, including in relation to the separation and establishment of standalone governance under relevant regulatory regimes, business functions and processes (data, systems, people) and third party arrangements.

The proposed demerger of M&GPrudential carries with it execution risk and will continue to require significant management attention

The proposed demerger of M&GPrudential is subject to a number of factors and dependencies (including prevailing market conditions, the appropriate allocation of debt and capital between the two groups and approvals from regulators and shareholders). In addition, preparing for and implementing the proposed demerger is expected to continue to require significant time from management, which may divert management's attention from other aspects of Prudential's business.

Therefore there can be no certainty as to the timing of the demerger, or that it will be completed as proposed (or at all). Further, if the proposed demerger is completed, there can be no assurance that either Prudential plc or M&GPrudential will realise the anticipated benefits of the transaction, or that the proposed demerger will not adversely affect the trading value or liquidity of the shares of either or both of the two businesses.

The intended UK exit from the EU may adversely impact economic conditions, increase market volatility, increase political and regulatory uncertainty, and cause operational disruption (including reduced access to EU markets) which could have adverse effects on Prudential's business and its profitability

On 29 March 2017, the UK submitted the formal notification of its intention to withdraw from the EU pursuant to Article 50 of the Treaty on the European Union, as amended. Following submission of this notification, the UK has a maximum period of two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached between the UK and the EU, then it is expected the UK's membership of the EU will automatically terminate at 11.00pm GMT on 29 March 2019. The UK's decision to leave the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK-domiciled operations, principally M&GPrudential, and these will be impacted by a UK withdrawal from the EU, although contingency plans have been developed and enacted since the referendum result to ensure that Prudential's business is not unduly affected by the UK withdrawal. The outcome of the negotiations on the UK's withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market, is currently unknown. As a result, there is ongoing uncertainty over the terms under which the UK will leave the EU, in particular after the transitional period ending in December 2020 (which itself is yet to be agreed in a legally binding manner), and the potential for a disorderly exit by the UK without a negotiated agreement. While the Group has undertaken significant work to plan for and mitigate such risks, there can be no assurance that these plans and efforts will be successful.

In particular, depending on the nature of the UK's exit from the EU, some or all of the following risks may materialise, which may impact the business of the Group and its profitability:

- The UK and EU may experience a downturn in economic activity. The effect of any downturn is expected to be more pronounced for the UK particularly in the event of a disorderly exit by the UK from the EU. Market volatility and illiquidity may increase (including for property funds, where redemption restrictions may be applied) in the period leading up to, and following, the UK's withdrawal. This could lead to potential downgrades in sovereign and corporate debt ratings in the UK and the EU and falls in UK property values. In a severe scenario where the UK's sovereign rating is downgraded by potentially more than one notch, this may also impact on the ratings of UK companies, including Prudential's UK business. Further or prolonged interest rate reductions may occur due to monetary easing. These impacts may result in the adverse effects outlined in the market and general economic conditions risk factor.
- The UK's exit from the EU could result in significant changes to the legal and regulatory regime under which the Group (and, in particular, M&GPrudential) operates, the nature and extent of which remain uncertain while the outcome of negotiations regarding the UK's withdrawal from the EU and the extent and terms of any future access to the single EU market remains to be agreed. There may be an increase in complexity and costs associated with operating in an additional regulatory jurisdiction.
- There may be increased risk of operational disruption to the business, in particular to M&GPrudential. Access to the EU market, and the ability to service EU clients, may be adversely impacted. Negative market sentiment towards the UK from investors may result in negative fund flows and EU service providers may be less willing, or unable to service UK fund managers, both of which may negatively impact on the asset management business of M&GPrudential. The insurance business may experience higher product lapses resulting from fund outflows. The ability to retain and attract appropriately skilled staff from the EU may be adversely impacted. Contractual documentation may need to be renegotiated or redrafted in order to remain effective.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally on matters relevant to the delivery of customer outcomes. Such actions may relate to the application of current regulations for example the Financial Conduct Authority's (FCA) principles and conduct of business rules or the failure to implement new regulations. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews of products sold and industry practices, including, in the latter case, lines of business it has closed. Current regulatory actions include the UK insurance business's undertaking to the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. This will result in the UK insurance business being required to provide redress to certain such customers. A provision has been established to cover the costs of undertaking the review and any related redress but the ultimate amount required remains uncertain.

Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary subjecting the person or entity to certain regulatory requirements. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material respects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, the ability to respond to developing demographic trends, customer appetite for certain savings products and technological advances. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors include global life insurers such as Allianz, AXA, and Manulife together with regional insurers such as AIA, FWD and Great Eastern, and multinational asset managers such as Franklin Templeton, HSBC Global Asset Management, J.P. Morgan Asset Management and Schroders. In most markets, there are also local companies that have a material market presence.

M&GPrudential's principal competitors include many of the major retail financial services companies and fund management companies including, for example, Aviva, Janus Henderson, Jupiter, Legal & General, Schroders and Standard Life Aberdeen.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as Aegon, AIG, Allianz, AXA Equitable Holdings Inc., Brighthouse, Lincoln Financial Group, MetLife and Prudential Financial.

Prudential believes competition will intensify across all regions in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current policyholders, and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A by Standard & Poor's and A- by Fitch.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

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

Jackson's financial strength is rated AA- by Standard & Poor's and Fitch, A1 by Moody's and A+ by A.M. Best.

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

All ratings above are on a stable outlook and are stated as at the date of this document.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business, and those of its material outsourcing partners, could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing and external data hosting partners) of direct or indirect loss resulting from inadequate or failed internal and external processes, systems or human error, fraud, the effects of natural or man-made catastrophic events (such as natural disasters, pandemics, cyber-attacks, acts of terrorism, civil unrest and other catastrophes) or from other external events. Exposure to such events could disrupt Prudential's systems and operations significantly, which may result in financial loss and reputational damage.

Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and it employs a large number of models, and user developed applications, some of which are complex, in its processes. The long-term nature of much of the Group's business also means that accurate records have to be maintained for significant periods. Further, Prudential operates in an extensive and evolving legal and regulated environment (including in relation to tax) which adds to the operational complexity of its business processes and controls.

These factors, among others, result in significant reliance on, and require significant investment in, the information technology (IT) infrastructure, compliance and other operational systems, personnel and processes for the performance of the Group's core business activities. During times of significant change, the operational effectiveness of these components may be impacted.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational and model risk incidents do happen periodically and no system or process can entirely prevent them although there have not been any material events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or security breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

In addition, Prudential also relies on a number of outsourcing (including external data hosting) partners to provide several business operations, including a significant part of the UK back office and customer facing operations as well as a number of IT support functions and investment operations. This creates reliance upon the operational performance of these outsourcing partners, and failure to adequately oversee the outsourcing partner, or the failure of an outsourcing partner (or its key IT and operational systems and processes) could result in significant disruption to business operations and customers.

Attempts to access or disrupt Prudential's IT systems, and loss or misuse of personal data, could result in loss of trust from Prudential's customers and employees, reputational damage and financial loss

Prudential and its business partners are increasingly exposed to the risk that individuals or groups may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from Prudential's customers and employees, reputational damage and direct or indirect financial loss. The cyber security threat continues to evolve globally in sophistication and potential significance. Prudential's increasing profile in its current markets and those in which it is entering, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness and the classification of Prudential as a G-SII could also increase the likelihood of Prudential being considered a target by cyber criminals. Further, there have been changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased.

There is an increasing requirement and expectation on Prudential and its business partners, to not only hold customer, shareholder and employee data securely, but use it in a transparent and appropriate way. Developments in data protection worldwide (such as the implementation of EU General Data Protection Regulation that came into force on 25 May 2018) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third-party suppliers') IT systems. To date, Prudential has not identified a failure or breach, or an incident of data misuse, which has had a material impact in relation to its legacy and other IT systems and processes. However, it has been, and likely will continue to be, subject to potential damage from computer viruses, attempts at unauthorised access and cyber security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

The failure to understand and respond effectively to the risks associated with environmental, social or governance (ESG) factors could adversely affect Prudential's achievement of its long term strategy

The business environment in which Prudential operates is continually changing. ESG-related issues may directly or indirectly impact key stakeholders, ranging from customers to institutional investors, employees, suppliers and regulators, all of whom have expectations in this area. A failure to manage those material risks which have ESG implications may adversely impact on the reputation and brand of the Group, the results of its operations, its customers, and its ability to deliver on its long-term strategy and therefore its long-term success.

Climate change is one ESG theme that poses potentially significant risks to Prudential and its customers, not only from the physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term impacts, but also from transition risks associated with the shift to a low carbon economy. Climate-driven changes in countries in which Prudential operates could change its claims profile. There is an increasing expectation from stakeholders for Prudential to understand, manage and provide increased transparency of its exposure to climate-related risks. For example, the FSB's Task Force on Climate-related Disclosures recommendations were published in 2017 to provide a voluntary framework on corporate climate-related financial disclosures following the FSB's concern that there may be systemic risk in the financial system related to climate change.

As governments and policymakers take action to reduce greenhouse gas emissions and limit global warming, the transition to a low carbon economy could have an adverse impact on global investment asset valuations whilst at the same time present investment opportunities which the Group will need to monitor. In particular, there is a risk that this transition could result in some asset sectors facing significantly higher costs and a disorderly adjustment to their asset values. This could lead to an adverse impact on the value and the future performance of the investment assets of the Group. The potential broader economic impact from this may impact upon customer demand for the Group's products. Given that Prudential's investment horizons are long term, it is potentially more exposed to the long-term impact of climate change risks. Additionally, Prudential's stakeholders increasingly expect responsible investment principles to be adopted to demonstrate that ESG considerations (including climate change) are effectively integrated into investment decisions and fiduciary and stewardship duties.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses. The Group's businesses are subject to inflation risk. In particular, the Group's medical insurance businesses in Asia are also exposed to medical inflation risk.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive. Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality are also of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group, especially for Jackson's portfolio of variable annuities. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

In addition, Prudential's business may be adversely affected by epidemics and other effects that give rise to a large number of deaths or additional sickness claims, as well as increases to the cost of medical claims. Significant influenza and other epidemics have occurred a number of times historically but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this 'Risk factors' section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are subject to applicable insurance, foreign exchange and tax laws, rules and regulations that can limit their ability to make remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could also be subject to changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the third-party system failure or the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service providers. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Glossary

A

Actual exchange rates (AER)
Actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates at the balance sheet date for the balance sheet.

Annual premium equivalent (APE)
A measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent of single premiums on new business written during the period.

Asset-backed security (ABS)
A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. AFS securities are measured at fair value on the statement of financial position with unrealised gains and losses being booked in Other Comprehensive Income instead of the income statement.

B

Back book of business
The insurance policies sold in past periods that are still in force and hence are still recorded on the insurer's balance sheet.

Bancassurance
The relationship with a bank to offer insurance products to the bank's customers.

Bonuses
Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus:

- Regular bonus: expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and
- Final bonus: an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.

C

Cash surrender value
The amount of cash available to a policy holder on the surrender of or withdrawal from a life insurance policy or annuity contract.

Closed-book life insurance business
A 'closed book' is essentially a group of insurance policies that are no longer sold, but are still featured on the books of a life insurer as a premium-paying policy. The insurance company has "closed the books" on new sales of these products which will remain in run-off until the policies expire and all claims are settled.

Constant exchange rate (CER)
Prudential plc reports its results at both actual exchange rates (AER) to reflect actual results and also constant exchange rates (CER) to eliminate the impact from exchange translation. CER results are calculated by translating prior year results using current period foreign currency exchange rates ie current period average rates for the income statements and current period closing rate for the balance sheet.

Core structural borrowings
Borrowings which Prudential considers to form part of its core capital structure and exclude operational borrowings.

Credit risk
The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.

Currency risk
The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.

D

Deferred acquisition costs (DAC)
Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. Typically, under IFRS, an element of acquisition costs are deferred ie not expensed in the year incurred, and instead amortised in the income statement in line with the emergence of surpluses on the related contracts.

Deferred annuities
Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.

Discretionary participation features (DPF)
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on asset, fund, company or other entity performance.

Dividend cover
Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

E

Endowment product
An ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy.

European Embedded Value (EEV)
Financial results that are prepared on a supplementary basis to the Group's consolidated IFRS results and which are prepared in accordance with a set of Principles issued by the CFO Forum of European Insurance Companies dated April 2016. The principles are designed to capture the value of the new business sold in the period and of the business in force.

F

Fixed annuities (FA)
Fixed annuity contracts written in the US which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible pay-out options. The contract holder pays the insurer a premium, which is credited to the contract holders' account. Periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate.

Fixed indexed annuities (FIA)
These are similar to fixed annuities in that the contract holder pays the insurer a premium, which is credited to the contract holders' account and, periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate. An annual minimum interest rate may be guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Funds under management (FUM)
These comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

G

Group free surplus
Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital, and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

Guaranteed annuities
Policies that pay out a fixed amount of benefit for a defined period.

Guaranteed investment contract (GIC) (US)
An investment contract between an insurance company and an institutional investor, which provides a stated rate of return on deposits over a specified period of time. They typically provide for partial or total withdrawals at book value if needed for certain liquidity needs of the plan.

Guaranteed minimum accumulation benefit (GMAB) (US)
A guarantee that ensures that the contract value of a variable annuity contract will be at least equal to a certain minimum amount after a specified number of years.

Guaranteed minimum death benefit (GMDB) (US)
The basic death benefit offered under variable annuity contracts, which specifies that if the owner dies before annuity income payments begin, the beneficiary will receive a payment equal to the greater of the contract value or purchase payments less withdrawals.

Guaranteed minimum income benefit (GMIB) (US)
A guarantee that ensures, under certain conditions, that the owner may annuitise the variable annuity contract based on the greater of (a) the actual account value or (b) a pay-out base equal to premiums credited with some interest rate, or the maximum anniversary value of the account prior to annuitisation.

Guaranteed minimum withdrawal benefit (GMWB) (US)
A guarantee in a variable annuity that promises that the owner may make annual withdrawals of a defined amount for the life of the owner or until the total guaranteed amount is recovered, regardless of market performance or the actual account balance.

H

Health and protection
These comprise health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. Health and protection products are sold both as standalone policies and as riders that can be attached to life insurance products. Health and protection riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information.

I

In-force
An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

Internal rate of return (IRR)
The IRR is equivalent to the discount rate at which the present EEV value of the post-tax cash flows expected to be earned over the life time of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

Internal vesting
Internal vesting relates to proceeds from a Prudential policy which the policyholder has decided to reinvest in a Prudential annuity product.

International Financial Reporting Standards (IFRS)
Accounting standards that all publicly listed groups in the European Union are required to apply in preparing consolidated financial statements.

Investment grade
Investments rated BBB- or above for S&P, Baa3 or above for Moody's. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Investment-linked products or contracts
Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit-linked products or unit-linked contracts.

L

Liquidity coverage ratio (LCR)
Prudential calculates this as assets and resources available to us that are readily convertible to cash to cover corporate obligations in a prescribed stress scenario. We calculate this ratio over a range of time horizons extending to twelve months.

Liquidity premium
This comprises the premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps and the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

M

Market value reduction (MVR)
A reduction applied to the payment on with-profits bonds when policyholders surrender in adverse market conditions.

Money Market Fund (MMF)
An MMF is an open-ended mutual fund that invests in short-term debt securities such as US treasury bills and commercial paper. The purpose of an MMF is to provide investors with a safe place to invest easily accessible cash-equivalent assets characterised as a low-risk, low-return investment.

Mortality rate
Rate of death, varying by such parameters as age, gender, and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks.

Morbidity rate
Rate of sickness, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholders of health products, which contain morbidity risks.

N

Net premiums
Life insurance premiums, net of reinsurance ceded to third-party reinsurers.

Net worth
Net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

New business margin
The value of new business on an EEV basis expressed as a percentage of the present value of new business premiums expected to be received from the new business.

New business profit
The profits, calculated in accordance with European Embedded Value Principles, from business sold in the financial reporting period under consideration.

Non-participating business
A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Also known as non-profit in the UK. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

O

Open-ended investment company (OEIC)
A collective investment fund structured as a limited company in which investors can buy and sell shares.

Operational borrowings
Borrowings which arise in the normal course of the business.

P

Participating funds
Distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. For Prudential the most significant participating funds are with-profits funds for business written in the UK, Hong Kong, Malaysia and Singapore.

Participating policies or participating business
Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

Payback period
Payback period is the time in which the initial 'cash' outflow of investment is expected to be recovered from the 'cash' inflows generated by the investment. We measure cash outflow by our investment of free surplus in new business sales. The payback period equals the time taken for this business to generate free surplus to cover this investment. Payback periods are measured on an undiscounted basis.

Persistency
The percentage of policies remaining in force from period to period.

Present value of new business premiums (PVNBP)
The present value of new business premiums is calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Prudential Regulation Authority (PRA)
The PRA is a UK regulatory body responsible for Prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

R

Regular premium product
A life insurance product with regular periodic premium payments.

Rider
A supplemental plan that can be attached to a basic insurance policy, with payment of additional premium.

Risk margin reserve (RMR)
An RMR is included within operating profit based on longer-term investment returns and represents a charge for long-term expected defaults of debt securities, determined by reference to the credit quality of the portfolio.

S

Scottish Amicable Insurance Fund (SAIF)
SAIF is a ring-fenced sub-fund of the Prudential Assurance Company's long-term fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of Prudential plc have no interest in the profits of this fund although they are entitled to asset management fees on this business.

Separate account
A separate account is a pool of investments held by an insurance company not in or 'separate' from its general account. The returns from the separate account generally accrue to the policyholder. A separate account allows an investor to choose an investment category according to his individual risk tolerance, and desire for performance.

Single premiums
Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.

Stochastic techniques
Stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

Subordinated debt
A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency, with limitations.

Surrender
The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.

Surrender charge or surrender fee
The fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period.

T

Takaful
Insurance that is compliant with Islamic principles.

Time value of options and guarantees (TVOG)
The value of financial options and guarantees comprises two parts, the intrinsic value and the time value. The intrinsic value is given by a deterministic valuation on best estimate assumptions. The time value is the additional value arising from the variability of economic outcomes in the future.

Total shareholder return (TSR)
TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.

U

Unallocated surplus
Unallocated surplus is recorded wholly as a liability and represents the excess of assets over policyholder liabilities for Prudential's with-profits funds. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Unit-linked products or unit-linked contracts
See 'investment-linked products or contracts' above.

Universal life
An insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

V

Variable annuity (VA) (US)
An annuity whose value is determined by the performance of underlying investment options that frequently includes securities. A variable annuity's value is not guaranteed and will fluctuate, depending on the value of its underlying investments. The holder of a variable annuity assumes the investment risk and the funds backing a variable annuity are held in the insurance companies separate account. VAs are similar to unit-linked annuities in the UK.

Value of in-force business (VIF)
The present value of future shareholder cash flows projected to emerge from the assets backing liabilities of the in-force covered business.

W

Whole of life
A type of life insurance policy that provides lifetime protection; premiums must usually be paid for life. The sum assured is paid out whenever death occurs. Commonly used for estate planning purposes.

With-profits funds
See 'participating funds' above.

Y

Yield
A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

Shareholder information

Communication with shareholders

The Group maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Group's financial calendar: www.prudential.co.uk

Annual General Meeting

The 2019 Annual General Meeting (AGM) will be held in the Churchill Auditorium at The QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 16 May 2019 at 11.00am.

Prudential will continue its practice of calling a poll on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website.

Details of the 2018 AGM, including the major items discussed at the meeting and the results of the voting, can be found on the Company's website.

In accordance with relevant legislation, shareholders holding 5 per cent or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the Group Company Secretary at the registered office.

Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM.

Company constitution

Prudential is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles of Association (Articles). In 2018, the Company reviewed and updated its Articles in order to reflect changes to English company law and bring them into line with best practice. These updates were put to shareholders at the Company's AGM held on 17 May 2018 and duly approved. The principal changes were summarised for shareholders in an appendix to the notice of meeting, these included, deleting articles relating to the allotment of shares and disapplication of pre-emption rights to reflect the Company's practice of seeking authority from shareholders annually, giving the Company the ability to hold hybrid general meetings, amending the deemed delivery provision for communications sent to overseas shareholders and streamlining the process for selling shares belonging to untraced shareholders. Other amendments were made which were of a minor, technical or clarifying nature. The current Memorandum and Articles are available on the Company's website.

Share capital

Issued share capital

The issued share capital as at 31 December 2018 consisted of 2,593,044,409 (2017: 2,587,175,445) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2018, there were 47,260 (2017: 48,086) accounts on the register. Further information can be found in note C10 on page 291.

Prudential also maintains secondary listings on the New York Stock Exchange (in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register) and the Singapore Stock Exchange.

Prudential has maintained a sufficiency of public float throughout the reporting period as required by the Hong Kong Listing Rules.

Analysis of shareholder accounts as at 31 December 2018

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	306	0.65	2,280,599,311	87.95
500,001–1,000,000	143	0.30	99,039,149	3.82
100,001–500,000	527	1.12	125,806,041	4.85
10,001–100,000	1,481	3.13	45,716,873	1.76
5,001–10,000	1,590	3.36	11,038,090	0.43
1,001–5,000	10,128	21.43	22,194,679	0.86
1–1,000	33,085	70.01	8,650,266	0.33
Total	47,260	100	2,593,044,409	100

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2018, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules.

As at 31 December 2018	% of total voting rights
Capital Group Companies, Inc.	9.87
BlackRock, Inc	5.08
Norges Bank	3.99

As at 12 March 2019, no notifications have been received since the year end.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share scheme, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the trustee on behalf of the registered owner in accordance with the relevant plan rules. The Trustees would not usually vote any unallocated shares held in trust but they may do so at their discretion provided it would be considered to be in the best interests of the beneficiaries of the trust and permitted under the relevant trust deed.

As at 12 March 2019, Trustees held 0.38 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out in the Directors' remuneration report.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the Financial Conduct Authority and the Hong Kong Stock Exchange, as well as under the rules of some of the Group's employee share plans.

All Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 158 of the Directors' remuneration report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. Prudential seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. The existing authorities to issue shares and to do so without observing pre-emption rights are due to expire at the end of this year's AGM. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 16 May 2019.

Details of shares issued during 2018 and 2017 are given in note C10 on page 291.

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange, Prudential confirms that it complies with the applicable law and regulation in the UK in relation to the holding of shares in treasury and with the conditions of the waiver in connection with the purchase of own shares and any treasury shares it may hold.

Authority to purchase own shares

The Directors also require authority from shareholders in relation to the purchase of the Company's own shares. Prudential seeks authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. This authority has not been used since it was last granted at the AGM in 2018. This existing authority is due to expire at the end of this year's AGM and a special resolution to renew the authority will be put to shareholders at the AGM on 16 May 2019.

Dividend information

2018 second interim dividend	Shareholders registered on the UK register and Hong Kong and Irish branch registers	Holders of US American Depositary Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex-dividend date	28 March 2019	–	28 March 2019
Record date	29 March 2019	29 March 2019	29 March 2019
Payment date	17 May 2019	On or about 24 May 2019	On or about 24 May 2019

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

Register	By post	By telephone
UK register	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, UK.	Tel 0371 384 2035 Textel 0371 384 2255 (for hard of hearing). Lines are open from 8.30am to 5.30pm (UK), Monday to Friday. International shareholders Tel +44 121 415 7026
Irish branch register	Link Asset Services, Link Registrars Limited, PO Box 7117, Dublin 2, Ireland.	Tel +353 1 553 0050
Hong Kong register	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.	Tel +852 2862 8555
Singapore register	Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (PTE) Limited (CDP) in Singapore may refer queries to the CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.	Tel +65 6535 7511
ADRs	JPMorgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0504, USA.	Tel +1 800 990 1135, or from outside the US +1 651 453 2128 or log on to www.adr.com

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, shareholders may download the form from www.prudential.co.uk/investors/shareholder-information/forms

Cash dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available at www.shareview.co.uk/4/Info/Portfolio/default/en/home/shareholders/Pages/ReinvestDividends.aspx

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through CDP. Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential shares. For telephone sales, call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be downloaded from our website www.prudential.co.uk/investors/shareholder-information/forms or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

How to contact us

Prudential plc
Laurence Pountney Hill, London EC4R 0HH

www.prudential.co.uk
Tel +44 (0)20 7220 7588

It is intended that the Company's registered office will change to 1 Angel Court, London EC2R 7AG during April 2019.

Media enquiries
Tel +44 (0)20 7548 2776
Email: media.relations@prudential.co.uk

Board

Paul Manduca
Chairman

Non-executive Directors

Philip Remnant
Senior Independent Director

Sir Howard Davies

David Law

Kai Nargolwala

Anthony Nightingale

Alice Schroeder

Lord Turner

Tom Watjen

Fields Wicker-Miurin

Group Executive Committee

Executive Directors

Mike Wells
Group Chief Executive

Mark FitzPatrick
Chief Financial Officer

James Turner
Group Chief Risk Officer

Michael Falcon
Chief Executive Officer of
Jackson Holdings LLC

John Foley
Chief Executive of
M&GPrudential

Nic Nicandrou
Chief Executive of
Prudential Corporation Asia

Functional specialists

Julian Adams
Group Regulatory and
Government Relations Director

Jonathan Oliver
Group Communications Director

Alan Porter
Group General Counsel and
Company Secretary

Al-Noor Ramji
Group Chief Digital Officer

Tim Rolfe
Group Human Resources Director

Business units

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John Foley
Chief Executive of
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Irish Branch Register private shareholder enquiries
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Hong Kong Branch Register private shareholder enquiries
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US American Depositary Receipts holder enquiries
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The Central Depository (Pte) Limited shareholder enquiries
Tel +65 6535 7511

Forward-looking statements

This Prudential Annual Report may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, the timing, costs and successful implementation of the demerger of the M&GPrudential business; the future trading value of the shares of Prudential plc and the trading value and liquidity of the shares of the to-be-listed M&GPrudential business following such demerger; future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's decision to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions failing to meet their objectives; disruption to the availability, confidentiality or integrity of Prudential's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk factors' section in this document.

Any forward-looking statements contained in this Annual Report speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this report or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Providing financial security since 1848

Successive generations have looked to Prudential to safeguard their financial security – from industrial workers and their families in Victorian Britain to over 26 million customers worldwide today. Our financial strength, heritage, prudence and focus on our customers' long-term needs ensure that people continue to turn to our trusted brands to help them plan for today and tomorrow.

1848 Prudential is established as Prudential Mutual Assurance, Investment and Loan Association in Hatton Garden, London, offering loans and life assurance to professional people.

1854 Prudential opens the Industrial Department to sell a new type of insurance, Industrial Insurance, to the working classes, for premiums of a penny and upwards.

1871 The Company becomes one of the first in the City to employ women. Calculating machines are also introduced, bringing efficiencies to the processing of an increasing volume of business.

1879 Prudential moves into Holborn Bars, a purpose-built office complex designed by Alfred Waterhouse. The building becomes a London landmark, and remains part of Prudential's property portfolio to this day.

1912 Following the National Insurance Act, Prudential works with the government to run Approved Societies, providing sickness and unemployment benefits to five million people.

1923 Prudential's first overseas life branch is established in India, with the first policy being sold to a tea planter in Assam.

1924 Prudential shares are floated on the London Stock Exchange.

1949 The 'Man from the Pru' advertising campaign is launched.

1986 Prudential acquires Jackson National Life Insurance in the United States.

1994 Prudential Corporation Asia is formed in Hong Kong as a regional head office to expand operations beyond an existing presence in Malaysia, Singapore and Hong Kong.

1999 Prudential acquires M&G, pioneer of unit trusts in the UK and a leading provider of investment products.

2000 Prudential plc is listed on the New York Stock Exchange. Prudential becomes the first UK life insurer to enter the Mainland China market through its joint venture with CITIC Group.

2010 Prudential plc is listed on stock exchanges in Hong Kong and Singapore.

2014 Prudential acquires businesses in Ghana and Kenya, marking its entry into the fast-growing African life insurance industry.

2017 M&G and Prudential UK & Europe combine to form M&GPrudential, a leading savings and investments business ideally positioned to target growing customer demand for comprehensive financial solutions.

2018 Prudential plc announces its intention to demerge its UK and Europe business, M&GPrudential, resulting in two separately listed companies, with different investment characteristics and opportunities.

Entering the computer age

Prudential has a long history of innovation. Between 1964 and 1966, Prudential installed two Ferranti 'Orion' computers at its head office in London, forming one of the UK's most powerful commercial computing resources at the time. The success of the first two Orions led Prudential to install a third in 1969.

The Orions were used to streamline the administration of customer policy records. Prior to computerisation, records were maintained using mechanical punch cards and punching, sorting and tabulating machines. Computerisation was a huge step forward: 300 cards could be mechanically punched in an hour, but the Orion could carry out 100,000 calculations every second.

While huge by modern standards, the Orions also saved valuable space. A reel of magnetic tape weighing less than eight pounds could hold the equivalent of 500,000 punched cards, which would have required 300 square feet of storage space and weighed over a tonne.

Prudential public limited company
Incorporated and registered
in England and Wales

Registered office
Laurence Pountney Hill
London
EC4R 0HH
Registered number 1397169

www.prudential.co.uk

It is intended that the Company's registered office will change to 1 Angel Court, London EC2R 7AG during April 2019. An announcement will be made to the market to confirm this at the relevant time.

Principal place of business in Hong Kong
13th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Prudential plc is a holding company, subsidiaries of which are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.

Printed on Revive 100 Silk, a paper made from fibre derived from 100 per cent recycled pre- and post-consumer waste; and Revive 100 Offset, which is made from 100 per cent recycled post-consumer waste.

All material used in this report has been independently certified according to the rules of the Forest Stewardship Council (FSC). All pulps used are elemental chlorine free, and the inks used are vegetable oil based. The manufacturing mills and the printer are registered to the Environmental Management System ISO 14001 and are FSC chain-of-custody certified.

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