

PRUDENTIAL PLC
Form 20-F
March 22, 2018

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended 31 December 2017

OR

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

OR

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

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales
(Jurisdiction of Incorporation)

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

**Rebecca Wyatt
Head of Financial Accounting
Prudential plc
12 Arthur Street,
London EC4R 9AQ, England
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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

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

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

None

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

None

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

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

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

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

Yes No

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

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

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

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

Item 17 Item 18

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

Yes No

*

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

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

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

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FORWARD-LOOKING STATEMENTS

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, the timing, costs and successful implementation of the demerger described herein; the future trading value of the shares of Prudential plc and the trading value and liquidity of the shares of the to-be-listed M&G Prudential business following such demerger; future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's decision to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions failing to meet their objectives; disruption to the availability, confidentiality or integrity of Prudential's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading of this annual report, as well as under the 'Risk Factors' heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the 'Risk Factors' heading of this document, as well as under the 'Risk Factors' heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business.

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SUMMARY OF OUR BUSINESS

About Prudential

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

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

Selected Historical Financial Information

The following table sets forth selected consolidated financial data for Prudential for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2017, there were no unendorsed standards effective for the years presented below which impacts the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential's audited consolidated financial statements is derived from audited consolidated financial statements prepared in accordance with IFRS as issued by the IASB. This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document, together with the disclosures in the 'Financial Review' section.

Table of Contents**Income statement data**

	Year ended 31 December					
	2017	2017	2016	2015	2014	2013
	\$m(1)	£m	£m	£m	£m	£m
Gross premium earned	59,534	44,005	38,981	36,663	32,832	30,502
Outward reinsurance premiums	(2,790)	(2,062)	(2,020)	(1,157)	(799)	(658)
Earned premiums, net of reinsurance	56,744	41,943	36,961	35,506	32,033	29,844
Investment return	57,077	42,189	32,511	3,304	25,787	20,347
Other income	3,288	2,430	2,370	2,495	2,306	2,184
Total revenue, net of reinsurance	117,109	86,562	71,842	41,305	60,126	52,375
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(98,129)	(72,532)	(59,366)	(29,656)	(50,169)	(43,154)
Acquisition costs and other expenditure	(13,752)	(10,165)	(8,848)	(8,208)	(6,752)	(6,861)
Finance costs: interest on core structural borrowings of shareholder-financed operations	(575)	(425)	(360)	(312)	(341)	(305)
Profit (loss) attaching to disposal of businesses	309	228	(238)	(46)	(13)	(120)
Total charges, net of reinsurance and profit (loss) attaching to disposal of businesses	(112,147)	(82,894)	(68,812)	(38,222)	(57,275)	(50,440)
Share of profits from joint ventures and associates, net of related tax	409	302	182	238	303	147
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>)(2)	5,371	3,970	3,212	3,321	3,154	2,082
Tax charges attributable to policyholders' returns	(912)	(674)	(937)	(173)	(540)	(447)
Profit before tax attributable to shareholders	4,459	3,296	2,275	3,148	2,614	1,635
Tax credit (charge) attributable to shareholders' returns	(1,226)	(906)	(354)	(569)	(398)	(289)
Profit for the year	3,233	2,390	1,921	2,579	2,216	1,346

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

(1)

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

(2)

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

(3)

The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders (see 'EEV basis, new business results and free surplus generated' below). The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. Internal vesting business is classified as new business where the contracts include an open market option.

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

- (4) New regular premium sales are reported on an annualised basis, which represent a full year of instalments in respect of regular premiums irrespective of the actual payments made during the year.
- (5) Under IFRS, dividends declared or approved after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes dividend in respect of the prior year that was declared or approved after the balance sheet date of the prior reporting period. Parent company dividends relating to the reporting period were a first interim ordinary dividend of 14.50p per share in 2017 (2016: 12.93p, 2015: 12.31p), a second interim ordinary dividend of 32.50p per share in 2017 (2016: 30.57p, 2015: 26.47p) and a special dividend of 10.00p per share in 2015 only.
- (6) The dividends have been translated into US dollars at the noon buying rate in New York City on the date each payment was made.
- (7) Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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Summary Overview of Operating and Financial Review and Prospects

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

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

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

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

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

Our strategy is aligned to structural trends: the savings and protection needs of the fast-growing middle class in Asia, the retirement income needs of the approximately 75 million baby boomers in the United States¹ and the growing demand for managed savings solutions among the ageing populations of the United Kingdom and Europe. These trends are sustained, and we remain focused on the opportunities they present.

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

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

In line with its strategy to transition towards a more capital efficient, de-risked business model, M&G Prudential agreed in March 2018 to the sale of £12.0 billion¹⁷ of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion¹⁷ of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. The capital benefit of this transaction will be retained within the Group to support the UK demerger process.

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

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Currency volatility

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

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

The table below explains how the Group's profit after tax on an IFRS basis reconciles to profit before tax and the supplementary analysis of operating profit based on longer-term investment returns. Further explanation on the determination of operating profit based on longer-term investment returns is provided in the "Basis of Performance Measures" section. Further explanation on non-operating items is provided in the sub-section "non-operating items". The table presents the 2016 results on both an actual exchange rate and constant exchange rate basis so as to eliminate the impact of exchange translation. Actual Exchange Rates (AER) are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

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

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

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

Group performance

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

On 14 March 2018, we announced the achievement of our remaining 2017 objectives, which were set in December 2013. Our Asia businesses delivered growth in operating profit based on longer-term investment returns² at a compound average rate of 16 per cent³ over the period 2012 to 2017. This is testament to the strength, scale and diversity of our Asia platform, validates our focus on recurring premium health and protection business and demonstrates the strength of our operational execution. It also marks the third set of objectives that we have successfully achieved within the last 10 years.

During 2017 we combined our UK and European life and asset management businesses to form M&G Prudential, which delivered record levels of external asset management net inflows of £17.3 billion in 2017. This contributed to combined assets under management⁴ of £351 billion at 31 December 2017.

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

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

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

Operating profit based on longer-term investment returns from our Asia life insurance and asset management businesses grew by 15 per cent⁵, reflecting continued broad-based business momentum across the region, with double-digit⁵ growth in eight out of 12 life insurance markets. In the US, Jackson's total operating profit based on longer-term investment returns increased by 3 per cent⁵, due mainly to growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings. In the UK and Europe, M&G Prudential's total operating profit based on longer-term investment returns was 10 per cent higher than the prior year, reflecting 6 per cent growth in operating profit generated from insurance business and 18 per cent growth in that generated from asset management.

The Group's capital generation is underpinned by our large and growing in-force business portfolio, and focus on profitable, short-payback business. Cash remittances to the Group increased to £1,788 million, with Asia the largest contributor⁶ at £645 million. The Group's overall performance supported an 8 per cent increase in the 2017 full year ordinary dividend to 47 pence per share.

The Group remains robustly capitalised, with a 2017 year-end Solvency II cover ratio^{7,8} of 202 per cent. Over the period, shareholders' funds increased by 10 per cent to £16.1 billion, reflecting profit after tax of £2,390 million (2016: £1,921 million on an actual exchange rate basis) net of other movements that included dividend payments to shareholders of £1,159 million and adverse foreign exchange movements of £470 million.

In Asia, we continue to develop our capabilities and reach, which build scale and enhance quality. Our asset management business, Eastspring Investments, has again seen growth, with its total assets under management up 18 per cent⁹ to £138.9 billion and operating profit also up 18 per cent⁵ £176 million.

In the US, we remain focused on meeting the retirement income needs of the growing generation of baby boomer retirees and expanding our operations into the large asset pools of the fee-based advisory market. Although the evolving regulatory environment continues to cause industry sales disruption, in 2017 Jackson delivered positive separate account net inflows of £3.5 billion, with separate account assets reaching £130.5 billion, an increase of 19 per cent⁵. In December 2017 the US enacted a major tax reform package, including a reduction in the corporate income tax rate from 35 per cent to 21 per

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cent effective from 1 January 2018. While this led to a £445 million charge in the income statement from re-measuring deferred tax balances on the IFRS balance sheet, we expect the tax changes to be positive in the long term. The US effective tax rate is expected to fall from the current rate of circa 28 per cent to circa 18 per cent in the future.

In the UK, both our UK life and asset management businesses performed well in 2017. PruFund new business sales increased significantly, while M&G saw record net inflows of £17.3 billion from external clients. Overall M&G Prudential assets under management⁴ reached £351 billion, up from £311 billion at 31 December 2016.

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

A successful strategy

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

In Asia, the growth of the middle class is creating significant and long-term demand for the products we offer. The working-age population in the region is growing by a million people a month, and by 2030 is expected to reach 2.5 billion¹⁰, while 65 per cent of Asian private financial wealth is held in cash¹¹ and at the same time, that wealth is growing by US\$4 trillion a year¹¹.

The growing and increasingly wealthy middle classes of the region are under-protected. In Asia, out-of-pocket healthcare spend makes up 42 per cent of total health expenditure¹², compared with just 12 per cent in the US and 9 per cent in the UK. While in a more developed market such as the UK insurance penetration is equivalent to 7.5 per cent¹³ of GDP, in Asia that figure is just 2.4 per cent¹³, giving an idea of the scale of the growth opportunity that remains in our Asian markets. The gap between the insurance cover of people in the region and what they need in order to maintain the living standards of their families has been estimated at circa £35 trillion¹⁴. We help to bridge that gap with a broad range of solutions across 14 markets in the region. We are in the top three in nine of our markets in Asia¹⁵, and we have 15 million life customers, with access to total markets of more than 3.3 billion people.

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

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

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Doing more for our customers

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

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

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

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

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

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

In the UK and Europe, the combination of our life and asset management businesses into M&G Prudential has enabled us to meet the needs of our customers better than ever before. The business manages £351 billion of assets⁴ for more than seven million customers, both in the UK and

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internationally, and we are leveraging our scale, financial strength and complementary product and distribution capabilities to enhance the development of capital-efficient customer-focused solutions. Bringing these businesses together has given us the opportunity to deliver better collaboration across business segments and more innovative and differentiated propositions. It also provides better access to customers and channels, merger cost synergies and transformation benefits, including the chance to invest to create a digital, data-led business with low marginal cost of growth. M&G Prudential is in the top five in UK retail funds¹⁶, with an active management offering, and provides a range of consumer-focused retirement and savings wrappers. The performance of its products continues to make them very popular among customers. The flagship PruFund Growth Life Fund, for example, has grown by 36 per cent since the start of 2013, compared with benchmark growth of 30 per cent, and this performance has driven growth in PruFund assets under management from £7.5 billion in 2012 to £35.9 billion at the end of 2017. To improve the offering to customers, in 2017 the business rolled out myM&G, its direct-to-consumer platform.

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

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

A positive outlook

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

1. Source: US Census Bureau, Population Division, 2017 estimate of population.
2. Operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the consolidated financial statements.
3. The current year and all comparative amounts for the Asia objectives exclude contributions from the Korea life business which was sold in 2017. The 2017 Asia operating profit objective was adjusted accordingly. 2012 comparative amounts include the one-off gain on sale of stake in China Life of Taiwan of £51 million.
4. Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long term insurance business balance sheet.
5. Year-on-year percentage increased are stated on a constant exchange rate basis unless otherwise stated.
6. Based on the 2017 operating segments.
7. The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

8. Estimated before allowing for second interim dividend.
9. Growth rate on actual exchange rate basis.
10. Working age population 15 - 64 years. Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, DVD Edition.

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11. Source: BCG Global Wealth 2016. Navigating the New Client Landscape
12. Source: World health Organisation Global Health Observatory data repository (2013). Out of pocket as percentage of total health expenditure.
13. Source: Swiss Re Sigma 2015. Insurance penetration calculated as premiums as percentage of GDP. Asia penetration calculated on a weighted population basis.
14. Source: Swiss Re, Mortality Protection Gap: Asia-Pacific, 2015.
15. Source: Based on formal (Competitors' results release, local regulators and insurance associations) and informal (industry exchange) market share data. Ranking based on new business (APE or weighted FYP depending on the availability of data).
16. Source: The Investment Association, September 2017.
17. Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.

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Group at a Glance

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

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

serving the protection and investment needs of the growing middle class in Asia;

providing asset accumulation and retirement income products to US baby boomers; and

meeting the savings and retirement needs of an ageing British and continental European population.

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

Total funds under management

Customers worldwide

Asia

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

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

US

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

UK and Europe

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

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strong complementary brands, a world-class investment capability, international distribution and a robust capital position.

Africa

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

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OUR BUSINESS SEGMENTS

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

Asia

Introduction

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

As at 31 December 2017, Prudential Corporation Asia had:

over 15 million life insurance customers with life and fund management operations in 14 markets;

distribution through more than 12,000 active bank branches across Asia with relationships including Standard Chartered Bank (SCB), United Overseas Bank Limited (UOB), ICICI Bank in India, CITIC in China and Thanachart in Thailand;

over 600,000 agents across the region;

consistently high brand recognition and received multiple awards for its customer service; and

a top 3 position in 9 out of the 12 life markets¹

Life Insurance

Market overview

In Asia the insurance and savings industries are still in their infancy with average insurance penetration rates at just 2.4 per cent², well below those seen in the UK. 65 per cent of personal wealth in Asia is held in cash or deposits relative to 14 per cent in the US. There are significant growth opportunities that arise from simply addressing these existing concerns. However, there are key structural trends that will further increase this strong demand for savings and protection for decades ahead.

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

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

The third trend covers the expanding mortality and morbidity protection gaps; as families' wealth increases so does the amount of money they need to sustain their lifestyles in the event of a life changing event such as the death of a breadwinner or the diagnosis of a critical illness. Research concluded that in Prudential's life markets, the mortality gap is US\$45 trillion³ and out of pocket healthcare expenditure is roughly four times the rates seen in the US and UK.

While these opportunities are attractive, there are a number of challenges associated with executing them. The industry is highly regulated as governments are rightly very concerned about ensuring individuals do not take undue risks with their savings and receive fair outcomes. The products are intangible with the benefits potentially not crystallising for many years; customers need to have a high level of confidence in the company that they are entrusting their financial well-being to. The products can be complex and unfamiliar so customers typically need advice and guidance on how to address their individual needs. Building, training and managing teams of financial advisers that can do this takes considerable time and expertise. Within this context, Prudential is differentiated by its long history in Asia, the breadth and depth of its operations, and its discipline and quality of execution.

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

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

Distribution

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

However, we are making significant investments in upgrading our capabilities to ensure we not only meet but exceed our customers' expectations, including digital innovations and efficiencies, when they interact with our distributors. For example in Singapore our agents are now equipped with our fourth generation of an electronic point of sales ('ePos') portal that uses the latest developments in biometric authentication and produces a detailed quote within three minutes. In China our mobile policy application process has reduced customer on-boarding time from five days to 30 minutes and includes auto underwriting and verification so policies can be issued within seconds. These initiatives not only give our customers a better experience, but also help our agents become more productive; in China the number of active agents increased 24 per cent last year and with increased average case sizes.

Our agency management capabilities in terms of recruiting and training are well proven, but we are continuing to upgrade these. For example in Indonesia, where we recruited an average of over 4,500

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agents per month during 2017, our PRUforce agency workbench has enabled us to reduce significantly on-boarding times. 'Million Dollar Round Table' membership is an industry-recognised indicator of agency quality and in Hong Kong we lead the market with over 4,000 qualifiers up by 53 per cent⁴. We are also adapting technology to improve the service we provide to our agents, such as askPRU in Singapore, the industry's first chat bot policy enquiry system. Since its launch, calls to the service centre have reduced by 30 per cent.

We believe bancassurance is an effective way to increase insurance penetration and Prudential has an excellent track record in growing high quality business through this channel with a number of different partners. For example, we have had an enduring regional relationship with Standard Chartered Bank since 1998 and the ongoing effectiveness of this relationship is evidenced by increased sales last year. We have also had great success in securing and then activating newer relationships, for example Thanachart Bank in Thailand grew sales last year following collaboration on a new regular premium product.

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

Products

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

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

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

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

New Business Premiums

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

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

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

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

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

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

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

**

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

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Customers

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

However, in addition to improved processes, customers are increasingly looking for value added services that go beyond the basic product proposition and so provide opportunities for us to increase our connections with them. In Hong Kong we found that myDNA, a service that provides customised diet and exercise advice supported by an app and based on an individual's genetic profile, is very popular and so this has already been rolled out to Vietnam, Malaysia and Singapore. In Malaysia we have partnered with BP Global for their Doctor2U app. This gives our customers preferential rates on services that include online video medical consultations and the option to have a call-out 24/7. In Indonesia we have the PRUmedical network covering 45 hospitals in 24 cities. Our customers receive priority admission and discharge to reduce waiting times, and are also guaranteed rooms.

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

Asset management

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

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

Recent developments include a broadening and strengthening of our in house investment teams with some key hires, winning the 'Best Asset Management House' award⁵, new strategic partnerships (BlackRock, Sustainable Growth Advisers and Korea Advanced Institute of Science and Technology), significant progress with our systems and operating model upgrades and enhancing our institutional coverage by adding consultants in Asia and the US. We have also recently received approval of our business licence as an investment management wholly-foreign owned enterprise in China.

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

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

Investing for growth

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

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

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

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

United States**Introduction**

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

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

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was the 16th largest life insurance company in terms of general account assets¹;

had 19 per cent market share of US variable annuities² and had £130.5 billion of separate account assets; and

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

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

Market overview

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

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

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

Customers and products

Through its distribution partners, Jackson provides products, including variable, fixed and fixed index annuities, which offer Americans the retirement strategies they need. These products also offer tax deferral, which allows interest and earnings to grow tax-free until withdrawals are made.

Jackson has a proven track record in this market with its market-leading flagship product², Perspective II. Jackson's success has been built on its quick-to-market product innovation, as demonstrated by the development and launch of Elite Access in 2012, our investment-only variable annuity. Further demonstrating Jackson's flexibility and manufacturing capabilities, Jackson has launched Perspective Advisory II and Elite Access Advisory to serve advisers and distributors with a preference for advisory products. In November, Jackson launched Private Wealth Shield (PWS), a variable annuity developed specifically for trusts and private banks. To support this new product, Jackson also announced the formation of its Private Wealth & Trust group, a specialised team focused on complex planning, investment management and tax mitigation strategies for high-net-worth and ultra-high net-worth clients.

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

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

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

AnnuitiesFixed annuitiesFixed interest rate annuities

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

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

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

At 31 December 2017, Jackson had fixed interest rate annuities totalling £12.6 billion (US\$17.0 billion) (2016: £14.2 billion (US\$17.6 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 2.93 per cent average guaranteed rate (2016: 1.0 per cent to 5.5 per cent and a 2.96 per cent average guaranteed rate).

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

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

Fixed index annuities

Fixed index annuities accounted for 2 per cent (2016: 3 per cent) of total new business premiums in 2017 and 5 per cent (2016: 6 per cent) of Jackson's policy and contract liabilities. Fixed index annuities vary in structure, but generally are deferred annuities that enable the contract holder to obtain a portion of an equity-linked return (based on participation rates and caps) and provide a guaranteed minimum return. These guaranteed minimum rates are generally set at 1.0 per cent to 3.0 per cent on index funds. At 31 December 2017, Jackson had fixed index annuities allocated to index funds totalling £6.3 billion (US\$8.6 billion) (2016: £7.3 billion (US\$9.0 billion)) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.77 per cent average guaranteed rate (2016: 1.0 per cent to 3.0 per cent and a 1.77 per cent average guaranteed rate). Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2017, fixed interest accounts on fixed index annuities totalled £2.5 billion (US\$3.4 billion) (2016: £2.6 billion (US\$3.2 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 2.58 per cent average guaranteed rate (2016: 1.0 per cent to 3.0 per cent and a 2.55 per cent average guaranteed rate).

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

Jackson hedges the equity return risk on fixed index products using offsetting equity exposure in the variable annuity product. The cost of these hedges is taken into account in setting the index

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participation rates or caps. Jackson bears the investment risk and a portion of the surrender risk on these products.

Variable annuities

In 2017, variable annuities accounted for 81 per cent (2016: 81 per cent) of total new business premiums and 77 per cent (2016: 74 per cent) of Jackson's policy and contract liabilities. Variable annuities are deferred annuities that have the same tax advantages and payout options as fixed interest rate and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement.

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

At 31 December 2017, Jackson had variable annuity funds in fixed accounts totalling £5.9 billion (US\$8.0 billion) (2016: £7.3 billion (US\$9.0 billion)) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 1.68 per cent average guaranteed rate (2016: 1.0 per cent to 3.0 per cent and a 1.64 per cent average guaranteed rate).

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

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

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

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

Aggregate distribution of account values

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

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

*Life insurance**Background*

Jackson discontinued new sales of life insurance products in 2012. The discontinued life insurance products accounted for 9 per cent (2016: 10 per cent) of Jackson's policy and contract liabilities in 2017. Life products include term life and interest sensitive life (universal life and variable universal life.) Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the contract holder account to be invested in separate account funds. Jackson's life insurance book has delivered consistent profitability, driven primarily by positive mortality and persistency margins. For certain fixed universal life plans, additional provisions are held to reflect the existence of guarantees offered in the past that are no longer supported by earnings on the existing asset portfolio, or for situations where future mortality charges are not expected to be sufficient to provide for future mortality costs.

Aggregate distribution of account values

Excluding the business formerly of the REALIC operations acquired in 2012 that is subject to the retrocession treaties, at 31 December 2017, Jackson had interest-sensitive life business in force with total account value of £6.3 billion (US\$8.5 billion) (2016: £7.1 billion (US\$8.8 billion)), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.67 per cent average guaranteed rate (2016: 2.5 per cent to 6.0 per cent with a 4.66 per cent average guaranteed rate). The

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

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

Institutional products

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

Traditional guaranteed investment contracts

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

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

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

Funding agreements

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

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

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

Medium term note funding agreements

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

Distribution

Jackson distributes products in all 50 states of the US and in the District of Columbia. Operations in the state of New York are conducted through a New York subsidiary. Jackson markets its retail products primarily through advice based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, wirehouses, and banks. For variable annuity sales, Jackson is the leader in the independent broker-dealer, bank and wirehouse channels⁴ and second in regional firms⁴.

Jackson's distribution strength also sets us apart from our competitors. Our wholesaling force is the largest³ in the variable annuity industry and is instrumental in supporting the independent advisers who help the growing pool of American retirees develop effective retirement strategies. Our wholesalers provide extensive training to thousands of advisers about the range of our products and the investment strategies that are available to support their clients. Based on the latest available data, Jackson is the most productive variable annuity wholesale distribution force in the US³.

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

Regional broker dealers and wirehouses

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

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

Banks, credit unions and other financial institutions

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

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Independent broker dealers

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

Institutional products department

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

PPM

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

Regulatory landscape

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

As a result of the DoL regulatory initiative and the uncertainties regarding the application and implementation of the Rules, the annuity industry saw continued pressure on sales in 2017. Sales in the variable annuity industry as of the third quarter of 2017 at US\$70.9 billion⁵ were down 11 per cent compared with the same period last year. Even with competitors recently offering fixed index annuities with benefits that resemble those of variable annuities, sales of fixed index annuities (US\$42.9 billion)⁵ along with fixed annuity products (US\$38.9 billion)⁵ were lower as of the third quarter of 2017 at 9 per cent and 13 per cent respectively, compared with the same period last year. Total annuity industry sales were down approximately 11 per cent⁵ as of the third quarter of 2017.

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

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The US National Association of Insurance Commissioners (NAIC) is currently conducting an industry consultation with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet and enhancing risk management. Following an industry quantitative impact study (QIS), changes have been proposed to the current framework. These changes were presented to the December NAIC national meeting, and were exposed for comment by industry and interested parties until early March 2018. Jackson will continue to engage with the industry and the NAIC during the comment period.

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

Investment for growth

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

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

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

Disciplined risk management

Jackson operates within a well-defined risk framework aligned with the overall Prudential Group risk appetite. Jackson includes the expected cost of hedging when pricing its products and charges fees for these guarantees which are used, as necessary, to purchase downside protection in the form of options and futures to mitigate the effect of equity market falls, and swaps and swaptions to cushion the impact of declines in long-term interest rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Factors affecting pricing of products and asset liability management

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

Jackson designs its interest sensitive products and conducts its investment operations to match closely the duration of the assets in its investment portfolio with the annuity, life, and guaranteed investment contract product obligations. Jackson seeks to achieve a target spread between what it earns on its

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assets and what it pays on its liabilities by investing principally in fixed-rate securities. Jackson also enters into options and futures contracts to hedge equity related movements in its products.

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

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

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

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

Notes

1. Source: Third Quarter 2017 SNL Financial
2. ©2018 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com. Total Sales by Contract 3Q YTD 2017. Jackson's Perspective II for base states ranks #1 and Elite Access for base states ranks #8 for Total VA Sales out of 991 VA contracts with reported sales to Morningstar's quarterly sales survey as of 3Q YTD 2017.
3. Independent research and Market Metrics, a Strategic Insight Business.
4. ©2018 Morningstar Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com. Total sales by company and channel 3Q YTD 2017. Jackson ranks #1 out of 25 companies in the Independent NASD channel, #1 out of 19 companies in the Bank channel, #1 out of 14 companies in the Wirehouse channel, and #2 out of 19 companies in the Regional Firms channel.
- 5.

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United Kingdom and Europe

Introduction

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

As at 31 December 2017, M&G Prudential had

total funds under management¹ of £351 billion;

over 7.2 million customers; and

products registered in 24 jurisdictions around the world.

Market overview

M&G Prudential serves two of the world's largest savings and investments markets with asset pools in the UK and Europe of £7 trillion and €14 trillion respectively. Across the region, people increasingly need help to meet their long-term financing goals as responsibility for retirement savings passes from state and employer to the individual. They want easy access to savings and investment solutions, as well as guidance and advice from trusted providers. In addition, persistently low rates of return on bank cash deposits are fuelling demand for investment solutions, whether people are saving for retirement, building a lump sum or protecting their wealth from inflation.

Managing £351 billion of assets¹ for over seven million customers in the UK and internationally, M&G Prudential has investment expertise, scale and financial strength and two well-respected brands M&G Investments and Prudential UK. With the substantial investment we will be making over the next five years in transforming the business's operations, including building our digital distribution capability, M&G Prudential is well placed to meet the growing and evolving saving and investment needs of customers across intermediated, institutional and retail direct channels.

Customers

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

In the UK, we manage the savings of direct and intermediated customers through a range of mutual funds. We are also a leading provider of savings and retirement solutions to direct and advised UK customers with a 19 per cent market share in life and pensions retail investments as at end September 2017, including the popular and successful PruFund proposition in a number of different wrappers. We also have a large book of UK customers who own traditional insurance-based savings products. In continental Europe, where we have a leading position in cross-border fund distribution with £44 billion² in assets under management, customers in 17 countries are able to access our investment strategies. Finally, we manage the pension and other long-term savings of millions of people through our relationships with 794 institutional clients, including 70 per cent of the UK's 50 largest pension schemes.

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

The expertise of the business in delivering investment outcomes for all of our customers is demonstrated by the scale of our operations. In total, M&G Prudential fund managers invest over £187 billion of assets

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on behalf of Prudential policyholders, in addition to the £164 billion of assets for customers invested in M&G mutual funds and institutional strategies. This combined investment footprint bolsters our investment solution capabilities allowing us to build the business around our customers and use our experience and insights to meet their needs.

Our products

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

Of the total of £351 billion in assets under management¹ across our entire product range, approximately 60 per cent is now invested in multi-asset solutions and strategies, including the market leading £36 billion PruFund range and the strongly performing £12 billion Episode Allocation range. This expertise in asset allocation is a key part of our investment capability and has again driven substantial inflows over the last year, as customers across the UK and Europe have continued to seek the diversification and flexibility of a multi-asset solution.

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

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

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

Our open-ended flexible global bond fund, the M&G Optimal Income Fund, performed strongly in 2017. Having achieved an average annualised return of over 7 per cent since its launch in 2006, Optimal Income has been one of the top performing bond funds across all sectors over the last decade. This return for its customers has been rewarded with net inflows of over £5 billion during 2017, bringing its assets under management to £23 billion.

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

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

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

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

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

Distribution

In M&G and Prudential, we have two well-respected and complementary brands: Prudential is closely associated with retirement in the UK, while M&G is recognised as a leading investment brand, both in the UK and across international markets. While our two brands occupy different market segments, both share a common philosophy of aiming to deliver excellent long-term customer outcomes, and both offer solutions powered by a world-class investment capability. Working together as M&G Prudential gives us new opportunities for growth by building on these shared values and strengths.

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

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

Investment for growth

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

Table of Contents**Additional information on the long-term products of M&G Prudential****Long-term products**

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

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

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

Pension annuities

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

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

Bonds***Onshore Bonds***

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

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

M&G Prudential offers a unitised and smoothed with-profits investment fund called PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer with a

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

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

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

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

Offshore Bonds

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

Pension and flexi-income drawdown products

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

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

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

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

Individual Pensions and Income Drawdown

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

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

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

Corporate Pensions

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

Other products

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

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

In common with other UK long-term insurance companies, M&G Prudential's products are structured as either with-profits products or non-participating (including unit-linked) products. With-profits policies are

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supported by a with-profits fund. M&G Prudential's primary with-profits fund is part of PAC's long-term fund. For statutory and management purposes, PAC's long-term fund consists of a number of sub-funds in which shareholders and policyholders have varying interests.

With-profits products

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

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

In addition to the with-profits policies described above, the with-profits sub-fund also contains the Pru-Fund range of with-profits contracts, which offer policyholders a choice of investment profiles. Unlike the more traditional with-profits contracts no reversionary or final bonuses are declared. Policyholder return is determined by an Expected Growth Rate (EGR) which is declared quarterly. A different EGR is applied for each of the PruFund funds within the range, each relating to the individual asset mix of that fund. The relevant EGR is applied to increase the unit value of policyholder funds, calculated daily. In normal investment conditions the EGR is expected to reflect PAC's view of how the funds will perform over the longer term. An adjustment is made to the smoothed unit value if it moves outside of a specified range relative to the value of the underlying assets.

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

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

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

the cost of mortality risk and other guarantees (where applicable);

the effect of taxation;

management expenses, charges and commissions;

the proportion of the amount determined to be distributable to shareholders; and

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

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

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

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

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

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

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

Surplus Assets in PAC's With-profits Fund

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

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

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Support for with-profits sub-funds by shareholders' funds

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

Matters relating to with-profits sub-funds:

Pension mis-selling review The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Offers to all cases were made by 30 June 2002. Costs arising from this review are met by the excess assets of the PAC with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. Prudential has given an assurance that these deductions from excess assets will not impact its bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, Prudential has stated it would make available support to the sub-fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged.

Scottish Amicable Insurance sub-fund Policies within this sub-fund (a with-profits sub-fund closed to new business) contain minimum levels of guaranteed benefit to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the PAC with-profits sub-fund would be liable to cover any such deficiency in the first instance.

In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £503 million was held within the sub-fund (2016: £571 million).

Guaranteed annuities A provision for guaranteed annuity products of £53 million was held (2016: £62 million) in the PAC with-profits sub-fund.

Intra-group capital support arrangements

Prudential and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential. While Prudential considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

In addition, Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries regarding their solvency levels.

Non-participating business

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

Notes

1. Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.
2. Europe includes AUM in Asia and South Africa.

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Competition

General

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

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

price and yields offered,

financial strength and ratings,

commission levels, charges and other expenses,

range of product lines and product quality,

brand strength, including reputation, quality of service and use of technological advances,

distribution channels,

investment management performance and

historical bonus/contract enhancement and bonus interest levels.

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

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

Asia

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

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Prudential's principal competitors in the Asia Pacific region include global life insurers such as Allianz, AXA and Manulife together with regional insurers such as AIA and Great Eastern, and multinational asset managers such as Franklin Templeton, HSBC Global Asset Management, J.P. Morgan Asset Management and Schroders. In most markets, there are also local companies that have a material market presence e.g. China Life, China Pacific and Ping An in China, HSBC Life in Hong Kong and Muang Thai Life.

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United States

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

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

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

United Kingdom

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

Sources

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

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

The preparation of our consolidated financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets.

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

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

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

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

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

Critical accounting estimates and assumptions	Reference to the disclosure notes in the consolidated financial statements
Classification of insurance and investment contracts	A3.1(a)
Measurement of policyholder liabilities and unallocated surplus of with-profits	A3.1(a); and C4.2
Deferred acquisition costs for insurance contracts	A3.1(c); and C4.2
Financial investments Valuation	A3.1(c)
Financial investments Determining impairment in relation to financial assets	A3.1(c)
Additional quantitative information on the impairment and realised gains/losses recognised on the available-for-sale debt securities of US insurance operations	B.1.2
Additional quantitative information on the movement in the statement of financial position value of the available-for-sale debt securities of US insurance operations and those which are in a gross unrealised loss position.	C3.2(b), C3.2(c)
Intangible assets Carrying value of distribution rights	A3.1(c)

Summary Consolidated Results and Basis of Preparation of Analysis

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

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

*

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

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

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

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

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

(a) Group overview

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

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

The effective rate of tax at the total profit level was 27 per cent in 2017 compared with 16 per cent in 2016. The increased rate principally reflects the inclusion of a £445 million one-off charge on the remeasurement of US deferred tax balances following the enactment in December 2017 of a comprehensive US tax reform package. Excluding this one-off charge, the 2017 effective tax rate would have been 14 per cent. Further details are provided in note B4 of the consolidated financial statements.

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

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

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

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

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

(b) Summary by business segment and geographical region

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

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

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

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

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

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

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

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

**

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

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

Asia

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

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

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

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

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

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

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

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

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

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

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

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

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

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

United States

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

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

*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

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

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

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

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

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

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

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core¹ with-profits and in-force annuity business stable at £597 million (2016: £601 million). Operating profit based on longer-term investment returns included general insurance commission of £17 million in 2017 compared with £29 million in 2016.

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

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

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

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

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

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

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

Unallocated to a segment

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

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

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

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

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

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

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

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

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

Notes

1.

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

Basis of Performance Measures

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

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

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

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

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

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

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

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

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

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

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

(a) General principles

(i) UK style with-profits business

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

(ii) Unit-linked business

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

(iii) US variable annuity and fixed index annuity business

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

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(iv) Business where policyholder liabilities are sensitive to market conditions

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

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

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

(v) Other shareholder-financed business

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

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

Debt securities and loans

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

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

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

At 31 December 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £855 million (2016: £969 million; 2015: £567 million).

Equity-type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity

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business, unit-linked and US variable annuity separate accounts are principally relevant for the US and Asia insurance operations. Different rates apply to different categories of equity-type securities.

Derivative value movements

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

(b) Asia insurance operations

(i) Business where policyholder liabilities are sensitive to market conditions

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

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

(ii) Other Asia shareholder-financed business

Debt securities

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

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed operations amounted to £1,759 million as at 31 December 2017 (2016: £1,405 million; 2015: £840 million). The rates of return applied in 2017 ranged from 4.3 per cent to 17.2 per cent (2016: 3.2 per cent to 13.9 per cent; 2015: 3.5 per cent to 13.0 per cent) with the rates applied varying by business unit. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(c) US insurance operations

(i) Separate account business

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

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(ii) US variable and fixed index annuity business

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

Fair value movements for equity-based derivatives;

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

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

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

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

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

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

Embedded derivatives for variable annuity guarantee minimum income benefit

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

(iii) Other derivative value movements

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

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(iv) Other US shareholder-financed business

Debt securities

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

Equity-type securities

As at 31 December 2017, the equity-type securities for US insurance non-separate account operations amounted to £946 million (2016: £1,323 million; 2015: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2017	2016	2015
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.1% to 6.5%	5.5% to 6.5%	5.7% to 6.4%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.1% to 8.5%	7.5% to 8.5%	7.7% to 8.4%

(d) UK and Europe insurance operations

(i) Shareholder-backed annuity business

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

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

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

Credit experience compared with assumptions; and

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

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. Positive or negative experience compared with assumptions is included within short-term fluctuations in investment returns without further adjustment. The effects of other changes to

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credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(ii) Non-linked shareholder-financed business

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

(e) Fund management and other non-insurance businesses

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

Analysis of operating profit based on longer-term investment returns

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

	2017					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	Group total
	£m	£m	£m	£m	£m	£m
Analysis of operating profit						
Operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	5,577	(878)	4,699
Short-term fluctuations in investment returns on shareholder-backed business	(1)	(1,568)	(14)	(1,583)	20	(1,563)
Amortisation of acquisition accounting adjustments	(7)	(56)		(63)		(63)
Profit attaching to the disposal of businesses		162		162		162
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	61			61		61
Profit (loss) before tax	2,028	762	1,364	4,154	(858)	3,296
Tax attributable to shareholders						(906)
Profit for the year						2,390

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	2016+ £m (AER)					Group total
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	
Analysis of operating profit						
Operating profit (loss) based on longer-term investment returns	1,644	2,048	1,253	4,945	(689)	4,256
Short-term fluctuations in investment returns on shareholder-backed business	(225)	(1,455)	206	(1,474)	(204)	(1,678)
Amortisation of acquisition accounting adjustments	(8)	(68)		(76)		(76)
Loss attaching to the held for sale Korea life business	(227)			(227)		(227)
Profit (loss) before tax	1,184	525	1,459	3,168	(893)	2,275
Tax attributable to shareholders						(354)
Profit for the year						1,921

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

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

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

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The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements

**

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

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

Table of Contents**Explanation of Performance and Other Financial Measures**

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

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

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

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

+ The 2016 and 2015 comparative results have been re-presented from those published previously, following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

Notes

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

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- (ii) The results of the Group's long-term business operations are affected by changes to assumptions, estimates and bases of preparation. Where applicable, these are described in note B3 to the consolidated financial statements.
- (iii) Short-term fluctuations in investment returns on shareholder-backed business comprise:

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

*

The 2016 and 2015 comparative results have been re-presented from those published previously, following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

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

Earnings per share

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

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

Performance was broad-based across our business units, led by our Asia businesses which delivered double digit growth in operating profit based on longer-term investment returns³ (up 15 per cent). Asia achieved its 2017 financial objectives, demonstrating successful execution of its strategy, focusing on diversified recurring premium business, at scale. In the US, we saw good growth in fee income, driven by positive net inflows and favourable equity market conditions, which outweighed the expected reduction in the contribution from spread income.

During 2017 we combined M&G and our UK and Europe life business to form M&G Prudential. M&G Prudential asset management delivered record external net inflows of £17.3 billion, with overall assets under management² at a new high of £351 billion at the end of 2017. We are making good progress in delivering our merger and transformation programme, and remain on track to deliver our previously announced savings

by the end of 2022.

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

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underlying progress, we continue to express and comment on the performance trends in our Asia and US operations on a constant currency basis.

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

The key financial highlights in 2017 were as follows:

Asset management net inflows reached record levels, with M&G Prudential asset management reporting external net inflows of £17.3 billion (2016: net outflows of £8.1 billion) reflecting growth across its wholesale/direct and institutional businesses, and Eastspring delivering external net inflows of £3.1 billion (excluding money market funds) (2016: £1.8 billion on an actual exchange rate basis).

Operating profit based on longer-term investment returns⁽³⁾ was 6 per cent higher at £4,699 million (10 per cent higher on an actual exchange rate basis). Operating profit from our Asia business grew by 15 per cent to £1,975 million, reflecting continued business momentum. In the US, operating profit increased by 3 per cent, reflecting mainly growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings. In the UK, M&G Prudential's total operating profit was 10 per cent higher than the prior year reflecting 6 per cent growth in the insurance business, with core⁽⁴⁾ life operating profit stable at £597 million, and record asset management profit of £500 million resulting from the positive impact on earnings of net fund inflows, supportive markets and higher performance fees.

Total IFRS post tax profit was up 21 per cent at £2,390 million (24 per cent on an actual exchange rate basis). Total profit includes the impact of short-term fluctuations in financial assets held to back the commitments that we have made to our customers, and the related liabilities, and are reported outside the operating result which is based on longer-term investment return assumptions. In 2017 these principally arose within Jackson as discussed later in the report. Total profit after tax includes the impact of the US tax reform, which generated a charge of £445 million from the re-measurement of US net deferred tax balances following the reduction in the corporate income tax rate. Reflecting this post-tax profit, Group IFRS shareholders' equity was 10 per cent higher at £16.1 billion.

Group shareholders' Solvency II capital surplus⁽⁵⁾ was estimated at £13.3 billion at 31 December 2017, equivalent to a cover ratio of 202 per cent⁽⁶⁾ (1 January 2017: £12.5 billion, 201 per cent). The improvement in the period reflects the continuing strength of the Group's operating capital generation in excess of growing dividend payments to shareholders.

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

Operating profit based on longer-term investment returns

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

2017 compared with 2016 (CER)

Asia total operating profit of £1,975 million was 15 per cent higher than the previous year (20 per cent on an actual exchange rate basis). Operating profit from life insurance operations increased 15 per cent to £1,799 million (20 per cent on an actual exchange rate basis), reflecting the continued growth of our in-force book of recurring premium business, with renewal insurance premiums⁽⁷⁾ reaching £11.6 billion (2016: £9.5 billion on a constant exchange rate basis). Insurance margin was up 21 per cent, reflecting

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our continued focus on health and protection business. At a country level, we have seen improvement in all of our markets, with double-digit growth in operating profit based on longer-term investment return in eight out of 12, led by Hong Kong and China (both increasing 38 per cent). Including money market funds and the assets managed for internal life operations, Eastspring's total assets under management increased to £138.9 billion (2016: £117.9 billion on an actual exchange rate basis), while the cost-income ratio was stable at 56 per cent (2016: 56 per cent), driving an 18 per cent increase in operating profit to £176 million (2016: £149 million).

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

UK and Europe total operating profit was 10 per cent⁽³⁾ higher at £1,378 million. Life insurance operating profit increased by 8 per cent to £861 million (2016: £799 million). Within this total, the contribution from our core⁽⁴⁾ with-profits and in-force annuity business was £597 million (2016: £601 million), including an increased transfer to shareholders from the with-profits funds of £288 million (2016: £269 million) of which 15 per cent was from PruFund business (2016: 10 per cent). The balance of the life insurance result reflects the contribution from other activities which are not expected to recur to the same extent going forward. This includes, as anticipated, lower operating profit from the sale of annuities of £9 million (2016: £41 million) and a number of other items discussed below. Asset management operating profit increased 18 per cent to £500 million, driven by higher average assets under management and improved performance fees, together with a lower cost-income ratio of 58 per cent (2016: 59 per cent).

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

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

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

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

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

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

Life insurance profit drivers

The increase in our operating profit levels reflects the growth in the scale of our operations, driven primarily by positive business flows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each year these increase as we write new business and collect regular premiums from existing customers and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in the evaluation of our profit potential in that it reflects, for example, our ability to earn fees on the unit-linked element and indicates the scale of the insurance element, another key source of profitability for the Group.

Table of Contents*Shareholder-backed policyholder liabilities and net liability flows⁸*

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

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

Policyholder liabilities and net liability flows in with-profits business^{8,10}

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

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

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

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

*

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

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

Asset management profit drivers

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

Table of Contents*Asset management external funds under management^{11,12}*

	2017			2016					
	Actual exchange rate			Actual exchange rate					
	At	Net	Market	At	At	Net	Market	At	
1 January	flow	and	31 December	1 January	flow	and	31 December	At	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK and Europe	136,763	17,337	9,755	163,855	126,405	(8,090)	18,448	136,763	
Asia ¹³	38,042	3,141	5,385	46,568	30,281	1,835	5,926	38,042	
Total asset management	174,805	20,478	15,140	210,423	156,686	(6,255)	24,374	174,805	
Total asset management (including MMF)	182,519	21,973	15,248	219,740	162,692	(5,852)	25,679	182,519	

2017 compared with 2016 (CER)

In 2017, average assets under management in our asset management businesses in the UK and Asia benefited from positive net inflows of assets and favourable markets, driving higher fee revenues. Reflecting this, operating profit derived from asset management activities in M&G Prudential increased by 18 per cent to £500 million and in Eastspring by 18 per cent (up 25 per cent on an actual exchange rate basis) to £176 million.

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

Eastspring also attracted good levels of external net inflows during the year across its equity, fixed income and balanced fund range, totalling £3.1 billion, excluding money market funds (2016: £1.8 billion on an actual exchange rate basis). Overall external assets under management increased by 22 per cent to £46.6 billion. Combined with higher internal assets under management and money market funds lifted Eastspring's total assets under management to £138.9 billion.

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

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

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

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Other income and expenditure and restructuring costs¹

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

Non-operating items¹

2017 compared with 2016 (CER)

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

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

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

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

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

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

2017

In 2017, the total short-term fluctuations in investment returns on shareholder-backed business were negative £1,563 million and comprised negative £1 million for Asia, negative £1,568 million in the US, negative £14 million in the UK and positive £20 million in other operations.

In the US, Jackson provides certain guarantees on its annuity products, the value of which would rise typically when equity markets fall and long-term interest rates decline. Jackson includes the expected cost of hedging when pricing its products and charges fees for these guarantees which are used, as necessary, to purchase downside protection in the form of options and futures to mitigate the effect of equity market falls, and swaps and swaptions to cushion the impact of declines in long-term interest rates. Under IFRS, accounting for the movement in the valuation of these derivatives, which are all fair valued, is asymmetrical to the movement in guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the capital and economics of the business from large movements in investment markets and accepts the variability in accounting results. The negative short-term fluctuations in investment returns on shareholder-backed business of £1,568 million in the year are attributable mainly to the net value movement in the period of the hedge instruments held to

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

2016

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

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

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

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

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

2015

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

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

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

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

IFRS effective tax rates

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

The 2017 effective tax rate on the total IFRS profit was 27 per cent (2016: 16 per cent, 2015: 18 per cent), reflecting the inclusion of a £445 million one-off charge on the re-measurement of US deferred tax balances using a rate of 21 per cent (previously 35 per cent) following the enactment in December

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2017 of a comprehensive US tax reform package. Excluding this one-off charge, the 2017 effective tax rate would have been 14 per cent.

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

The main driver of the Group's effective tax rate is the relative mix of the profits between jurisdictions with higher tax rates (such as Indonesia and Malaysia), jurisdictions with lower tax rates (such as Hong Kong and Singapore), and jurisdictions with rates in between (such as the UK, and now from 2018, the US).

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

Total tax contribution

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with £2,903 million remitted to tax authorities in 2017. This was similar to the equivalent amount of £2,887 million in 2016 and lower than the equivalent amount of £3,004 million in 2015.

Tax strategy

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

Group and holding company cash flows

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

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

Cash remitted to the corporate centre in 2017 amounted to £1,788 million, driven by higher remittances from Asia. For the first time, our Asia business unit is the largest contributor¹⁴ to cash in the Group, demonstrating the quality and scale of its growth. Jackson made sizeable remittances of £475 million. The remittance from M&G Prudential of £643 million was 9 per cent higher than the combined remittance in 2016. Prudential Capital contributed a further £25 million.

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

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

Capital position, financing and liquidity*Capital position**Analysis of movement in Group shareholder Solvency II surplus¹⁵*

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

*

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

The high quality and recurring nature of our operating capital generation and our disciplined approach to managing balance sheet risk has resulted in an increase in the Group's shareholders' Solvency II capital surplus which is estimated at £13.3 billion^{5,6}, at 31 December 2017 (equivalent to a solvency ratio of 202 per cent), compared with £12.5 billion (201 per cent) at 31 December 2016. In 2017 we generated £3.6 billion of operating capital. This was offset by dividends to shareholders, net repayment of subordinated debt, adverse foreign currency effects and the £0.6 billion reduction in statutory deferred tax asset following US tax reform.

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

Local statutory capital

All of our subsidiaries continue to hold appropriate capital levels on a local regulatory basis. In the UK, at 31 December 2017 The Prudential Assurance Company Limited and its subsidiaries¹⁶ had an estimated Solvency II shareholder surplus¹⁷ of £6.1 billion (equivalent to a cover ratio of 178 per cent) and a with-profits surplus¹⁸ of £4.8 billion (equivalent to a cover ratio of 201 per cent). In the US, following the enactment in December 2017 of a comprehensive reform package, a £628 million reduction in the level of the statutory net admitted deferred tax asset more than offset operational capital formation, resulting in a Risk Based Capital ratio of 409 per cent (2016: 485 per cent).

Debt portfolio

The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified and 98 per cent of our UK portfolio and 97 per cent of our US portfolio are investment grade¹⁹. During 2017, default losses were minimal and reported impairments across the UK and US portfolios were £2 million (2016: £35 million).

Table of Contents**Financing and liquidity***Shareholders' net core structural borrowings and ratings*

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

*

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

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

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

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

Table of Contents**Movement in Shareholders' Funds**

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

Shareholders' funds

	2017	2016
	£m	£m
Profit after tax for the year²⁰	2,389	1,921
Exchange movements, net of related tax	(409)	1,161
Cumulative exchange gain of Korea life business recycled to profit and loss account	(61)	
Unrealised gains and losses on Jackson fixed income securities classified as available for sale ²¹	486	31
Dividends	(1,159)	(1,267)
Other	175	(135)
Net increase in shareholders' funds	1,421	1,711
Shareholders' funds at 1 January	14,666	12,955
Shareholders' funds at 31 December	16,087	14,666
Shareholders' value per share²²	622p	568p
Return on shareholders' funds²³	25%	26%

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

Corporate transactionsIntention to demerge the Group's UK businesses and sale of £12.0 billion²⁴ UK annuity portfolio

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

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

M&G Prudential agreed in March 2018 to the sale of £12.0 billion²⁴ of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion²⁴ of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. The capital benefit of this transaction will be retained within the Group to support the demerger process.

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The IFRS liabilities relating to M&G Prudential's total UK shareholder annuity portfolio as at 31 December 2017 were £32.6 billion. The UK annuity business being sold contributed around £140 million towards UK life insurance core⁴ IFRS operating profit before tax of £597 million in 2017. Total M&G Prudential IFRS operating profit before tax was £1,378 million in 2017.

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

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

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

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

Pro-forma estimated Group shareholder Solvency II capital position

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

*

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

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

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

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

*

The pro-forma estimate assumes that the partial sale of the UK annuity portfolio and the transfer of Prudential plc's Hong Kong subsidiaries to Asia had both been completed as at 31 December 2017. In relation to the sale of the UK annuity portfolio, this estimate includes a £1.3 billion reduction in the Solvency Capital Requirement (SCR) and a £0.2 billion

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decrease in Own Funds, resulting in an increase in capital surplus of £1.1 billion, of which £0.6 billion is expected to be recognised in the UK capital position as at 30 June 2018 under the reinsurance agreement. In relation to the Hong Kong transfer, the impact on the SCR allows for the release of the Hong Kong business standalone SCR of £2.0 billion, partially offset by the removal of diversification benefits between UK and Hong Kong of £1.1 billion.

2017

Entrance into Nigeria

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

Disposal of Korea life

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

Disposal of broker-dealer network in the US

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

2016

Entrance into Zambia

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

2015

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

Dividend

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

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

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Notes

1. Refer to note B1.1 in consolidated financial statements for the breakdown of other income and expenditure and other non-operating items.
2. Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.
3. The 2016 and 2015 comparative results have been re-presented from those published previously, following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.
4. Core refers to the underlying profit of the UK and Europe insurance business excluding the effect of, for example, management actions to improve solvency and material assumption changes. Details of these are set out in note I(d) of the Additional unaudited IFRS financial information.
5. The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
6. Before allowing for second interim ordinary dividend.
7. Gross earned premiums for contracts in second and subsequent years, comprising Asia segment IFRS gross earned premium of £15.7 billion less gross earned premiums relating to new regular and single premiums of £5.7 billion, plus renewal premiums from joint ventures of £1.6 billion, and excluding any amounts relating to the sold Korea life business.
8. Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures and associates in Asia.
9. Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.
10. Includes Unallocated surplus of with-profits business.
11. Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
12. For our asset management business the level of funds managed on behalf of third parties, which are not therefore recorded on the balance sheet, is a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing between those which are external to the Group and those held by the insurance business and included on the Group balance sheet. This is analysed in note II(a) of the Additional unaudited financial information.
13. Net inflows exclude Asia Money Market Fund (MMF) inflows of £1,495 million (2016: net inflows £403 million). External funds under management exclude Asia MMF balances of £9,317 million (2016: £7,714 million).

14. Based on the 2017 operating segments.
15. The methodology and assumptions used in calculating the Solvency II capital results are set out in note II(e) of the Additional unaudited financial information.
16. The insurance subsidiaries of The Prudential Assurance Company Limited are Prudential General Insurance Hong Kong Limited, Prudential Hong Kong Limited, Prudential International Assurance plc and Prudential Pensions Limited.
17. The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
18. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
19. Based on hierarchy of Standard and Poor's, Moody's and Fitch, where available and if unavailable, internal ratings have been used.
20. Excluding profit for the year attributable to non-controlling interests.
21. Net of related charges to deferred acquisition costs and tax.
22. Closing shareholders' funds divided by issued shares, as set out in note II(d) of the Additional unaudited financial information.
23. Operating profit after tax and non-controlling interests as percentage of opening shareholders' funds, as set out in note II(b) of the Additional unaudited financial information.
24. Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.

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

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

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

*

This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure is not representative of pre-tax profits attributable to shareholders. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders.

Table of Contents**(a) Gross premiums earned**

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

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

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

Asia

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

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

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

In Hong Kong, in 2017 we continue to focus on driving growth in health and protection business. This targeted shift to higher margin, but lower case size protection business, aligned with the de-emphasis of broker sales and the expected moderation in the level of sales from Mainland China has resulted in a reduction in Hong Kong sales of new business but its overall gross premiums earned have increased year on year from the increase in in-force recurring premium reflecting the higher level of new business sales in recent years.

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

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

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

United States

Gross premiums increased by 3 per cent from £14,685 million in 2016 to £15,164 million in 2017 on an actual exchange rate basis. Excluding the impact of exchange translation, gross premiums in the US decreased by 2 per cent from £15,434 million on a constant exchange rate in 2016 to £15,164 million in 2017. Uncertainty regarding the application and implementation of the US Department of Labor Fiduciary Duty Rule has led to continued pressure on industry sales in 2017 which were down 11 per cent over the first nine months of the year. Despite this, Jackson's variable annuity sales increased marginally, with the economics on new business in variable annuities remaining extremely attractive, with high internal rates of return and short payback periods. Net inflows into Jackson's separate account asset balances, which drive fee-based earnings on variable annuity business, remained positive at £3.5 billion. The marginal increase in the variable annuity sales was more than offset by decreases in the sales of fixed annuity and fixed index annuity.

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

UK and Europe

Gross premiums for UK and Europe life business increased by 28 per cent from £10,290 million in 2016 to £13,126 million in 2017, mainly due to our on-going strategy of extending customer access to PruFund's with-profits investment option via additional product wrappers which continues to drive growth. We have seen notable success with the build out of PruFund through individual pensions, income drawdown and ISAs. Reflecting this performance, total PruFund assets under management of £35.9 billion as at 31 December 2017 were 46 per cent higher than at the start of the year.

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

Table of Contents**(b) Investment return**

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

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

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

Allocation of investment return between policyholders and shareholders

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

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

	2017	2016*	2015*
	£m	£m	£m
Asia			
Policyholder returns			
Assets backing unit-linked liabilities	2,720	822	(626)
With-profits business	4,689	1,454	(75)
	7,409	2,276	(701)
Shareholder returns	1,586	641	405
Total	8,995	2,917	(296)
US			
Policyholder returns			
Assets held to back separate account (unit-linked) liabilities	19,198	7,917	(2,033)
Shareholder returns	(665)	(305)	1,244
Total	18,533	7,612	(789)
UK and Europe			
Policyholder returns			
Scottish Amicable Insurance Fund (SAIF)	368	874	212
Assets held to back unit-linked liabilities	2,111	3,134	699
With-profits fund (excluding SAIF)	10,108	13,224	3,131
	12,587	17,232	4,042
Shareholder returns	1,997	4,863	365
Total	14,584	22,095	4,407
Unallocated to a segment			
Shareholder returns	77	(113)	(18)
Group Total			
Policyholder returns	39,194	27,425	1,308
Shareholder returns	2,995	5,086	1,996
Total	42,189	32,511	3,304

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

Policyholder returns

The returns as shown in the table above are delineated between those returns allocated to policyholders and those allocated to shareholders. In making this distinction, returns allocated to policyholders are those from investments in which shareholders have no direct economic interest, namely:

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Unit-linked business in UK and Europe and in Asia, and Scottish Amicable Insurance Fund (SAIF) in the UK, for which the investment returns are wholly attributable to policyholders;

Separate account business of US operations, the investment returns of which are also wholly attributable to policyholders; and

With-profits business (excluding SAIF) in UK and Europe and in Asia (in which the shareholders' economic interest, and the basis of recognising IFRS basis profits, is restricted to a share of the actuarially determined surplus for distribution (in the UK 10 per cent)). Except for this surplus the

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investment returns of the with-profits funds are attributable to policyholders (through the asset-share liabilities) or the unallocated surplus, which is accounted for as a liability under IFRS 4.

The investment returns related to the types of business mentioned above do not impact shareholders' profits directly. However, there is an indirect impact, for example, investment-related fees or the effect of investment returns on the shareholders' share of the cost of bonuses of with-profits funds.

Investment returns for unit-linked and similar products have a reciprocal impact on benefits and claims, with an increase/decrease in market returns on the attached pool of assets affecting policyholder benefits on these products. Similarly for with-profits funds there is a close correlation between increases or decreases in investment returns and the level of combined charge for policyholder benefits and movement on unallocated surplus that arises from such returns.

Shareholder returns

For shareholder-backed non-participating business of UK and Europe operations (comprising its shareholder-backed annuity and other non-linked non-participating business) and of the Asia operations, the investment returns are not directly attributable to policyholders and therefore, impact shareholders' profit directly. However, for UK and Europe's shareholder-backed annuity business, where the durations of asset and liability cash flows are closely matched, the discount rate applied to measure liabilities to policyholders (under 'grandfathered' UK GAAP and under IFRS 4) reflects movements in asset yields (after allowances for the future defaults) of the backing portfolios. Therefore, the net impact on the shareholders' profits of the investment returns of the assets backing liabilities of UK and Europe's shareholder-backed annuity business is determined after taking into account the consequential effect on the movement in policyholder liabilities.

Changes in shareholders' investment returns for US operations reflect primarily movements in the investment income, and realised gains and losses together with movements in the value of the derivative instruments held to manage interest rate exposures and durations within the general account (including variable annuity and fixed index annuity guarantees), GMIB reinsurance and equity derivatives held to manage the equity risk exposure of guarantee liabilities. Separately within Benefits and Claims, there is a charge for the allocation made to policyholders through the application of crediting rates for Jackson's relevant lines of business.

The majority of the investments held to back the US general account business are debt securities for which the available-for-sale designation is applied for IFRS basis reporting. Under this designation the return included in the income statement reflects the aggregate of investment income and realised gains and losses (including impairment losses). However, movements in unrealised appreciation or depreciation are recognised in other comprehensive income. The return on these assets is attributable to shareholders.

Reasons for year-on-year changes in investment returns

With two exceptions, all Prudential investments are carried at fair value in the statement of financial position with fair value movements, which are volatile from year to year, recorded in the income statement. The exceptions are for:

- (i) debt securities in the general account of US operations, the return on which is attributable to shareholders and which are accounted for on an IAS 39 available-for-sale basis. In this respect realised gains and losses (including impairment losses) are recorded in the income statement, while movements in unrealised appreciation (depreciation) are booked as other comprehensive income. As a result, the changes in unrealised fair value of these debt securities are not reflected in Prudential's investment returns in the income statement. The unrealised gains and losses in the income statement of US operations primarily arise on the assets of the US separate account business; and

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- (ii) loans and receivables, which are generally carried at amortised cost (unless designated at fair value through profit or loss).

Subject to the effect of these two exceptions, the year-on-year changes in investment returns primarily reflect the generality of overall market movements for equities, debt securities and, for UK and Europe, for investment property mainly held by with-profits funds. In addition for Asia and US separate account business, foreign exchange rates affect the sterling value of the translated income. Consistent with the treatment applied for other items of income and expenditure, investment returns for overseas operations are translated at average exchange rates.

Asia

The table below provides an analysis of investment return attributable to Asia operations for the years presented:

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Interest/dividend income (including foreign exchange gains and losses)	1,685	1,513	1,028
Investment appreciation (depreciation)	7,310	1,404	(1,324)
Total	8,995	2,917	(296)

In Prudential's Asia operations, debt securities accounted for 54 per cent, 55 per cent and 57 per cent of the total investment portfolio as at 31 December 2017, 2016 and 2015, respectively, with equities comprising 39 per cent, 36 per cent and 38 per cent, respectively. The remaining 7 per cent, 9 per cent and 5 per cent of the total investment portfolio, respectively, primarily comprised loans and deposits with credit institutions. Investment return increased from a gain of £2,917 million in 2016 to a gain of £8,995 million in 2017. This increase was due primarily to an increase of £5,906 million in investment appreciation from £1,404 million in 2016 to £7,310 million in 2017, principally reflecting more favourable equity market performance compared with 2016 and increased unrealised gains on US treasuries held by certain business units. These increases have a more significant impact on the with-profits funds and unit-linked business of the Asia operations.

Investment return increased from a loss of £296 million in 2015 to a gain of £2,917 million in 2016. This increase was due primarily to an increase of £2,728 million in investment appreciation compared with £1,324 million of depreciation in 2015 and an appreciation of £1,404 million in 2016. The changes in the equity markets and the interest rates affecting the value movement in debt securities during 2016 have been mixed across the region. The gain of £2,728 million was driven primarily by favourable change in the debt securities and equities held by the with-profits funds and unit-linked business of the Asia operations.

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The table below provides an analysis of investment return attributable to US operations for the years presented:

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Investment return of investments backing US separate account liabilities	19,198	7,917	(2,033)
Other investment return	(665)	(305)	1,244
Total	18,533	7,612	(789)

In the US, investment return increased from £7,612 million in 2016 to £18,533 million in 2017. This £10,921 million favourable change arose from an increase of £11,281 million in the investment return on investments backing variable separate account liabilities from £7,917 million in 2016 to £19,198 million in 2017 partly offset by a decrease of £360 million in other investment return from a loss of £305 million to a loss of £665 million. The primary driver for the £11,281 million increase in investment return on investments backing variable annuity separate account liabilities as compared with 2016 was the more favourable movements in US equity markets in 2017 compared with 2016. The decrease of £360 million in other investment returns primarily reflects a decrease in the realised gains and losses on the available-for-sale debt securities recorded in the income statement, which decreased from a realised gain of £376 million in 2016 to a realised loss of £43 million in 2017.

Investment return increased from a loss of £789 million in 2015 to a gain of £7,612 million in 2016. This £8,401 million favourable change arose from an increase of £9,950 million in the investment return on investments backing variable separate account liabilities from a loss of £2,033 million in 2015 to a gain of £7,917 million in 2016 and a decrease of £1,549 million in other investment return from a gain of £1,244 million to a loss of £305 million. The primary driver for the £9,905 million increase in investment return on investments backing variable annuity separate account liabilities as compared with 2015 was the favourable movements in the US equity markets in 2016 on a larger separate account asset balance. The decrease in other investment return reflects the value movements in derivatives held to manage interest rate and equity risk exposures as discussed in note B1.2 to the consolidated financial statements.

UK and Europe

The table below provides an analysis of investment return attributable to the UK & Europe operations for the years presented:

	Year ended 31 December		
	2017	2016*	2015*
	£m	£m	£m
Interest/dividend income	6,183	6,019	6,430
Investment appreciation (depreciation) and other investment return	8,401	16,076	(2,023)
Total	14,584	22,095	4,407

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

In Prudential's UK and Europe operations, equities accounted for 31 per cent, 29 per cent and 28 per cent of the total investment portfolio as at 31 December 2017, 2016 and 2015, respectively. Debt securities comprised 46 per cent, 50 per cent and 51 per cent, respectively, with investment properties

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accounting for 8 per cent in every year. The remaining 15 per cent, 13 per cent and 13 per cent of the total investment portfolio as at 31 December 2017, 2016 and 2015, respectively, related to loans, deposits with credit institutions, investments in partnerships in investment pools and derivative assets. Within debt securities of £95 billion (2016: £93 billion; 2015: £85 billion) as at 31 December 2017, 64 per cent (2016: 66 per cent; 2015: 68 per cent) was consisted of corporate debt securities.

Interest and dividend income increased by £164 million from £6,019 million in 2016 to £6,183 million in 2017, and decreased by £411 million from £6,430 million in 2015 to £6,019 million in 2016.

The decrease in investment appreciation and other investment return of £7,675 million from £16,076 million in 2016 to £8,401 million in 2017 principally reflects more significant gains on bonds and equities in 2016 compared with 2017. The increase in investment appreciation and other investment return of £18,099 million from a loss of £2,023 million in 2015 to a gain of £16,076 million in 2016 principally reflected gains on bonds following fall in UK Gilt yields in 2016.

Unallocated to a segment

Investment return for unallocated to a segment and intra-segment elimination was £77 million in 2017 compared with negative £113 million in 2016 and negative £18 million in 2015.

(c) Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Asia	(18,269)	(11,311)	(6,555)
US	(31,205)	(20,214)	(13,029)
UK and Europe	(23,046)	(27,841)	(10,072)
Unallocated to a segment	(12)		
Total	(72,532)	(59,366)	(29,656)

Benefits and claims represent payments, including final bonuses, to policyholders in respect of maturities, surrenders and deaths plus changes in technical provisions (which primarily represent the movement in amounts owed to policyholders). Benefits and claims are amounts attributable to policyholders. The movement in unallocated surplus of with-profits funds represents the transfer to (from) the unallocated surplus each year through a charge (credit) to the income statement of 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.

The underlying reasons for the year-on-year changes in benefits and claims and movement in unallocated surplus in each of Prudential's regional operations are changes in the incidence of claims incurred, increases or decreases in policyholders' liabilities, and movements in unallocated surplus of with-profits funds.

Total benefit and claims and movements in unallocated surplus of with-profits funds increased by £13,166 million in 2017 to a charge of £72,532 million compared with a charge of £59,366 million in

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2016 and a charge of £29,656 million in 2015. The amounts of this year-on-year charge attributable to each of the underlying reasons as stated above are shown below.

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Claims incurred, net of reinsurance	(30,047)	(25,730)	(23,763)
Increase in policyholder liabilities, net of reinsurance	(39,613)	(32,804)	(5,395)
Movement in unallocated surplus of with-profits funds	(2,872)	(832)	(498)
Benefits and claims and movement in unallocated surplus, net of reinsurance	(72,532)	(59,366)	(29,656)

The charge for benefits and claims and movements in unallocated surplus, net of reinsurance of £72,532 million (2016: £59,366 million; 2015: £29,656 million) shown in the table above includes the effect of accounting for investment contracts without discretionary participation features (as defined by IFRS 4) in accordance with IAS 39 to reflect the deposit nature of the arrangement.

Additionally, the movement in policyholder liabilities and unallocated surplus of with-profits funds represents the amount recognised in the income statement and therefore excludes the effect of foreign exchange translation differences on the policyholder liabilities of foreign subsidiaries and the movement in liabilities arising on acquisition and disposals of subsidiaries in the year.

The movement in policyholder liabilities recognised in the income statement includes reserving for inflows from premiums net of upfront charges, release of liabilities for claims paid on surrenders, withdrawals, maturities and deaths, change due to investment return to the extent of the amounts allocated to policyholders or reflected in the measurement of the policyholder liabilities and other changes in the liability measurement.

However, the principal driver for the year on year variations in the increases and decreases in policyholder liabilities is the investment return element due to the inherent nature of market fluctuations. These variations are driven by changes to investment return reflected in the statement of financial position measurement of liabilities for Prudential's with-profits, SAIF and unit-linked policies (including US separate account business). In addition, for those liabilities under IFRS, in particular, liabilities relating to UK and Europe's annuity business, where the measurement reflects the yields on assets backing the liabilities, the year-on-year changes in investment yields also contribute significantly to variations in the measurement of policyholder liabilities. The principal driver for variations in the change in unallocated surplus of with-profits funds is the value movements on the investment assets of the with-profits funds to the extent not reflected in policyholder liabilities.

An analysis of statement of financial position movements in policyholder liabilities and unallocated surplus of with-profits funds is provided in note C4.1 to the consolidated financial statements. The policyholder liabilities shown in the analysis in note C4.1 are gross of reinsurance and include the full movement in the year of investment contracts without discretionary participating features (as defined in IFRS 4). Further, this analysis has been prepared to include the Group's share of the policyholder liabilities of the Asia joint ventures and associate that are accounted for on an equity method basis in the Group's financial statements.

The principal variations in the movements in policyholder liabilities and movements in unallocated surplus of with-profits funds for each regional operation are discussed below.

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In 2017, benefits and claims and movements in unallocated surplus of with-profits funds totalled £18,269 million, representing an increase of £6,958 million compared with the charge of £11,311 million in 2016. In 2016, benefits and claims and movements in unallocated surplus of with-profits funds totalled £11,311 million, representing an increase of £4,756 million compared with the charge of £6,555 million in 2015.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Claims incurred, net of reinsurance	(5,118)	(4,530)	(4,151)
Increase in policyholder liabilities, net of reinsurance	(12,048)	(7,120)	(2,074)
Movement in unallocated surplus of with-profits funds	(1,103)	339	(330)
Benefits and claims and movement in unallocated surplus, net of reinsurance	(18,269)	(11,311)	(6,555)

The growth in the policyholder liabilities in Asia over the three-year period reflected the increase due to the combined growth of new business and the in-force books in the region.

The variations in the increases or decreases in policyholder liabilities in individual years were, however, primarily due to movement in investment returns. This was as a result of asset value movements that are reflected in the unit value of the unit-linked policies and the fluctuation of the policyholder liabilities of the Asia operations' with-profits policies with the funds' investment performance.

United States

Except for institutional products and certain term annuities which are classified as investment products under IAS 39 for the purpose of IFRS reporting, deposits into the US operations' products are recorded as premiums, withdrawals and surrenders and are included in benefits and claims, and the resulting net movement is recorded under other reserve movements within benefits and claims less fees charged on these policies. Benefits and claims also include interest credited to policyholders in respect of deposit products.

In 2017, the accounting charge for benefits and claims increased by £10,991 million to £31,205 million compared with £20,214 million in 2016. In 2016, the accounting charge for benefits and claims increased by £7,185 million to £20,214 million compared with £13,029 million in 2015.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Claims incurred, net of reinsurance	(13,819)	(11,026)	(9,688)
Increase in policyholder liabilities, net of reinsurance	(17,386)	(9,188)	(3,341)
Benefits and claims, net of reinsurance	(31,205)	(20,214)	(13,029)

The movements year-on-year in the claims incurred for the US operations as shown in the table above also included the effects of translating the US dollar results into pounds sterling at the average exchange rates for the relevant years.

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The charges in each year comprise amounts in respect of variable annuity and other business. The year on year movement is principally driven by the movement in the investment return on the assets backing the variable annuity separate account liabilities, which have increased in 2017 compared to 2016 and 2015 due to more favourable equity markets in the US.

UK and Europe

Overall, benefits and claims and the movement in unallocated surplus recorded in the income statement was a charge of £23,047 million in 2017 compared with a £27,841 million charge in 2016 and a £10,072 million charge in 2015. The year-on-year changes attributable to each of the underlying reasons are shown below, together with a further analysis of the amounts included in respect of the movements in policyholder liabilities by type of business:

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Claims incurred, net of reinsurance	(11,101)	(10,174)	(9,924)
Decrease/(increase) in policyholder liabilities, net of reinsurance			
SAIF	349	39	752
Shareholder-backed annuity business	897	(2,591)	301
Unit-linked and other non-participating business	(1,479)	(2,080)	171
With-profits (excluding SAIF)	(9,944)	(11,865)	(1,204)
	(10,177)	(16,498)	20
Movement in unallocated surplus of with-profits funds	(1,769)	(1,169)	(168)
Benefits and claims and movement in unallocated surplus, net of reinsurance	(23,047)	(27,841)	(10,072)

Claims incurred in the UK and Europe operations in 2017 were £11,101 million, compared with £10,174 million in 2016 and £9,924 million in 2015.

As has been explained above, the principal driver for variations in amounts allocated to the policyholders is changes to investment returns.

In aggregate, as a result of lower market returns in 2017 compared with 2016 there has been a corresponding impact on benefits and claims and movements in unallocated surplus of with-profits funds in the year, moving from a net charge of £27,841 million in 2016 to a net charge of £23,047 million in 2017. Conversely, the market returns in 2016 were higher compared with 2015, resulting in a movement from a net charge of £10,072 million in 2015 to a net charge of £27,841 million in 2016.

SAIF is a ring-fenced fund with no new business written. Policyholder liabilities in SAIF reflects the underlying decreasing policyholder liabilities as the liabilities run off. The variations from year to year are, however, affected by the market valuation movement of the investments held by SAIF, which are wholly attributable to policyholders.

For shareholder-backed annuity business, following the withdrawal from selling non-profit retail annuities, which have higher capital requirements than other lines of businesses, net flows were negative in the year, thereby reducing policyholder liabilities. In addition, the decreases/(increases) in policyholder liabilities reflect the effect of altered investment yield reflected in the discount rate applied in the measurement of the liabilities and other altered assumptions where relevant, together with net flows into this line of business.

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For unit-linked business, the primary driver of the variations in the decreases/(increases) in the policyholder liabilities were due to the movement in the market value of the unit-linked assets as reflected in the unit value of the unit-linked policies.

The part of Prudential where variations in amounts attributed to policyholder liabilities and unallocated surplus are most significant is the UK and Europe's with-profits business (excluding SAIF). As explained in note C4.2 to the consolidated financial statements, the liabilities for UK and Europe's with-profits policyholders are determined on an asset-share basis that incorporates the accumulation of investment returns and all other items of income and outgoings that are relevant to each policy type. Accordingly, the movement in policyholder liabilities in the income statement will fluctuate with the investment return of the fund. Separately, the excess of assets over liabilities of the fund represents the unallocated surplus. This surplus will also fluctuate on a similar basis to the market value movement on the investment assets of the fund with the movement reflected in the income statement. In addition, other items of income and expenditure affect the level of movement in policyholder liabilities (to the extent reflected in assets shares) and unallocated surplus.

The correlation between total net income (loss) before benefits and claims and movement in unallocated surplus, on the one hand, and the (charge) credit for benefits and claims and movement in unallocated surplus, on the other, for UK and Europe's component of the PAC with-profits fund (excluding SAIF) is illustrated numerically by the following table for each of the years presented. In summary, the correlation principally arises due to the following factors:

- (a) Investment return is included in full in the income statement and is attributable either to contracts or unallocated surplus.
- (b) Investment return, to the extent attributable to contracts, directly affects asset share liabilities, which are reflected in the income statement through changes in policyholder liabilities.
- (c) Investment return, to the extent attributable to unallocated surplus, forms the majority part of the movement in such surplus in the income statement.

	Year ended 31 December		
	2017	2016	2015
	£m	£m	£m
Earned premiums, net of reinsurance ⁽ⁱ⁾	12,508	9,261	6,507
Investment return	9,985	13,185	3,130
Other income	35	177	210
Acquisition costs and other expenditure	(1,732)	(1,288)	(1,318)
Share of profit from joint ventures	106	22	53
Tax charge	(440)	(739)	(148)
Total net income before benefit and claims and movement in unallocated surplus, net of reinsurance	20,462	20,618	8,434
Charges of:			
Claims incurred	(8,449)	(7,410)	(6,745)
Increase in policyholder liabilities ⁽ⁱ⁾	(10,011)	(11,824)	(1,307)
Movement in unallocated surplus of with-profits funds	(1,769)	(1,169)	(168)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(20,229)	(20,403)	(8,220)
Shareholders' profit after tax	233	215	214

Note

- (i)

For the purposes of presentation in Prudential's consolidated financial information, references to UK and Europe's with-profits fund also include, for convenience, the amounts attaching to Prudential's UK Defined Charge Participating Sub-fund which includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 31 December 2007. Profits to shareholders emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

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Separately, the cost of current year bonuses which are attributable to policyholders is booked within the movement in policyholder liabilities. One-ninth of the declared cost of policyholders' bonus is attributable to shareholders and represents the shareholders' profit. Both of these amounts, by comparison with the investment return, movement in other constituent elements of the change in policyholder liabilities and the change in unallocated surplus, are relatively stable from year to year.

In 2017, the income statement of the UK component of the PAC with-profits funds was charged with a transfer of £1,769 million to the unallocated surplus. This transfer, together with a corresponding transfer in the unallocated surplus of the Asia with-profits funds and the effect of exchange rate movements, resulted in an increase in Prudential's unallocated surplus from £14.3 billion in 2016 to £17.0 billion in 2017. This movement reflected the net effect of changes in the value of assets, liabilities (incorporating policyholder bonuses and other elements of asset shares attributable to policyholders), and the shareholders' share of the cost of bonuses for 2017.

The surplus for distribution in future years will reflect the aggregate of policyholder bonuses and the cost of bonuses attributable to shareholders, which is currently set at 10 per cent of the total bonus. In general, the policyholder bonuses comprise the aggregate of regular and final bonuses. When determining policy payouts, including final bonuses, Prudential considers asset shares of specimen policies. Where policies are invested in one of the PruFund range of funds, policy payouts are based on the smoothed unit price of the selected investment fund.

Prudential does not take into account the surplus assets of the long-term fund, or the investment return, in calculating asset shares. Asset-shares are used in the determination of final bonuses, together with treating customers fairly, the need to smooth claim values and payments from year to year and competitive considerations.

In the unlikely circumstance that the depletion of excess assets within the long-term fund was such that Prudential's ability to treat its customers fairly was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

The factors that the PAC Board considers in setting bonus rates are described in more detail in the section headed 'With-profits products' in the section headed 'UK and Europe Basis of profits Bonus Rates' and are summarised in note C4.2(c) UK and Europe to the consolidated financial statements.

Unallocated to a segment

Unallocated to a segment comprises the benefits and claims related to Africa operations.

(d) Acquisition costs and other expenditure

	Year ended 31 December		
	2017	2016*	2015*
	£m	£m	£m
Asia	(4,052)	(3,685)	(2,778)
US	(2,287)	(1,912)	(2,332)
UK and Europe	(3,379)	(2,813)	(2,644)
Unallocated to a segment and intra-segment elimination	(477)	(438)	(454)
Total	(10,195)	(8,848)	(8,208)

*

The 2016 and 2015 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

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Total acquisition costs and other expenditure of £10,165 million in 2017 were 15 per cent higher than the £8,848 million incurred in 2016. Total acquisition costs and other expenditure of £8,848 million in 2016 were 8 per cent higher than the £8,208 million incurred in 2015.

Asia

Total acquisition costs and other expenditure for Asia in 2017 were £4,052 million compared with £3,684 million in 2016 and £2,778 million in 2015. The increase of £368 million from 2016 to 2017 and the increase of £906 million from 2015 to 2016 were due to increased acquisition costs and increases in other operating expenses as the business continues to expand. The increase of £368 million from 2016 to 2017 includes an exchange translation impact of £182 million. Excluding the effect of currency volatility, total acquisition costs and other expenditure increased by £186 million from 2016 to 2017.

United States

Total acquisition costs and other expenditure for the US of £2,257 million in 2017 represented an increase of £344 million over the amount of £1,913 million in 2016. The £1,913 million in 2016 represented a decrease of £419 million over the amount of £2,332 million in 2015.

The increase of £344 million from 2016 to 2017 includes an exchange translation impact of £97 million. Excluding the effect of currency volatility, total acquisition costs and other expenditure increased by £247 million from 2016 to 2017. Expenses fluctuate year on year due to the amortisation of deferred acquisition costs varying with the level of short-term fluctuations in investment returns.

UK and Europe

Total acquisition costs and other expenditure for UK and Europe increased by 20 per cent from £2,813 million in 2016 to £3,379 million in 2017. Total acquisition costs and other expenditure for UK and Europe increased by 6 per cent from £2,644 million in 2015 to £2,813 million in 2016.

The increase arose primarily from the increase in the charge for investment gains attributable to external unit-holders relating to funds managed on behalf of third parties which are consolidated but have no recourse to the Group, such charges increased by £234 million from £485 million in 2016 to £719 million in 2017. The 2017 other expenditure also includes a charge of £225 million provision (2016: £175 million) to increase the provision held for the cost of undertaking a review of past non-advised annuity sales practices and related potential redress.

Unallocated to a segment and intra-segment elimination

Other net expenditure represented a charge of £477 million in 2017, a charge of £438 million in 2016 and a charge of £454 million in 2015. The higher 2017 other net expenditure included restructuring costs of £103 million (2016: £38 million; 2015: £15 million) as the business invests for the future, including UK and Europe infrastructure.

Exchange Rate Information

Prudential publishes its consolidated financial statements in pounds sterling. References in this document to 'US dollars', 'US\$', '\$' or '¢' are to US currency, references to 'pounds sterling', '£', 'pounds', 'pence' or 'p' are to UK currency (there are 100 pence to each pound) and references to 'euro' or '€' are to the single currency adopted by the participating members of the European Union. The following table sets forth for each year the average of the noon buying rates on the last business day of each month of that year, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling

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expressed in US dollars per pound sterling for each of the five most recent fiscal years. Prudential has not used these rates to prepare its consolidated financial statements.

Year ended 31 December	Average rate
2013	1.56
2014	1.65
2015	1.53
2016	1.35
2017	1.29

The following table sets forth the high and low noon buying rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

	High	Low
September 2017	1.36	1.30
October 2017	1.33	1.31
November 2017	1.35	1.31
December 2017	1.35	1.33
January 2018	1.43	1.35
February 2018	1.42	1.38

On 16 March 2018 the latest practicable date prior to this filing, the noon buying rate was £1.00 = \$1.39

EEV Basis, New Business Results and Free Surplus Generation

In addition to IFRS basis results, Prudential's filings with the UK Listing Authority, the Stock Exchange of Hong Kong, the Singapore Stock Exchange and Group Annual Reports include reporting by Key Performance Indicators ('KPIs'). These include results prepared in accordance with the European Embedded Value ('EEV') Principles and Guidance issued by the Chief Financial Officers' ('CFO') Forum of European Insurance Companies, New Business and Free Surplus Generation measures.

The EEV basis is a value-based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital or economic capital where higher and free surplus) of Prudential's life insurance operations. Prudential publishes its EEV results semi-annually in the UK, Hong Kong and Singapore markets.

New Business results are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. New business results are categorised as single premiums and annual regular premiums. New business results are also summarised by annual premium equivalents (APE) which are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. The amounts are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. EEV basis new business profits and margins are also published semi-annually.

Underlying free surplus generation is used to measure the internal cash generation by our business units. For the insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit based on longer-term investment returns for the period.

Table of Contents**Additional Information on Liquidity and Capital Resources**

After making sufficient enquiries the directors of Prudential 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.

Liquidity sources

The parent company including the central finance subsidiaries held cash and short-term investments of £2,264 million, £2,626 million and £2,173 million as at 31 December 2017, 2016 and 2015, respectively. The sources of cash in 2017 included dividends, loans and net cash amounts received from operating subsidiaries. Prudential received £1,788 million in net cash remittances from business units in 2017, compared with £1,718 million received in 2016 and £1,625 million received in 2015. These remittances primarily comprise dividends from business units and the shareholders' statutory transfer from the PAC long-term with-profits fund (UK Life Fund) relating to earlier bonus declarations.

Dividends, loans and net cash amounts received from subsidiaries

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. In PAC, Prudential's largest operating subsidiary, distributable reserves arise from the emergence of profits from the company's long-term business. For the company's with-profits business the profits reflect the profit transfer to shareholders that occurs upon the declaration of bonuses to policyholders of with-profit products. Prudential's insurance and fund management subsidiaries' ability to pay dividends and loans to the parent company is restricted by various laws and regulations. Jackson is subject to state laws that limit the dividends payable to its parent company. Dividends in excess of these limitations generally require approval of the state insurance commissioner. The table below shows the dividends, loans and other net cash amounts received by Prudential from the principal operating subsidiaries for 2017 and 2016:

Dividends, loan and net cash amounts received in:	2017	2016
	£m	£m
Asia	645	516
US	475	420
UK and Europe*	643	590
Other UK (including Prudential Capital)*	25	192
Total	1,788	1,718

*

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

The amount of dividends paid by the Prudential's main operations is determined after considering the development, growth and investment requirements of the operating businesses. Prudential does not believe that the legal and regulatory restrictions on the ability of any one of its businesses to pay dividends to the parent, constitutes a material limitation on the ability of Prudential plc to meet its cash obligations.

Liquidity resources and requirements by operating business**M&G Prudential**

The liquidity sources for M&G Prudential's life insurance business in UK and Europe comprise premiums, deposits and charges on policies, investment income, proceeds from the sale and maturity of investments, external borrowings and capital contributions from the parent company. The liquidity requirements comprise benefits and claims, operating expenses, interest on debt, purchases of investments. Amounts are distributed to the parent company after considering capital requirements.

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The liquidity requirements of M&G Prudential's life insurance businesses are regularly monitored to match anticipated cash inflows with cash requirements. Cash needs are forecast and projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying these projections are reviewed periodically. Adjustments are made periodically to the investment policies with respect to, among other things, the maturity and risk characteristics of the investment assets to reflect changes in the business' cash needs and also to reflect the changing competitive and economic environment.

The liquidity of M&G Prudential's insurance operations is affected by the payment of guaranteed benefits and terminal bonuses on maturing and surrendering policies. In addition, the non-cash bonus declaration to policyholders results in a cash transfer to shareholders' funds. A large proportion of Prudential's liabilities contains discretionary surrender values or surrender charges. In addition, pension annuity policies cannot be surrendered by the policyholder.

Further information on the Solvency II capital position of the M&G Prudential's insurance operations as at 31 December 2017 is provided in section II(b) of the Additional Unaudited Financial Information Section.

The principal liquidity source for M&G Prudential's asset management business (M&G) is fee income for managing retail, institutional and the internal investment funds of its life insurance operations. The principal liquidity requirements are for operating expenses and to comply with Client Assets Sourcebook (CASS) regulations. Amounts are distributed to the parent company after considering capital requirements. As at 31 December 2017, M&G's Capital requirements are driven by fixed operating expenses and met the relevant regulatory requirements.

US life insurance

The liquidity sources for Jackson are its cash, short-term investments and publicly traded bonds, premium income deposits received on certain annuity and institutional products, investment income, repurchase agreements, utilisation of a short-term borrowing facility with the Federal Home Loan Bank of Indianapolis and capital contributions from the parent company.

Liquidity requirements are principally for purchases of new investments and businesses, repayment of principal and interest on debt, payments of interest on surplus notes, funding of insurance product liabilities including payments for policy benefits, surrenders, maturities and new policy loans, and funding of expenses including payment of commissions, operating expenses and taxes. As at 31 December 2017, Jackson's outstanding surplus notes and bank debt included:

US\$87.4 million of bank loans from the Federal Home Loan Bank of Indianapolis, collateralised by mortgage-related securities and mortgage loans; and

US\$250 million of surplus notes maturing in 2027.

Significant increases in interest rates and disintermediation can create sudden increases in surrender and withdrawal requests by policyholders and contract holders. Other factors that are not directly related to interest rates can also give rise to disintermediation risk, including, but not limited to, changes in ratings from rating agencies, general policyholder concerns relating to the life insurance industry (eg the unexpected default of a large, unrelated life insurer) and competition from other products, including non-insurance products such as mutual funds, certificates of deposit and newly developed investment products. Most of the life insurance, annuity and institutional products Jackson offers permit the policyholder or contract holder to withdraw or borrow funds or surrender cash values. At 31 December 2017, over half of Jackson's fixed annuity reserves include policy restrictions such as surrender charges and market value adjustments to discourage early withdrawal of policy and contract funds.

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Jackson uses a variety of asset-liability management techniques to provide for the orderly provision of cash flow from investments and other sources as policies and contracts mature in accordance with their normal terms. Jackson's principal sources of liquidity to meet unexpected cash outflows associated with sudden and severe increases in surrenders and withdrawals are its portfolio of liquid assets and its net operating cash flows. As at 31 December 2017, the portfolio of cash, short-term investments and publicly traded securities and equities amounted to US\$41.5 billion. Operating net cash inflows for Jackson in 2017 were US\$5.0 billion.

As at 31 December 2017, the statutory capital and surplus of Jackson was US\$3.9 billion, which was in excess of the requirements set out under Michigan insurance law. Jackson is also subject to risk-based capital guidelines that provide a method to measure the adjusted capital that a life insurance company should have for regulatory purposes, taking into account the risk characteristics of Jackson's investments and products. As at 31 December 2017, Jackson's total risk based capital ratio under the National Association of Insurance Commissioners' definition exceeded the Michigan standards.

Asia life insurance

The liquidity sources for Prudential's Asia life insurance businesses comprise premiums, deposits and charges on policies, investment income, proceeds from the sale and maturity of investments, external borrowings and capital contributions from the parent company. The liquidity requirements comprise benefits and claims, operating expenses, interest on debt and purchases of investments. Amounts are distributed to the parent company after considering capital requirements.

The liquidity requirements of Prudential's Asia life insurance businesses are regularly monitored to match anticipated cash inflows with cash requirements. Cash needs are forecast and projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying these projections are reviewed periodically. Adjustments are made periodically to the investment policies with respect to, among other things, the maturity and risk characteristics of the investment assets to reflect changes in the business cash needs and also to reflect the changing competitive and economic environment.

Contractual obligations

Contractual obligations of the Group with specified payment dates as at 31 December 2017 were as follows:

	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
			£m		
Policyholder liabilities ⁽ⁱ⁾	542,221	29,853	61,035	59,191	392,142
Long-term debt ⁽ⁱⁱ⁾	6,280	275			6,005
Other borrowings ⁽ⁱⁱⁱ⁾	5,507	2,074	557	60	2,816
Capital lease obligations	43	3	5	4	31
Operating lease obligations	515	113	164	120	118
Purchase obligations ⁽ⁱⁱⁱ⁾	4,029	4,029			
Obligations under funding, securities lending and sale and repurchase agreements	5,662	5,662			
Other long-term liabilities ^(iv)	10,092	9,456	337	97	202
Total	574,349	51,465	62,098	59,472	401,314

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	£m	£m
Reconciliation to consolidated statement of financial position:		
Total contractual obligations per above		574,349
Difference between policyholder liabilities per above (based on undiscounted cash flows) and total policyholder liabilities and unallocated surplus of with-profits funds per balance sheet:		
Total policyholder liabilities and unallocated surplus of with-profits funds per the consolidated statement of financial position	428,194	
Policyholder liabilities (undiscounted) per above	(542,221)	(114,027)
Other short-term/non-contractual obligations:		
Current tax liabilities	537	
Deferred tax liabilities	4,715	
Accruals, deferred income and other creditors (excluding capital and operating lease obligations and purchase obligations)	15,308	
Derivative liabilities	2,755	23,315
Purchase obligations not on the statement of financial position		(4,029)
Other items		(1,761)
Total liabilities per consolidated statement of financial position		477,847

Notes

- (i) Amounts shown in respect of policyholder liabilities represent estimated undiscounted cash flows for Prudential's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of policyholder benefit payments reflect either surrender, death, or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing policyholder liabilities. The projected cash flows exclude the unallocated surplus of with-profits funds. As at 31 December 2017, on the IFRS basis of reporting, the unallocated surplus was £16,951 million (2016: £14,317 million). The unallocated surplus represents the excess of assets over liabilities, including policyholder 'asset share' liabilities, which reflect the amount payable under the 'grandfathered' realistic Peak 2 reporting regime of the PRA. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated surplus.
- (ii) The amounts represent the contractual maturity of amounts of borrowings included in the consolidated statement of financial position (ie excludes future interest payments) as shown in note C6 to Prudential's consolidated financial statements. Long-term debt comprises the core structural borrowings of shareholder-financed operations and the £100 million 8.5 per cent undated subordinated guaranteed bonds of Scottish Amicable Finance plc. Other borrowings comprise operational borrowings attributable to shareholder-financed operations and borrowings attributable to with-profits operations but excluding the £100 million 8.5 per cent undated subordinated guaranteed bonds of Scottish Amicable Finance plc.
- (iii) Comprising of purchase obligations unfunded commitments for investments in limited partnerships of £414 million (2016: £465 million), commercial mortgage loans and other fixed maturities of £214 million (2016: £201 million), private equity and infrastructure funds held by the UK with-profits funds of

£3,225 million (2016: £2,269 million) and contractual obligations to purchase or develop investment properties of £176 million (2016: £458 million).

(iv)

Amounts due in less than one year include amounts attributable to unit holders of consolidated unit trusts and similar funds of £8,889 million (2016: £8,687 million).

Group consolidated cash flows

The discussion that follows is based on the consolidated statement of cash flows prepared under IFRS and presented this Form 20-F.

Net cash inflows in 2017 were £734 million. This amount comprised inflows of £1,620 million from operating activities and inflows of £816 million from investing activities less outflows of £1,702 million from financing activities.

Net cash inflows in 2016 were £1,281 million. This amount comprised inflows of £2,201 million from operating activities less outflows of £549 million from investing activities less outflows of £371 million from financing activities.

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Net cash inflows in 2015 were £1,390 million. This amount comprised inflows of £2,533 million from operating activities less outflows of £469 million from investing activities less outflows of £674 million from financing activities.

The Group held cash and cash equivalents of £10,690 million at 31 December 2017 compared with £10,065 million and £7,782 million at 31 December 2016 and 2015, respectively.

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GROUP RISK FRAMEWORK

Risk Management

1. Introduction

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

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

Our results show that, even in times of unpredictability, we can generate value for our shareholders by taking selective exposure to risks that are rewarded commensurately and that can be quantified appropriately and managed. We retain risks within a clearly defined risk appetite, where we believe doing so contributes to value creation and the Group is able to withstand the impact of an adverse outcome. For our retained risks, we ensure that we have the necessary capabilities, expertise, processes and controls to manage the exposure appropriately.

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

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

2. Risk governance, culture and our risk management cycle

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

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

a. Risk governance

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

i. Risk committees and governance structure

Our risk governance structure is led by the Group Risk Committee, supported by independent non-executives on risk committees of major subsidiaries. These committees monitor the

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development of the Group Risk Framework, which includes risk appetite, limits, and policies, as well as risk culture.

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

ii. Group Risk Framework

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

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

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

The Group Risk Committee reviews the Group Risk Framework and recommends changes to our Board to ensure that it remains effective in identifying and managing the risks faced by the Group. A number of core risk policies and standards support the Framework to ensure that risks to the Group are identified, assessed, managed and reported. During 2017 we made a number of enhancements to our policies and processes. These included changes to our processes around new product approvals, management of our critical outsourcing arrangements and we increased oversight of model risk across the Group. A new framework was developed to support the monitoring and reporting of risks associated with material transformation programmes, and work continued over the year on the Group's risk culture.

iii. Risk appetite, limits and triggers

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

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

We have some appetite to take market and credit risk where it arises from profit-generating insurance activities, to the extent that it remains part of a balanced portfolio of sources of income

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

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

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

Earnings volatility:

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

The volatility of earnings is consistent with the expectations of stakeholders;

The Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks;
and

Earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies.

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

Liquidity:

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

Capital requirements:

The limits aim to ensure that:

The Group meets its internal economic capital requirements;

The Group achieves its desired target rating to meet its business objectives; and

Supervisory intervention is avoided.

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

The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Group Risk function, which uses submissions

from our local business

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units to calculate the Group's aggregated position (allowing for diversification effects between local business units) relative to the aggregate risk limits.

iv. Risk policies

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

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

v. Risk standards

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

b. Our risk culture

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

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

Senior management in business units articulate the need for good risk management as a way to realise long-term value and continuously support this through their actions;

Employees understand and care about their role in managing risk they are aware of and discuss risk openly as part of the way they perform their role; and

Employees invite open discussion on the approach to the management of risk.

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

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

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c. 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.

i. Risk identification

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

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

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

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

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

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

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

ii. Risk measurement and assessment

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

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iii. Risk management and control

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

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

The Group's risk appetite in respect of material risks, and the framework under which the Group's exposure to those risks is limited;

The processes to enable Group senior management to effect the measurement and management of the Group material risk profile in a consistent and coherent way; and

The flows of management information required to support the measurement and management of the Group material risk profile and to meet the needs of external stakeholders.

The methods and risk management tools we employ to mitigate each of our major categories of risks are detailed in section 4 below.

iv. 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.

3. Summary risks

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

'Macro' risks

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

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

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

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

Risks from our investments**Credit risk**

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

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

Market risk

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

Risks from our products**Insurance risks**

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

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

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

Risks from our business operations**Operational risks**

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

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

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

Table of Contents**Risks from our investments**

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

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

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

Liquidity risk

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

Risks from our products

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

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

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

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

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

Risks from our business operations

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

Regulatory risk

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

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

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

4.**Further risk information**

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

4.1 Risks from our investments**a. Market risk**

The main drivers of market risk in the Group are:

Investment risk (including equity and property risk);

Interest rate risk; and

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Given the geographical diversity of our business, foreign exchange risk.

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

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

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

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

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

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

Our market risk policy;

Risk appetite statements, limits and triggers that we have in place;

The monitoring and oversight of market risks through the regular reporting of management information;

Our asset and liability management programmes;

Use of derivative programmes, including, for example, interest rate swaps, options and hybrid options for interest rate risk;

Regular deep dive assessments; and

Use of currency hedging.

Investment risk

(Audited)

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

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

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

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

Interest rate risk

(Audited)

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

Interest rate risk arises in M&G Prudential's insurance business from the need to match cash payments to meet annuity obligations with the cash we receive from our investments. To minimise the impact on our profit, we aim to match the duration (a measure of interest rate sensitivity) of assets and liabilities as closely as possible and the position is monitored regularly. Under the Solvency II regulatory regime, additional interest rate risk results from the way the balance sheet is constructed, such as the requirement for us to include a risk margin. The UK business assesses on a continual basis the need for any derivatives in managing its interest rate sensitivity. The with-profits business is exposed to interest rate risk because of underlying guarantees in some of its products. Such risk is borne largely by the with-profits fund itself but shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk.

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

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

Foreign exchange risk

(Audited)

The geographical diversity of our businesses means that we have some exposure to the risk of exchange rate fluctuations. Our operations in the US and Asia, which represent a large proportion of our operating profit and shareholders' funds, generally write policies and invest in assets in local currencies. Although

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this limits the effect of exchange rate movements on local operating results, it can lead to fluctuations in our Group financial statements when results are reported in UK sterling.

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

b. Credit risk

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

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

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

Our credit risk policy;

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

Collateral arrangements we have in place for derivative, secured lending reverse repo and reinsurance transactions;

The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews. In 2017 it has conducted sector reviews in the Asia sovereign sector, the UK banking sector, the US retail property sector, and continues to review the developments around central clearing;

Regular deep dive assessments; and

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

Debt and loan portfolio

(Audited)

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

Credit risk also arises from the debt portfolio in our Asia business, the value of which was £41.0 billion at 31 December 2017. The majority (68 per cent) of the portfolio is in unit-linked and with-profits funds

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and so exposure of the shareholder to this component is minimal. The remaining 32 per cent of the debt portfolio is held to back the shareholder business.

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

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

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

Group sovereign debt

(Audited)

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

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

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

Bank debt exposure and counterparty credit risk

(Audited)

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

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

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

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

At 31 December 2017, shareholder exposures by rating¹ and sector are shown below:

95 per cent of the shareholder portfolio is investment grade rated. In particular, 69 per cent of the portfolio is rated A and above; and

The Group's shareholder portfolio is well diversified: no individual sector makes up more than 10 per cent of the total portfolio (excluding the financial and sovereign sectors).

c. Liquidity risk

Our liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due. This incorporates the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may

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impact on market conditions and valuation of assets in a more uncertain way than for other risks like interest rate or credit risk. It may arise, for example, where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption requests are made against Prudential external funds.

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

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

Our risk management and mitigation of liquidity risk include:

Our liquidity risk policy;

The risk appetite statements, limits and triggers that we have in place;

The monitoring of liquidity risk we perform through regular management information to committees and the Board;

Our Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of our liquidity risks and the adequacy of our available liquidity resources under normal and stressed conditions;

Regular stress testing;

Our established contingency plans and identified sources of liquidity;

Our ability to access the money and debt capital markets;

Regular deep dive assessments; and

The access we have to external sources of finance through committed credit facilities.

4.2 Risks from our products

a. Insurance risk

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

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

We manage and mitigate our insurance risk using the following:

Our insurance and underwriting risk policies;

The risk appetite statements, limits and triggers we have in place;

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Using longevity, morbidity and persistency assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;

Using reinsurance to mitigate longevity and morbidity risks;

Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;

Maintaining the quality of our sales processes and using initiatives to increase customer retention in order to mitigate persistency risk;

Using product re-pricing and other claims management initiatives in order to mitigate medical expense inflation risk; and

Regular deep dive assessments.

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

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

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

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

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

4.3 Risks from our business operations

a. Non-financial risks

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

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

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

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

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

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

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

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

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

Investment risk in the form of 'transition risk'. This is the risk that an abrupt, unexpected tightening of carbon emission policies lead to a disorderly re-pricing of carbon-intensive assets;

Liability risk, if the Group is unable to demonstrate sufficiently that we have acted to mitigate our exposure to climate change risk; and

Reputational risks, where the Group's actions could affect external perceptions of our brand and corporate citizenship.

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

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

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

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

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

Dependencies between multiple projects;

The organisational ability to absorb change being exceeded;

Unrealised business objectives/benefits; and

Failures in project design and execution.

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

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

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An internal incident capture process, which identifies, quantifies and monitors remediation conducted through application of action plans for risk events that have occurred across the business;

A scenario analysis process for the quantification of extreme, yet plausible manifestations of key operational risks across the business on a forward looking basis. This is carried out at least annually and supports external and internal capital requirements as well as informing risk activity across the business; and

An operational risk appetite framework that articulates the level of operational risk exposure the business is willing to tolerate and sets out escalation processes for breaches of appetite.

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

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

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

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

A transformation risk framework that assesses, manages and reports on the end-to-end transformation lifecycle, project prioritisation and the risks, interdependencies and possible conflicts arising from a large portfolio of transformation activities;

Internal and external review of cyber security capability;

Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process;

Group and business unit-level compliance oversight and testing in respect of adherence with in-force regulations;

Regulatory change teams in place assist the business in proactively adapting and complying with regulatory developments;

A framework in place for emerging risk identification and analysis in order to capture, monitor and allow us to prepare for operational risks that may crystallise beyond the short-term horizon;

Corporate insurance programmes to limit the financial impact of operational risks; and

Reviews of key operational risks and challenges within Group and business unit business plans.

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

b. Global regulatory and political risk

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

Risk Assessment of the Business Plan which includes consideration of current strategies;

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Close monitoring and assessment of our business environment and strategic risks;

The consideration of risk themes in strategic decisions; and

Ongoing engagement with national regulators, government policy teams and international standard setters.

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

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

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

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

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

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

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The IAIS's G-SII regime forms additional compliance considerations for us. Groups designated as G-SIIs are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. The FSB did not publish a new list of G-SIIs in 2017, however the policy measures set out in the FSB's 2016 communication on G-SIIs continue to apply to the Group. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of such measures and Prudential's designation as a G-SII. The IAIS has launched a public interim consultation on an activities-based approach to systemic risk. Following the feedback from this, a second consultation with proposals for policy measures is due to be launched in 2018. Any changes to the designation methodology are expected to be implemented in 2019.

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

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

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

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

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

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

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17 which will introduce fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. The Group is reviewing the complex requirements of the standard and is

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considering its potential impact. This is expected to, among other things, include altering the timing of IFRS profit recognition, and the implementation of the standard is likely to require changes to the Group's IT, actuarial and finance systems.

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.

c. Cyber risk

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

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

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

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

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

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

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

Note

1

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

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SUPERVISION AND REGULATION OF PRUDENTIAL

Prudential's principal insurance and investment operations are in Asia, the United Kingdom ('UK'), and the United States ('US'). Accordingly, it is subject to applicable Asian, UK and US insurance and other financial services regulation which is discussed below.

Group supervision

The UK's Prudential Regulation Authority ('PRA') is Prudential Group's 'lead supervisor', with a key focus on solvency and financial soundness.

The regulators which supervise the Group do so on a cross-border basis through a 'regulatory college'. The college, which meets at an annual event hosted by the PRA, includes a number of non-UK regulators who supervise Prudential's overseas operations, as well as representatives from the Financial Conduct Authority (FCA) and European Insurance and Occupational Pensions Authority ('EIOPA'). Prudential is invited to present to the College on topics pre-agreed with the PRA during the course of planning for the College.

Global regulatory developments and trends

There are a number of ongoing policy initiatives and regulatory developments at the global level that are having an impact on the way Prudential is regulated and supervised. These include the work of the Financial Stability Board ('FSB') (an international body established to coordinate, develop and promote effective regulatory, supervisory and other financial sector policies in the interest of financial stability) and the work of standard-setting institutions such as the International Association of Insurance Supervisors ('IAIS') and the International Organisation of Securities Commissions ('IOSCO').

Since 2010, the IAIS, under the auspices of the FSB and G20, has been developing a comprehensive insurance regulatory standards framework, which member regulators are expected to apply within their jurisdictions. The framework encompasses two main work streams for Group-wide insurance supervision. These sets of rules are intended to increase oversight of insurance groups and enhance existing policy measures in an attempt to reduce systemic risk. The first is a set of measures that apply to Global Systemically Important Insurers (G-SIIs) and impose additional regulatory requirements that include enhanced measures, in particular the development of Systemic Risk Management Plans ('SRMP'), Liquidity Risk Management Plans ('LRMP') and Recovery and Resolution planning; as well as the development of a capital add-on in the form of Higher Loss Absorbency (HLA). On 21 November 2017, the FSB, in consultation with the IAIS, announced a roll-over of the 2016 G-SII list as it continues to review its G-SII assessment methodology. Concurrently, the IAIS launched a public consultation in March 2017 on proposals to develop an Activities-Based Approach ('ABA') to systemic risk in the insurance sector. Once developed, this approach may have significant implications for the assessment of systemic risk and for the identification and application of G-SII measures. The second work stream, ComFrame, or the Common Framework for the Supervision of Internationally Active Insurance Groups ('IAIGs'), is a harmonised set of rules for the supervision of IAIGs. The ComFrame proposals include a risk-based global insurance capital standard ('ICS'). The ComFrame standards are still under development and are not expected to be formally adopted by the IAIS until 2020.

Prudential remains a G-SII and therefore is in scope of applicable IAIS measures.

The European Union's Solvency II Directive came into effect on 1 January 2016, although the future application of the Solvency II regime to UK insurers remains uncertain following the UK's decision in June 2016 to leave the EU ('Brexit'). A series of reviews of the Solvency II Directive are scheduled until 2021. It remains unclear what regime will be in place for UK insurers following Brexit.

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UK supervision and regulation

The Financial Services and Markets Act 2000

Prudential's insurance and investment businesses in the UK are regulated under the Financial Services and Markets Act 2000 ('FSMA 2000'), as amended by the Financial Services Act ('FS Act') 2012, the Financial Services (Banking Reform) Act 2013 and other legislation. In addition, those businesses are subject to various UK laws, such as the Data Protection Act 1998 (to be repealed in May 2018 as part of measures to implement the EU General Data Protection Regulation ('GDPR')), in relation to the processing of customer data, and various Pension Acts, some of which require the relevant Prudential entity to be licensed or registered.

UK regulatory regime

There are two principal financial services regulators in the UK:

the PRA, which oversees macro-prudential regulation of deposit-takers, insurers and a small number of systemically important investment firms; and

the FCA, which is responsible for conduct of business regulation of all authorised firms and the prudential regulation of firms not regulated by the PRA.

The activities of the PRA and FCA are dictated in part by initiatives developed by bodies within the European Union. In relation to Prudential's UK businesses, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority are responsible for strengthening the supervisory framework for financial services across all EU member states.

In discharging their respective functions, the PRA and FCA have separate objectives as defined in FSMA 2000 (as amended by the FS Act). The general objective of the PRA is to promote the safety and soundness of the firms it regulates. The PRA also has an insurance objective, which is to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders. The strategic objective of the FCA is to ensure that the relevant markets that it regulates function properly. The FCA is responsible for the regulation of conduct in retail as well as wholesale financial markets and the infrastructure that supports those markets. The FCA has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

The approach of the PRA and FCA

Two of Prudential's subsidiaries that carry on insurance business in the UK (The Prudential Assurance Company Limited ('PAC') and Prudential Pensions Limited) are 'dual-regulated' firms, meaning they are regulated by the PRA for prudential purposes and by the FCA for conduct purposes. Prudential Lifetime Mortgages Limited (PLML), which undertakes lifetime mortgage business, is also dual-regulated. Although it closed to new business in April 2010, PLML continues to service its existing customers. A number of Prudential's subsidiaries are regulated by the FCA on a solo basis. This includes Prudential Distribution Limited, Prudential Financial Planning Limited, and a number of UK firms that carry on Prudential M&G's investment management business.

Close and regular contact between the PRA and FCA and senior managers remains a feature of the UK regulatory regime. Both regulators have continued to focus on risk and governance frameworks, although pursued through distinct supervisory programmes.

Both the PRA and FCA weight their supervisory activity towards those issues and insurers which, in their opinion, pose the greatest risks to their respective statutory objectives, based on a continuous cycle of assessments. For significant firms such as Prudential, the PRA conducts an annual detailed business model analysis which (in the case of an insurer) includes formulating a projection of an insurer's ability

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to generate returns, and any associated risks. The PRA may require the insurer to change its business model if it believes that mitigating measures alone cannot adequately reduce material risks to safety and soundness and to policyholder protection.

Main features of regulation applicable to Prudential's insurance and investment businesses

Principles for businesses and fundamental rules

An authorised firm is subject to a range of ongoing regulatory requirements supervised by the FCA. Dual-regulated firms are also supervised by the PRA. Two of the fundamental requirements that must be met at all times are to ensure that the firm has adequate resources to carry on its business, and to meet 'Fit and Proper' requirements. Key features of these regulatory requirements are the FCA's 11 'Principles for Businesses' and the PRA's eight 'Fundamental Rules'. These cover areas such as the firm's relationship with the FCA and PRA, the need to conduct business with integrity and the requirement to pay due regard to the interests of customers and treat them fairly.

Individual accountability

The Senior Insurance Managers' Regime ('SIMR') has applied since 7 March 2016. It is broadly in line with the Senior Manager and Certification Regime ('SMCR') implemented for the banking sector in the UK, but with some differences which arise from Solvency II systems of governance requirements. The SIMR focusses in particular on the conduct of senior managers and their individual responsibility for decisions. This emphasis on senior executive conduct and accountability allows the PRA to subject any firm that fails to uphold the new requirements to regulatory censure. Senior managers have core responsibilities prescribed to them, according to their role.

The SIMR introduced the concepts of 'Senior Insurance Management Functions', 'Significant Influence Functions' and 'Key Functions'. An operational failure of any of these functions (owing to mismanagement or a lack of proper oversight) could lead to significant losses being incurred by the business and a failure of the firm's ongoing ability to meet its obligations to policyholders. The system of governance of each Solvency II insurance firm and group needs to cover at least the following key functions: risk management, compliance, internal audit and actuarial.

The SIMR will ultimately be replaced by the SMCR, which is to be extended to cover all regulated financial institutions (including insurers) later in 2018. This will place additional responsibility on insurers and asset managers to identify a population of certificated individuals who will be required to meet the 'Fit and Proper' requirements. The new regime will also require firms to notify the regulators in the event of disciplinary action taken against senior managers for breaches of conduct rules.

Capital requirements for insurers

As noted above, in order to maintain authorised status under the FSMA 2000, firms must continue to satisfy certain threshold conditions which, *inter alia*, require firms to have adequate resources for the carrying on of their business. The majority of the rules which govern the prudential regulation of insurers are currently found in the 'Minimum Capital Requirement', 'Own Funds' and 'Solvency Capital Requirement' parts of the PRA Rulebook, which came into force on 1 January 2016 as part of the implementation of Solvency II.

Solvency II's main aim is to ensure the financial stability of the insurance industry and to protect policyholders through revised solvency requirements which are better matched to the true risks of the business. The framework is outlined in the Solvency II Directive, with much of the detail in the rules set out in the Solvency II Delegated Regulation and certain 'Level 2' implementing measures. These measures are accompanied by further requirements developed by EIOPA, namely, the Implementing

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Technical Standards (which aim to ensure the uniform application of the Solvency II Directive) and Guidelines necessary to guarantee convergence of Solvency II implementation.

A key element of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurers have been encouraged to improve their risk management processes and are allowed to make use of internal economic capital models to calculate capital requirements, subject to approval by the local regulator (the PRA in the UK). In addition, Solvency II requires firms to develop and embed an effective risk management system as a fundamental element of running the firm.

The regime also requires firms to disclose a considerably greater level of qualitative and quantitative information, both to their own supervisor (through Regular Supervisory Reporting ('RSR')) and to the market (through the publication of a Solvency and Financial Condition Report ('SFCR')). This is intended to increase transparency, facilitate comparison across the industry and enable supervisors to identify if firms are heading for financial difficulty at an earlier stage.

Further details on the Group Solvency II capital position at 31 December 2017 are set out in the Capital Position section within Explanation of Performance and Other Financial Measures.

Conduct of business rules

The FCA's Conduct of Business Rules (and, for insurers, the FCA's Insurance Conduct of Business Rules) stipulate the day-to-day standards that should be observed by authorised persons when carrying on regulated activities.

The scope and range of obligations imposed on an authorised firm under these Rules varies according to its business and the range of its clients. Generally, the obligations imposed on an authorised firm include the need to categorise its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional materials which it produces are clear, fair and not misleading, assess suitability when advising on certain products, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets. Additional details of relevance to the insurance and investment businesses are discussed below.

Authorised firms which advise and sell to retail customers packaged products such as life insurance policies are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

Financial advice and fairness

In March 2016, HM Treasury and the FCA published their Financial Advice and Market Review final report, which set out 28 recommendations to increase the accessibility and affordability of the advice and guidance that consumers receive in the UK.

This review considered all types of retail financial products including pensions, savings, mortgages and insurance. The recommendations focused on three key areas:

affordability advice and guidance to the mass market should be more cost-effective. Firms should develop more streamlined services and engage with customers in a more effective way.

accessibility implementing procedures to help consumers engage more effectively with advice. These include making consumers' own information more easily available to them and to those who advise them, the development of "rules of thumb" and the use of 'nudges' to encourage customers to seek support at key life stages. The report also recommend measures to help employers give more support to their staff on financial matters; and

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liabilities and consumer redress recommendations to increase clarity and transparency about the way in which the Financial Ombudsman Service ('FOS') deals with consumer complaints. The report also makes recommendations in relation to the FCA's review of funding the Financial Services Compensation Scheme ('FSCS') to assist advisers struggling to predict and budget for the levy they have to pay.

Many of these recommendations have now been implemented, with outstanding changes to be implemented throughout 2018.

Thematic Review of Non-Advised Annuity Sales Practices

On 14 October 2016, the FCA published its findings following the conclusion of its 'Thematic Review of Non-Advised Annuity Sales Practices'. The FCA wanted to establish whether firms provided customers with sufficient information about enhanced annuities. In conjunction with this, Prudential has agreed with the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The FCA formally released its redress calculation methodology in early 2018 and accordingly Prudential reassessed the provision held to cover the costs of undertaking the review and any potential redress. At 31 December 2017, following this reassessment, the gross provision was increased to £400 million (2016: £175 million), excluding any utilisation during the year. The ultimate amount that will be expended by the Group on the review, which is currently expected to be completed in 2019, remains uncertain. Although the Group's professional indemnity insurance is expected to mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored in the provision, in accordance with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Consumer protection, the FOS, the FSCS and the Pension Protection Fund ('PPF')

Authorised firms must have appropriate complaints handling procedures, the standards for which are set out in the FCA Handbook. However, once these procedures have been exhausted, qualifying complainants may turn to the FOS. The FOS is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as the FOS determines to be just and appropriate in order to remedy a complaint. The actual level of compensation customers receive will depend on the basis of their claim. The FSCS only pays compensation for financial loss.

The FSCS is intended to compensate individuals and other groups of 'eligible claimants', including certain trustees, for claims against an authorised firm where the authorised firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). Both the PRA and the FCA have rule-making powers for the FSCS and the FSCS is accountable to both regulators.

In addition, the PPF is a statutory fund aimed at protecting members of eligible pension schemes where their employer (or a past employer) has become insolvent and the pension scheme can no longer afford to pay the promised pension.

All of the above schemes are funded by levies on the UK financial services industry. The FCA has proposed changes to the apportionment of levies that fund FSCS compensation costs. Of these, the most significant proposal is the requirement for product manufacturers to pay 25 per cent of the levy required to fund claims arising from the activity of intermediaries. At present, this levy is applied in its entirety to the intermediary market. A policy statement is expected in the second quarter of 2018 with any rule change expected to be effected in 2019.

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Financial crime

The prevention of financial crime is a key element of the FCA's statutory remit to protect the integrity of the UK financial system. The FCA provides regulatory oversight of financial crime, including anti-money laundering, sanctions, and anti-bribery and corruption. The FCA requires firms to put in place appropriate systems and controls to mitigate financial crime risks, and it examines these on an ongoing basis as part of its proactive supervision agenda.

The UK is a member of the Financial Action Task Force ('FATF'), an international body that sets the standard for anti-money laundering. The FATF conducts scheduled mutual evaluation reviews of member countries and these help anticipate regulatory expectations. The FATF is scheduled to carry out its next mutual evaluation of the UK during 2018.

The Fourth Anti Money Laundering Directive was adopted by the European Parliament and EU Council of Finance Ministers in May 2015 and took effect in June 2017. Following consultation by the UK Government it was transposed in to the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017. UK firms are required to comply with the new regulations. Prudential analysed the revised EU rules and has implemented all required changes.

UK firms are required to disclose suspicions of money-laundering to the National Crime Agency. The FCA can take enforcement action against firms that fail to manage their financial crime risks effectively.

General Data Protection Regulation

The European Commission proposed EU Data Protection Reform in January 2012, in order to adapt data protection rules to the digital environment and harmonise the legislative environment across the EU.

The General Data Protection Regulation ('GDPR') was adopted by the European Parliament and the EU Council of Finance Ministers in April 2016 and will apply from May 2018. The business has reviewed the requirements and identified the changes to incorporate these. An implementation plan is in place and we are working with outsourced service providers to make the necessary changes.

With-profits business

There is a requirement for every insurance company that carries on long-term business to appoint one or more actuaries to perform the actuarial function in respect of all classes of its long-term insurance business and the with-profits actuary function in respect of all classes of any with-profits business. Alongside the with-profits actuary, and also forming part of the 'second line of defence' from a compliance perspective, with-profits businesses are required to appoint a with-profits committee. This committee is composed of independent persons and acts in an advisory capacity to inform the decision-making of an insurer's governing body and to ensure that the interests of with-profits policyholders are adequately considered. The with-profits committee advises on the appointment of, and works closely with, the with-profits actuary.

The with-profits business has long been an area of focus for regulators, including: the costs charged to a with-profits fund by the firm managing the fund; penalties and charges levied on policyholders who surrender their policies early; the need for funds to be managed with the objective of ensuring that maturity payouts fall within a target range set for the fund; and the provision of information to with-profits policyholders or potential policyholders in a format that they can readily understand.

The PRA and FCA share responsibility for the supervision of with-profits business. The PRA views the regulation of with-profits business as an important element of its approach to insurance supervision. The PRA and FCA will continue to liaise on the regulation and supervision of with-profits business according to the framework set out in the with-profits Memorandum of Understanding dated 1 April 2013. The PRA seeks to ensure that any discretionary benefit allocations or other changes with financial

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implications that the insurer has proposed are compatible with its continued safety and soundness, whereas the FCA has responsibility for monitoring whether the proposed changes are consistent with the insurer's previous communications, the FCA's conduct rules and the overriding obligation to treat customers fairly. The PRA has the power to prevent allocations being made if they would materially impair the firm's safety and soundness.

Pensions

The Pensions Regulator ('TPR') is the statutory regulator for all work-based pension schemes in the UK.

Its statutory objectives are set out in the Pensions Act 2004, as amended by the Pensions Acts 2008 and 2014. These are to protect the benefits of members of occupational pension schemes; to protect the benefits of members of personal pension schemes where direct payment arrangements are in place; to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund ('PPF'); in relation to defined benefit ('DB') scheme funding only, to minimise any adverse impact on the sustainable growth of an employer; to maximise employer compliance with employer duties and the employment and pre-employment safeguards; and to promote, and to improve understanding of, the good administration of work-based pension schemes.

A memorandum of understanding between TPR and FCA sets out the arrangements for cooperation and coordination in carrying out their respective regulatory responsibilities between various Pensions Acts, FSMA 2000 and other relevant legislation.

There is a separate ombudsman, The Pensions Ombudsman, who investigates and decides complaints and disputes over the manner in which pension schemes are run, and works closely with The FOS in cases where their remit overlaps.

Regulation of investment business

Certain of Prudential's subsidiaries are authorised to carry on investment business and are subject to regulation and supervision under FSMA 2000. UK asset management can also be subject to additional regulation in other jurisdictions in which they operate. For example, certain M&G UK subsidiaries that operate outside of the UK are also subject to regulation by local regulatory authorities.

Markets in Financial Instruments Directive ('MiFID')

MiFID sets out detailed authorisation and operating conditions for investment firms and regulated markets. In October 2011, the European Commission published proposals to amend MiFID, the 'MiFID II' Directive and introduce a new Markets in Financial Instruments Regulation ('MiFIR'). Implementation of the new laws took effect from 3 January 2018, one year after the original deadline. There has been significant work done across the industry as a whole to build good practice and consistency across MiFID II for example in Product Governance.

Insurance Distribution Directive

The Insurance Distribution Directive (IDD), like MiFID II, is designed to increase consumer protection by updating its predecessor, the Insurance Mediation Directive. Both MiFID II and IDD look to enhance consumer protection via a number of common conduct topics, for example, product oversight and governance, suitability, appropriateness, conflicts of interest and inducements. The IDD was originally due to come into force on 23 February 2018. The European Commission has proposed to delay the application date of the IDD until 1 October 2018 but the delay is subject to further legislative procedure at EU level. Her Majesty's Treasury (HMT) has subsequently announced its intention not to transpose the IDD into UK national law before the delay is confirmed at EU level. This means that firms will not

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have to implement these requirements by 23 February 2018. It is anticipated that the revised application date, still expected to be 1 October 2018, will be officially confirmed around mid-March 2018.

Packaged Retail Insurance-Based and Investment Products Regulation ('PRIIPs')

In order to facilitate similar disclosure for all investment products sold to retail clients (including insurance contracts), PRIIPs Regulation requires the production of the Key Information Document ('KID') for products and allows a separate document to show information on the funds. The KID will be a short and consumer-friendly document that will give investors all the key facts and figures about a PRIIP. The PRIIPs Regulation was agreed by the European Parliament and EU Council of Ministers in March 2014 and became effective on 1 January 2018. The relevant entities of M&G Prudential to which PRIIPs apply have implemented the requirements.

Advising on Pension Transfers

On 21 June 2017, the FCA published proposed changes to its rules and guidance on advising on pension transfers. The aim of the proposals is to improve consumer outcomes through improving the quality of advice on pension transfers. Final rules are expected in March 2018.

Retirement Outcomes Review

In July 2017 the FCA published its interim report from its Retirement Outcomes Review. It sets out its findings within the sector and has invited feedback from the industry on several potential remedies. They include default investment pathways and a charge cap for non-advised drawdown, removing the requirement to take benefits from a plan to access the tax free cash element and mandating the use of a summary cost indicator in customer communications. The final report is expected in the second quarter of 2018.

European Market Infrastructure Regulation ('EMIR')

The Regulation of the European Parliament and of the Council on OTC derivative transactions, central counterparties ('CCPs') and trade repositories, widely known as European Market Infrastructure Regulation, ('EMIR'), came into force on 16 August 2012, with its key provisions taking effect on a phased basis. Full implementation is expected to be achieved by the end of 2020. EMIR's rules are intended to lessen risk and increase transparency within the OTC derivative markets by introducing for most counterparties: (i) a reporting obligation for all derivatives; (ii) a clearing obligation for eligible OTC derivatives; (iii) measures to reduce counterparty credit risk and operational risk for bilaterally traded OTC derivatives, including through collateral requirements; (iv) common rules for CCPs and for trade repositories; and (v) rules on the establishment of interoperability between CCPs. Funds may have to hold more eligible collateral (cash and government bonds) in order to post initial margin.

The relevant EU-domiciled Prudential Group entities have implemented the necessary changes to comply with EMIR requirements currently in effect, including the start of reporting practices and measures to reduce risk for bilaterally traded OTC derivatives. The clearing obligation for certain interest-rate derivatives applied to Prudential Group entities and a few M&G funds from 21 December 2016 and mandatory two-way variation margin has been posted on non-cleared OTC derivatives since 1 March 2017.

Regimes for the exchange of tax information

Financial institutions in the UK are increasingly being required to provide certain information about their customers, or persons who control their customers, to HMRC. This is due to the introduction and domestic implementation of various international reporting and transparency regimes, including FATCA, the OECD's Common Reporting Standard (the 'CRS') and the EU Directive on administrative cooperation

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in the field of taxation (the 'DAC'). The information obtained by HMRC may be exchanged with tax authorities in other countries. The obligations of UK financial institutions to report information to HMRC for the purposes of FATCA, the CRS and the DAC are set out in the International Tax Compliance Regulations 2015 (SI 2015/878) (the "International Tax Compliance Regulations").

For further information about the impact of FATCA, please see 'US Supervision and Regulation Implementation of US Foreign Account Tax Compliance Act ('FATCA') provisions' below.

The UK Criminal Finances Act 2017 created two new corporate criminal offences for corporates which fail to prevent the facilitation of tax evasion. Prudential has taken measures to ensure it is in compliance with the Act.

Asian supervision and regulation

1. Regulators, Laws and Major Regulations of Insurance Business

Prudential's businesses in Asia are subject to all relevant local regulatory and supervisory schemes. These laws and regulations vary from country to country, but it is the local regulators that typically grant (or revoke) licenses and therefore control the ability to operate a business.

The regulatory environment continues to evolve in Asia, where economies in the region are in various phases of maturity. In general (though there are exceptions), regulators in developing economies continue to build the regulatory framework relevant to their level of economic development. This increased regulatory pressure will continue to affect Prudential's Asian businesses.

In general, regulatory regimes will include features governing the registration of agents, regulation of product features, approval of products, asset allocation, minimum capital, the basis for calculating the company's solvency and reserves, the valuation of policyholder liabilities, conditions for outsourcing functions, corporate governance risk management, policyholder and investor protection, as well as anti-money laundering ('AML') and sanctions, 'know your client' requirements and data protection requirements. Regulatory authorities may also regulate affiliations with other financial institutions, shareholder structures and the injection of capital and payment of dividends. Financial statements and other returns are filed with the regulators. A number of jurisdictions across Asia require insurance companies to participate in policyholder protection schemes (ie contribute to a fund to support policyholders in the event of an insurance company failing).

The increasingly extraterritorial approach of certain regulators outside Asia, aimed among other things at protecting financial systems from systemic risks and curbing tax avoidance, could have wider consequences on financial groups in the Asia-Pacific region. For example, financial institutions are required to comply with new tax information exchange/disclosure regulations or standards with extraterritorial reach such as the US Foreign Account Tax Compliance Act ('FATCA') provisions' below and the Organisation for Economic Co-operation and Development's Common Reporting Standard ('CRS') which aims to increase global tax transparency and improve international tax compliance. Significant changes to business processes and systems are required by Prudential's businesses in Asia in order to comply with the new requirements to identify and report on non-local tax residents. The effects of anti-bribery legislation in the UK, US and elsewhere have also become increasingly significant outside of such legislations' home jurisdictions. Prudential Corporation Asia's ('PCA's') business units are required to adhere to Prudential's group-wide policy designed to comply with the EU Solvency II requirements. In addition, where applicable, the local businesses shall also follow the local risk based capital (RBC) requirements, some of these RBC frameworks follow similar principles of those of the Solvency II.

Conduct of Business and Consumer Protection continue to be a key priority for regulators in Asia. The focus continues to be on product design, commission structure, marketing literature and sales processes, and agency business models.

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Significant additional details of the regulatory regimes to which PCA's insurance operations are subject are discussed below:

Indonesia PT. Prudential Life Assurance

PT. Prudential Life Assurance is authorised to carry on long-term (ie for an indefinite period) insurance business in Indonesia. Prudential's operations in Indonesia are authorised to distribute life insurance products based on either conventional or Shariah principles, through agency and bancassurance (including direct marketing) channels.

The Otoritas Jasa Keuangan ('OJK') is the regulator responsible for supervising the banking industry, capital markets and insurance industry. The financial regulatory regime in Indonesia operates on a 'twin peaks' model with the OJK responsible for microprudential supervision and Bank Indonesia ('BI') retaining its macroprudential responsibilities. The implementation of AML controls in the insurance industry is monitored by the Indonesian Financial Transaction Reports and Analysis Center (or Pusat Pelaporan dan Analisis Transaksi Keuangan in Indonesian (the 'PPATK')).

Law No. 40 of 2014 on Insurance which was enacted on October 17, 2014 is the principal legislation relating to insurance business (Insurance Law). Pursuant to Law Number 40, year 2014, the Government plans to issue new regulations regarding foreign ownership in insurance companies. Pending the enactment of any new regulation, the maximum foreign ownership in insurance companies is subject to the provisions under the old insurance law.

Singapore Prudential Assurance Company Singapore (Pte.) Limited

Prudential Assurance Company Singapore (Pte.) Limited is registered by the Monetary Authority of Singapore (the 'MAS') to design and sell both life and accident and health insurance products pursuant to the Insurance Act and Financial Advisers Act.

Under the Insurance Act, the MAS is responsible for insurance regulation and supervision of insurance companies. MAS regulation covers, *inter alia*, product development, pricing and management of insurance products, market conduct standards, investments undertaken, public disclosure requirements, reinsurance management, maximum representatives tier structure, loans and advances and product disclosure. The MAS also issues directions and regulations for the prevention of money laundering and to counter financing terrorism; this is in addition to the general AML law under which suspicious transactions must also be notified to the Commercial Affairs Department, an enforcement agency of the Singapore Police Force.

In addition, the Singapore Financial Adviser Act gives the MAS the authority to regulate and supervise all financial advisory activities conducted by insurance companies. MAS regulation covers, among other things, the appointment and training of representatives, disciplinary action, mandatory disclosure to clients, sales and recommendations process on investment products, replacement (switching) of investment products and fair dealings with customers. Mandatory disclosure to clients covers both product information and basic data about the representatives and the firm.

The MAS has implemented regulations to give effect to the policy proposals under the Financial Advisory Industry Review ('FAIR') with the aim of raising the standards and professionalism of the financial advisory industry and enhancing the market efficiency of the distribution of life insurance and investment products in Singapore. FAIR introduced the balanced scorecard remuneration framework that rewards the provision of quality advice in order to align the interests of representatives with that of customers. A direct channel was also required of each insurance company, through which basic insurance products can be purchased without incurring commissions. A web aggregator to enhance comparability amongst life insurance products has also been launched.

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In addition, the Central Provident Fund (the 'CPF') Board acts as a trustee of social security savings schemes jointly supported by employees, employers and the government. The CPF Board regulates insurers in the operation of various CPF schemes including the CPF Investment Scheme where CPF monies are used by policyholders to purchase insurance policies such as annuities and investment linked policies.

The MAS has detailed regulatory frameworks to govern insurance companies and the distribution of insurance products in Singapore.

Hong Kong

Prudential currently operates two subsidiaries, Prudential Hong Kong Limited ('PHKL') and Prudential General Insurance Hong Kong Limited ('PGHK'), to manage separately the life and general businesses. Both entities' market conduct is regulated by the relevant regulators in Hong Kong.

The newly established Hong Kong Insurance Authority (HKIA) officially commenced operations on 26 June 2017, taking over from the Office of the Commissioner of Insurance which was disbanded on the same day. The HKIA is responsible for administering the Insurance Ordinance. Its objectives are to: modernise the insurance industry regulatory infrastructure to facilitate the stable development of the industry, provide better protection for policyholders and comply with the requirements of the 'IAIS' insurance regulators should be financially and operationally independent from the government and industry. The intention is for HKIA to be more independent of the government than the Office of the Commissioner of Insurance (OCI). It has a long-term aim to be funded independently of government and a new policyholder levy of 0.1% of insurance premium will begin on 1 January 2018, subject to a cap of HKD 100 on long term insurance policies and HKD 5,000 on general insurance policies.

HKIA will be around twice the size of OCI and it will have additional investigatory powers such as the right to enter an insurer's premises and take copies of records and documents without warrant. A separate team has been created for investigations which is expected to make greater use of data analysis than OCI. HKIA will also take over licencing from Insurance Agents Registration Board (IARB) in 2018.

The sale of mandatory pension products by agents is regulated by the Mandatory Provident Fund Authority which licenses and supervises the conduct of MPF intermediaries, and the Securities Futures Commission.

In February 2016, the State Administration of Foreign Exchange in China enforced a limit (that was put in place in 2011) on the use of UnionPay bank cards, Visa and Master Card issued by China domestic banks to purchase insurance products overseas; each transaction is capped at USD 5,000. Since November 2016 UnionPay bank cards are not allowed to be used to pay premiums for insurance products with investment-related contents.

Malaysia Prudential Assurance Malaysia Berhad

Prudential Assurance Malaysia Berhad ('PAMB') carries out life insurance business in Malaysia.

The Bank Negara Malaysia ('BNM') is the central bank of Malaysia and is the regulatory body responsible for supervising and regulating the financial services sector, including the conduct of insurance and Takaful (insurance that is compliant with Islamic principles) business. BNM places considerable emphasis on fair market conduct by the insurance industry and protection of consumers' interests and is also responsible for administering legislation in relation to AML matters. BNM has the power to enforce sanctions on financial institutions.

In addition, PAMB is a member of the Life Insurance Association of Malaysia ('LIAM'), a self-regulatory body. Resolutions and circulars issued by LIAM are binding on the member insurance companies.

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The Financial Services Act 2013 ('FSA') is the principal legislation governing insurance businesses in Malaysia. The FSA provides for the regulation and supervision of financial institutions, payment systems and other relevant entities and the oversight of the money market and foreign exchange market to promote financial stability and for related, consequential or incidental matters. Under the FSA, insurers holding composite licenses are prohibited from carrying out both general and life insurance businesses. Consequently, PAMB sold off its general insurance portfolio to another insurer in 2017. Further, the FSA covers, among other things provisions for licensing of insurers, prudential requirements, corporate governance, management of insurance funds, financial holding companies, business conduct and consumer protection, and powers granted to BNM for enforcement and supervision, The FSA also places greater accountability on the board of directors and senior management in their management and oversight of an insurer.

BNM issued the Life Insurance and Family Takaful Framework ('LIFE Framework') in November 2015. The LIFE Framework aims to promote innovation and a more competitive market supported by higher levels of professionalism and transparency in the provision of insurance and Takaful products and services. This will be achieved through specific initiatives introduced under the 3 Pillars of the LIFE Framework.

Under Pillar 1, limits on operational costs will gradually be removed to promote product innovation while preserving policy value.

Under Pillar 2, distribution channels will be widened. Life insurance/family Takaful products will be accessible to consumers through a wide range of delivery channels that are most convenient and appropriate.

Under Pillar 3, market conduct in general will be strengthened to enhance consumer protection. The level of professionalism of intermediaries is proposed to be enhanced so as to ensure consumers are given proper advice.

The LIFE Framework is being implemented by BNM in phases between 1 December 2015 to 1 January 2019, to take into account the current state of readiness of the life insurers, family Takaful operators and intermediaries, and the level of consumer awareness and literacy.

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 can facilitate consolidation and rationalisation of the Malaysian insurance market.

Malaysia (Takaful business) Prudential BSN Takaful Berhad

Prudential BSN Takaful Berhad ('Prudential Takaful') (a Prudential joint venture with Bank Simpanan Nasional) was one of the first overseas insurers to be granted a domestic Takaful License in Malaysia.

The Takaful business in Malaysia is also regulated by BNM. In addition, Prudential Takaful is also a member of the Malaysian Takaful Association ('MTA'), an association for Takaful operators that seeks to improve industry self-regulation through uniformity in market practice and to promote a higher level of co-operation.

Takaful in Malaysia is considered to be part of mainstream mercantile law, and is subject to the civil court structure at the federal level. It is not regulated by Shariah law in Shariah courts as the Shariah courts do not deal with commercial transactions. However, the operations of a Takaful Operator ('TO') must conform to the rules and requirements of Shariah as regulated in the Islamic Financial Services Act 2013 ('IFSA'), which came into effect from 30 June 2013, repealing the earlier Takaful Act 1984. The IFSA provides a comprehensive legal framework that is fully consistent with Shariah in all aspects of regulation and supervision, from licensing to the winding-up of an institution. The IFSA is similar to the FSA issued for conventional insurers.

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The IFSA recognises the BNM's Shariah Advisory Council ('SAC') as the sole authority on Shariah matters. As the reference body and advisor to BNM on Shariah matters, the SAC is also responsible for validating all Takaful products to ensure their compatibility with Shariah principles. A TO is also required to establish a Shariah Committee, approved by BNM, to which the SAC will give guidance and advice on operations and business activities. BNM has also issued a specific Shariah Governance Framework that prescribes governance arrangements for Islamic Financial Institutions, including TOs.

The BNM's LIFE Framework referred to in the subsection above also impacts on the family Takaful industry.

Vietnam Prudential Vietnam Assurance Private Limited

Prudential Vietnam Assurance Private Limited ('PVA') is licensed and regulated by the Ministry of Finance of Vietnam (the 'MoF') as a life insurance company. An insurance company is not permitted to operate both life and non-life insurance at the same time, except in the case of a life insurance company that offers personal health and protection care insurance as a supplement to life insurance.

The Insurance Supervision Authority of the MoF specifically undertakes the supervision of insurance companies. The fundamental principles of the operation of insurance companies are set out in the Insurance Business Law.

AML controls in the insurance industry are monitored by the Anti-Money Laundering Department under the Banking Inspectorate and Supervision Department of the State Bank of Vietnam.

Thailand Prudential Life Assurance (Thailand) Public Company Limited

Prudential Life Assurance (Thailand) Public Company Limited ('PLT') holds a life insurance license and is authorised to offer life insurance products. This also includes an authorisation to offer products with an investment linked feature.

PLT is regulated and supervised by the Office of Insurance Commission ('OIC'), the independent regulatory organisation handling day-to-day insurance business affairs and reporting to the Ministry of Finance. The OIC has the power to manage and supervise insurance companies, protect insured persons and the general public, implement policies with respect to insurance funds, and regulate the professional conduct, qualifications and licensing of insurance brokers, agents and actuaries.

In respect of AML, all life insurance businesses are also regulated by the Anti-Money Laundering Office ('AMLO'), the authority responsible for enforcement of the Anti-Money Laundering Act, B.E. 2542 (1999). AMLO is an independent governmental agency and all suspicious transaction reporting is to be made to the AMLO.

In October 2017, OIC issued draft amendments to Life Insurance Act, which proposed new/amended provisions for the regulation of electronic transactions and to increase supervision of agents and brokers.

India ICICI Prudential Life Insurance Company Limited

ICICI Prudential Life Insurance Company Limited (an associate in which Prudential has a 26 per cent share and the major shareholder is ICICI Bank Limited) is authorised to carry out long-term life insurance business in India.

The Insurance Regulatory & Development Authority of India ('IRDA') is the regulator for insurance business in India. The IRDA's duties include issuing certificates of registration to insurance companies, protecting the interests of policyholders, and regulating, promoting and ensuring the orderly growth of the insurance industry.

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The principal legislation for insurance business is the Insurance Act 1938. Regulations and guidelines on specific matters have also been published to fulfil the purposes of the Insurance Act and to provide rules and norms for conduct of operations. In relation to AML and counter financing of terrorism ('CFT') requirements, insurers must also adhere to requirements of the Prevention of Money Laundering Act 2002 and specific guidelines issued by the IRDA in this regard. The Financial Intelligence Unit-India ('FIU-IND') is entrusted with the responsibility of receiving cash/suspicious transaction reports, analysing them and, as appropriate, disseminating valuable financial information to intelligence/enforcement agencies and regulatory authorities.

China CITIC-Prudential Life Insurance Company Limited

CITIC-Prudential Life Insurance Company Limited (Prudential's joint venture with CITIC in which Prudential has a 50 per cent share) is authorised to conduct life insurance business in China. To date, CITIC-Prudential Life has business across China including the key markets of Guangdong, Beijing, Shanghai, Shenzhen, Hubei, Shandong, Zhejiang, Jiangsu, Tianjin, Guangxi, Fujian, Hebei, Liaoning, Shanxi, Henan and Sichuan.

The body responsible for regulation of the insurance sector is the China Insurance Regulatory Commission ('CIRC'). CIRC reports directly to the State Council. CIRC is authorised to conduct the administration, supervision and regulation of the Chinese insurance market, and to ensure that the insurance industry operates in a stable manner in compliance with the law. CIRC also has local offices in all 41 provinces and selected direct administrative cities and regions across the country, which set and administer implementation rules and guidelines in the application of the regulations introduced by CIRC.

CIRC has focused specific attention on the area of risk prevention, with five identified lines of defence against risks, namely; internal management and control systems, supervision of solvency adequacy, on-site inspection, fund management regulation and insurance security fund. In response to the global financial crisis, more importance has been attached to the supervision of internal control systems, corporate governance, and market conduct and information disclosure by insurance companies.

The People's Bank of China ('PBOC') is entrusted with responsibility and authority to regulate all anti-money laundering activities in China and has actively been developing rules and guidance, requiring insurance companies to abide by the PRC's main AML law and regulations in connection with capital investment, transfers and set-up of new branches, as well as specifying senior management's responsibilities on AML.

Philippines Pru Life Insurance Corporation of UK

Pru Life Insurance Corporation of UK is licensed in the Philippines as a life insurance company and is also permitted to offer health, accident and disability insurance.

The Insurance Code of the Philippines, as amended ('Insurance Code'), gives the power to supervise and regulate the operations and business of insurance companies to the Insurance Commission ('IC'). The IC is a government agency under the Department of Finance, and is headed by the Insurance Commissioner. IC regulation and supervision seeks, amongst other things, to ensure that adequate insurance protection is available to the public at a fair and reasonable cost and to ensure the financial stability of the insurance industry so that all legitimate claims of the insured public are met promptly and equitably, and to safeguard the rights and interests of the insured.

The implementation of AML controls for both in the insurance and the banking industries is monitored by the Anti-Money Laundering Council ('AMLC') where all covered transactions under the Anti-Money Laundering Act of 2001 ('AMLA') are to be reported to AMLC.

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Taiwan PCA Life Assurance Company Limited

PCA Life Assurance Company Limited is licensed to conduct life insurance business in Taiwan.

The Financial Supervisory Commission ('FSC') is responsible for regulating the entire financial services industry, including the banking, securities and insurance sectors. The FSC's responsibilities include supervision, examination and investigation. The Insurance Bureau ('IB') under the FSC acts as the executive supervisory authority for the FSC and is responsible for the insurance sector, while the Financial Examination Bureau (the 'FEB') principally carries out examinations and on-site visits of all financial institutions, including insurance companies, generally every two years.

The Anti-Money Laundering Division ('AML'D') as part of the Investigation Bureau under the Ministry of Justice is responsible for supervision of AML and counter financing of terrorism ('CFT') efforts.

Cambodia Prudential (Cambodia) Life Assurance Plc

Prudential (Cambodia) Life Assurance Plc received its full operating licence from the Ministry of Economy and Finance (MEF) on 31 December 2012 and started selling life insurance policies in January 2013.

The Insurance and Pension Department of the General Department of Financial Industry, a division of the MEF, is the insurance regulator.

Insurance activities are principally governed under the Insurance Law, which came into effect in 2000 (and was further amended in 2014) and the Sub-Decree on Insurance, which was adopted by the Government in September 2001. The MEF has also published specific guidelines on aspects of insurance operations and corporate governance.

Laos Prudential Life Assurance (Lao) Company Limited

Prudential Life Assurance (Lao) Company Limited received its insurance business operating licence from the Ministry of Finance ('MOF') on 5 April 2016 and commenced life insurance operations in the country in May 2016.

Insurance supervision comes under the purview of the MOF. The insurance regulatory framework is based on the Law on Insurance dated 21 December 2011 and the Ministerial Instruction on Implementing the Law on Insurance dated 19 February 2014.

2. Regulation of investment and funds businesses and other regulated operations

Prudential conducts investment and fund businesses through subsidiaries or joint ventures ('JV') in Asia through Eastspring Investments: Hong Kong, Japan, Korea, Taiwan, The People's Republic of China, India, Singapore, Malaysia, Vietnam and Indonesia. Eastspring Investments also has a presence in Luxembourg, the US and the UK. All operations are authorised and licensed by the relevant authorities. Depending on the licensing regime in the respective countries, Eastspring entities are generally authorised to conduct fund/investment management and investment advisory activities for both retail and institutional funds. In addition, two of the JV companies are licensed to provide Trust services to funds.

The relevant authorities generally have broad supervisory and disciplinary powers, including the power to set minimum capital requirements, to temporarily or permanently revoke the authorisation to carry on regulated business, to suspend registered employees/licensed representatives, and to invoke censures and fines for both the regulated business and its registered employees/licensed representatives. Although the detailed regulations vary, common features of the regulatory regimes in each jurisdiction tend to include investment restrictions, advertising codes, requirements on treating customers fairly, disclosure requirements in prospectuses and/or marketing materials, requirements to seek unit holders'

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approvals in certain instances, provision of financial statements and other periodic disclosures to regulators and audits by regulators.

In general, regulators across Asia have introduced various regulations aimed at improving the overall standards of the financial industry to be in line with international standards. The common focus among the different regulators remains on Anti-Money Laundering / Know Your Customers, customer protection, increasing management accountability and fund risk management. In Europe, regulators' focus is on the protection of client interest and data as well as improving market transparency.

Looking ahead to 2018, Asian regulators in Singapore, Hong Kong, Japan, Korea and Indonesia have all set up initiatives to encourage the development of financial technology as well as the use of new technology to facilitate the delivery of regulatory requirements or solutions. While Fintech/ Regtech is generally viewed as a tool to improve efficiency in business processes / compliance monitoring processes, regulators have also embraced the use of technology to collect more data and potentially can increase the level of scrutiny on the industry. For example, MAS has set up the Data Analytics Group to enable more efficient supervision of regulatory compliance.

Key regulators and licences for the Eastspring businesses in Asia are as follow:

Indonesia

PT Eastspring Investments Indonesia ('Eastspring Indonesia') is licensed as an Asset Management Company. It is regulated and supervised by the OJK and operates under the Law of Indonesian Capital Market and the corresponding regulations issued by OJK.

Singapore

Eastspring Investments (Singapore) Limited ('Eastspring Singapore') is regulated by the MAS. The Company holds a Capital Markets Services Licence under the Securities and Futures Act to conduct the following regulated activities: (a) fund management; and (b) dealing in securities. Eastspring Singapore is also an exempt financial adviser under the Financial Advisers Act, Cap 110 ('FAA').

Eastspring Singapore also holds other registrations outside of Singapore, including the Registered Investment Adviser with the Securities and Exchange Commission in the United States and the Renminbi Qualified Foreign Institutional Investors ('RQFII') with the China Securities Regulatory Commission in China.

Eastspring Singapore is the appointed fund manager and global distributor of the Luxembourg SICAV funds. As such UCITS and MiFID II are both relevant.

Hong Kong

Eastspring Investments (Hong Kong) Limited ('Eastspring HK') is licensed with the Hong Kong Securities and Futures Commission ('HKSF') and authorised to deal in and advise on securities and undertake asset management activities in Hong Kong. It also holds a QFII license issued by the China Securities Regulatory Commission ('CSRC') and the State Administration of Foreign Exchange ('SAFE'). The company is also registered with the Korea Financial Supervisory Service (KFFS) as an offshore investment advisor for investment advisory business and investment discretionary management business.

Malaysia

Eastspring Investments Berhad holds a Capital Markets Services License to conduct regulated activities in fund management and dealings in securities restricted to unit trust.

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Eastspring Al-Wara' Investments Berhad carries on Islamic asset management business to manage Shariah compliant mandates and holds a Capital Markets Services License to conduct regulated activities in fund management.

Both companies are regulated by the Securities Commission Malaysia.

Vietnam

Eastspring Investments Fund Management Company ('Eastspring Vietnam') is regulated by the State Securities Commission of Vietnam. Eastspring Vietnam is licensed to engage in investment management business and investment advisory business under the Securities Law.

India

ICICI Prudential Asset Management Company Limited is licensed to act as the Portfolio Manager under the Securities and Exchange Board of India ('SEBI') (Portfolio Managers) Regulations, 1993. It is acting as an Investment Manager of the schemes of ICICI Prudential Mutual Fund, ICIC Prudential Venture Capital Fund and Alternative Investment Funds which are registered with the SEBI.

South Korea

Eastspring Asset Management Korea Co. Ltd. ('Eastspring Korea') is regulated by the Financial Supervisory Committee ('FSC') and the Financial Supervisory Services ("FSS").

As a licensed Collective Asset Management Company (including professional private collective investment) and Discretionary and Advisory Asset Management Company, Eastspring Korea operates open/close ended funds management business and Institutional clients (such as Pooled funds, and various insurance companies) mandates management business.

China

CITIC-Prudential Fund Management Company Limited is regulated by the China Securities Regulatory Commission and holds a licence for mutual funds, Discretionary Asset Management products, Qualified Domestic Institutional Investors products and advisory services.

The legislative framework of China's fund industry comprises the China Securities Investment Funds Law and a set of ancillary regulations.

On 5 March 2018, a new investment management wholly-foreign owned enterprise (IM WFOE) has been established in China. The IM WFOE will allow Eastspring to operate an onshore investment management business in China, subject to registration of the IM WFOE with the Asset Management Association of China (AMAC) as a Private Fund Manager. Once the registration is complete, Eastspring will be able to manage and distribute private funds to qualified clients in China.

Japan

Eastspring Investments Limited ('Eastspring Japan') is registered with the Kanto Local Finance Bureau which is under the Financial Services Agency ('JFSA') to engage in (a) type II financial instruments business, (b) investment management business, (c) investment advisory & agency business under the Financial Instruments and Exchange Act ('FIEA'). Eastspring Japan is regulated and supervised by the JFSA for its day-to-day operations, including filing/ reporting.

Luxembourg

Eastspring Investments (Luxembourg) S.A. ('Eastspring Lux'), was incorporated on 20 December 2012 under the laws of the Grand Duchy of Luxembourg and is regulated by Chapter 15 of the law of

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17 December 2010 on undertakings for collective investment. Since September 30, 2013 Eastspring Lux is operating a branch in the UK, as authorised by both the Commission du Secteur Financier (the 'CSSF') and the Financial Conduct Authority (the 'FCA').

United States

Eastspring Investments Incorporated ('Eastspring US') is registered with the US SEC as a registered investment adviser under the Investment Advisers Act of 1940 in January 2014.

Taiwan

Eastspring Securities Investment Trust Co. Ltd. ('Eastspring Taiwan') is incorporated in Taiwan under the supervision of the Financial Supervisory Commission ("FSC"). The company holds licenses for launching and selling securities investment trust funds, and discretionary asset management.

US supervision and regulation

Overview

Prudential conducts its US insurance activities through Jackson, a life insurance company licensed to transact its insurance business in, and which is subject to regulation by and supervision of, the District of Columbia, and 49 of the 50 states. Jackson operates a subsidiary, Jackson National Life Insurance Company of New York, in the state of New York. The extent of regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurance companies, including standards of solvency, reserves, reinsurance and capital adequacy and business conduct. In addition, statutes and regulations usually require the licensing of insurers and their agents and the approval of policy forms and related materials. The statutes and regulations of a US insurance company's state of domicile (Michigan, in the case of Jackson) also regulate the investment activities of insurers.

Insurance regulatory authorities in all the jurisdictions in which Jackson does business require it to file detailed quarterly and annual financial statements, and these authorities have the right to examine Jackson's operations and accounts. In addition, Jackson is generally subject to US federal and state laws and regulations that affect the conduct of its business, as well as similar laws and regulations in Canada and the Cayman Islands. New York and Michigan require their state insurance authorities to conduct an examination of an insurer under their jurisdiction at least once every five years. In 2016, both Michigan and New York completed examinations for the three years ended 31 December 2014 with no material findings or issues.

Jackson has historic small books of business in places such as the Cayman Islands, Puerto Rico, Guam and Argentina and the business is being managed in run-off. In addition, Jackson acquired some policies in Canada as a result of its acquisition of Reassure America Life Insurance Company (REALIC) in 2012.

Jackson's ability to pay shareholder dividends is limited under Michigan insurance law. The Director of the Michigan Department of Insurance & Financial Services (the 'Michigan Director of Insurance') may limit, or not permit, the payment of shareholder dividends if it determines that an insurer's surplus, with regard to policyholders, is not reasonable in relation to its outstanding liabilities and is not adequate to meet its financial needs, as required by Michigan insurance law. Unless otherwise approved by the Michigan Director of Insurance, dividends may only be paid from earned surplus.

State regulators also require prior notice or regulatory approval of changes in control of an insurer or its holding company and of certain material transactions with affiliates. Under New York and Michigan insurance laws and regulations, no person, corporation or other entity may acquire control of an insurance company or a controlling interest in any parent company of an insurance company unless that person, corporation or entity has obtained the prior approval of the regulator.

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Guaranty associations and similar arrangements

Each of the 50 states of the United States, the District of Columbia and the Commonwealth of Puerto Rico have laws requiring insurance companies doing business within their jurisdictions to participate in various types of guaranty associations or other similar arrangements. Guarantee funds in 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 National Association of Insurance Commissioners ratios

On the basis of statutory financial statements that insurers file with state insurance regulators, the National Association of Insurance Commissioners ('NAIC'), in connection with the Insurance Regulatory Information System, annually calculates 12 financial ratios to assist state regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark and departure from the usual range on four or more of the ratios can lead to inquiries from individual state insurance departments. The usual range of results is established by the NAIC for each ratio from studies of the ratios for companies that have become insolvent or have experienced financial difficulties in recent years. As at 31 December 2017, Jackson had no material ratios that fell outside the usual range.

Policy and contract reserve sufficiency analysis

State insurance laws require life insurance companies to conduct an annual analysis of the sufficiency of its life and annuity reserves. A qualified actuary must submit an opinion that states that the reserves, when considered in the light of the assets that an insurance company holds with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurance company. If a qualified actuary cannot provide such an opinion, then the insurance company must set up additional reserves by moving funds from surplus. The 2017 opinion has been submitted to the Michigan Department of Insurance & Finance Services without any qualifications.

Jackson's capital and surplus

Michigan insurance law requires Jackson, as a domestic life insurance company, to maintain at least US\$7,500,000 in unimpaired capital and surplus. In addition, insurance companies are required to have sufficient capital and surplus to be safe, reliable and entitled to public confidence.

As a licensed insurer in the District of Columbia and every state but New York, where it operates through a subsidiary, Jackson is subject to the supervision of the regulators of each jurisdiction. In connection with the continual licensing of Jackson, regulators have discretionary authority to limit or prohibit the new issuance of business to policyholders when, in their judgment, the regulators determine that such insurer is not maintaining minimum surplus or capital or if the further transaction of business will be hazardous to policyholders.

As a Michigan domiciled insurer, Jackson is subject to a prescribed accounting practice which under certain circumstances, allows an insurer to include the 'value of business acquired' as an admitted asset in excess of the amount allowed under NAIC guidance. At 31 December 2017, as a result of the acquisition of REALIC, Jackson admitted US\$229.3 million of value of business acquired in excess of the amount allowed under NAIC guidance.

Jackson has received approval from the Michigan Department of Insurance & Financial Services regarding the use of a permitted accounting practice. This permitted practice allows 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. The permitted practice expires 1 October 2018, unless

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extended by the Michigan Director of Insurance. The effects of this permitted practice may not be considered by the company when determining the surplus available for dividends, nor the nature of dividends as ordinary or extraordinary. As at 31 December 2017 and 2016, the effect of the permitted practice decreased statutory surplus by US\$480.2 million and US\$413.0 million, net of tax, respectively. The permitted practice had no impact on statutory net income.

The NAIC is currently conducting a "Variable Annuity Statutory Reserve and Capital Reform" initiative with the aim of reducing the noneconomic volatility in the variable annuity statutory balance sheet and risk management. Following a quantitative impact study, changes have been proposed to the current framework and were exposed for public comment until early March 2018.

Risk-based capital

The NAIC has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies report on a risk-based capital formula standard that they calculate by applying factors to various asset, premium and reserve items and separate model based calculations of risk associated primarily with variable annuity products. The risk-based capital formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk, market risk and business risk. The NAIC designed the formula as an early warning tool to identify potentially inadequately capitalised companies for the purposes of initiating regulatory action.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Michigan Department of Insurance & Financial Services takes into account the NAICs' risk-based capital standards to determine compliance with Michigan insurance law.

At 31 December 2017 Jackson's total adjusted risk-based capital substantially exceeded all applicable regulatory thresholds under Michigan's version of the model act.

The NAIC is currently reviewing a number of components of the risk-based capital framework to reflect more current modelling of asset risk (C-1 factors), tax reform (various components), operational risk and other items. Efforts are underway on these items, but an implementation date has not yet been set.

Regulation of investments

Jackson is subject to state laws and regulations that require diversification of its investment portfolio, limit the amount of investments in certain investment categories, such as below investment grade fixed income securities, common stock, real estate and foreign securities, and forbid certain other types of investments altogether. Jackson's failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated by the Michigan Director of Insurance non-qualified assets for purposes of measuring surplus and, in some instances, the Michigan Director of Insurance could require divestiture of non-qualifying investments.

Implementation of US Foreign Account Tax Compliance Act ('FATCA') provisions

US federal tax legislation and rules, including those relating to the insurance industry or insurance products, can have a significant impact on Prudential's business. Tax legislation and rules, and their interpretation may change, possibly with retrospective effect, and proposals that would affect such changes are debated periodically by the US Congress.

FATCA requires Foreign Financial Institutions ('FFI's) (such as Prudential plc and many of its subsidiaries) to identify US customers and report certain information on accounts held by US persons and US-owned foreign entities, to either their domestic tax authority (where there is an appropriate intergovernmental

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agreement in place) for onwards transmission to the Internal Revenue Service, or directly to the IRS on an annual basis. Failure to report can lead to a 30 per cent withholding tax on certain US payments made to the FFI. The start date for implementation of the FATCA regime was 1 July 2014 with the first reports required in 2015. The 30 per cent withholding requirement applies generally with respect to US source interest, dividends and other fixed and determinable payments to persons who do not satisfy the FATCA requirements, but will not apply to payments made before 1 January 2019 to such persons with respect to gross proceeds from the disposition of property of a type that can produce US source income subject to such withholding (and, furthermore, rules for implementing the 30 per cent withholding, including on how withholding would be applied pursuant to an intergovernmental agreement, with respect to gross proceeds, have not yet been written).

The majority of countries where Prudential plc has affected subsidiaries have now entered into intergovernmental agreements with the US to simplify compliance for FFIs in those countries and minimise the risk of withholding, while still meeting the reporting obligations to the US. Prudential plc and its affected subsidiaries have established policies and procedures to ensure compliance with FATCA, including filing applicable reports.

Securities laws

Jackson, certain of its affiliates and certain policies and contracts that Jackson issues are subject to regulation under the federal securities laws administered by the SEC. The primary intent of these laws and regulations is to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations and (in the case of broker dealers) to impose capital and related requirements. Jackson may also be subject to similar laws and regulations in the states in which it provides investment advisory services, offers the products described above or conducts other securities-related activities.

Jackson National Asset Management, LLC ('JNAM') is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act. The investment companies (mutual funds) for which JNAM serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act of 1933, as amended (the 'Securities Act'), and the Investment Company Act of 1940, as amended (the 'Investment Company Act'). Certain of the mutual funds advised by JNAM underlie variable products offered by Jackson. In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product is funded under a separate account that is registered with the SEC as a unit investment trust.

JNAM is registered as a 'commodity pool operator' with the National Futures Association ('NFA') pursuant to Commodity Futures Trade Commission ('CFTC') regulations and is acting as a 'commodity pool operator' with respect to the operation of certain of the mutual funds. JNAM and the mutual funds have incurred additional regulatory compliance and reporting expenses as a result, which could reduce investment returns or harm the mutual fund's ability to implement its investment strategy.

Jackson National Life Distributors LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Jackson National Life Distributors LLC is a member firm of FINRA and is subject to FINRA's oversight and regulatory requirements.

National Planning Holdings, Inc. ('NPH') owned four retail broker dealers, including IFC Holdings, Inc. (doing business as INVEST Financial Corporation- 'INVEST'), Investment Centers of America, Inc ('ICA'), National Planning Corporation ('NPC') and SII Investments, Inc. ('SII'). These entities conducted business as securities broker-dealers, investment advisers, and insurance agencies (or affiliated with insurance agencies), and are licensed and qualified to transact business pursuant to their respective registration or

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licensure with the SEC, state securities and insurance authorities, and membership with FINRA and the Municipal Securities Rulemaking Board. NPC, SII, and ICA are also registered with the CFTC as introducing brokers, and are members of the NFA for purposes of commodities and futures trading.

On August 15, 2017, NPH announced that it had entered into an asset purchase agreement by which it has sold the covered businesses of the NPH firms to LPL Financial, LLC ('LPL'). The registered representatives and client accounts affiliated with the NPH firms have or will transition to LPL in November 2017 (for NPC and ICA) and February 2018 (for IFC and SII). Thereafter, the NPH firms will cease business operations and deregister with its regulators.

Prudential also conducts certain of its US institutional investment management activities through PPM America, Inc. ('PPM America'), which is registered with the SEC as an investment adviser under the Investment Advisers Act. PPM America serves as the investment adviser to Jackson and as the primary US institutional investment adviser for certain Prudential subsidiaries, including The Prudential Assurance Company Limited, among others. PPM America also acts as investment sub-adviser to certain US and foreign advisers affiliated with Prudential primarily for US portfolios of accounts or products sponsored or managed by such affiliates, such as US mutual funds, a UK-based pooled investment vehicle, Japanese investment trusts, funds organised under Luxembourg-based SICAVs, a South Korean investment trust fund, and Taiwanese investment trust funds for which PPM America serves as investment consultant and dealing services agent. PPM America also serves as an investment adviser to other affiliated and unaffiliated institutional clients including private investment funds, a CDO and CLOs. PPM America is currently focussed on establishing an internal distribution function to further extend its investment advisory capabilities to the institutional marketplace with separate account and institutional product offerings. The US mutual funds for which PPM America serves as adviser and sub-adviser are subject to regulation under the Securities Act and the Investment Company Act, and other similar vehicles organised outside of the US are also subject to regulation under applicable local law.

PPM America and certain of its subsidiaries are subject to various levels of regulation under federal and state securities laws that the SEC administers as well as state securities laws. In connection with providing investment advisory services to certain of its clients, PPM America may also be subject to regulation under applicable foreign laws.

To the extent that PPM America or the NPH broker-dealers manage accounts with assets of employee benefit plans, individual retirement accounts ('IRAs') or similar qualified accounts subject to the Employee Retirement Income Security Act of 1974 ('ERISA'), or the Internal Revenue Code, they may be subject to certain restrictions imposed by ERISA or the Internal Revenue Code. Such restrictions are summarised in 'Employee Benefit Plan Compliance' in the section below. The US Department of Labor ('DOL') and the IRS have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

Disclosure obligations under the US Securities Exchange Act and in particular under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012

Under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, Prudential is required to disclose certain activities and those of its affiliates related to Iran and to persons sanctioned by the US under programs relating to terrorism, proliferation of weapons of mass destruction and trading with North Korea that occurred in the twelve-month period covered by this report.

Prudential's non-US affiliates have engaged in transactions with four persons sanctioned by the Office of Foreign Assets Control (OFAC) of the US Department of Treasury. These transactions were entered into in compliance with laws and regulations applicable to the relevant affiliates.

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The first individual, designated pursuant to US Executive Order 13224, took out a one-off takaful certificate (a Shariah compliant life policy) with Prudential's Malaysian insurance subsidiary in October 2011. It was discovered in March 2012 through automated checking that his name matched various sanctions lists. The policy premium has been increased to RM625 per month from RM600 per month starting October 2017 resulting from internal product re-pricing and RM 7,275 was paid for up to December 2017 (equivalent to around US\$150 and US\$1,750, respectively). The matter was reported to the Malaysian government AML and sanctions regulatory authority, the Bank Negara Malaysia Financial Intelligence Unit, in March 2012. Currently, the said policy has been frozen with no top-up, withdrawal or claims permitted, although regular premium payment is still allowed in Malaysian Ringgit. The policy is in force, with no claims submitted or any outward payments made to date.

The second individual, also designated pursuant to US Executive Order 13224, is a beneficiary of three life insurance policies in his wife's name, the first taken out in December 2010 and two others taken out in November 2011 with Prudential's Indonesian insurance subsidiary. The annual premium of the three life insurance policies is IDR 6,000,000 (approximately US\$444), IDR 12,000,000 (US\$888) and IDR 12,000,000 (US\$ 888), respectively. The matter was notified to the Indonesian governmental sanctions authority, the PPATK, in August 2012. All three policies remain in force and annual premiums are being funded by the policies' cash value. As such, there have been no premiums received and there have also been no claims or other outward payments in 2017.

The third individual, designated on 26 September 2016 pursuant to US Executive Order 13382 took out three life insurance policies between 2010 and 2013 with Prudential's Hong Kong insurance subsidiary. The matter was discovered during the periodic customer sanctions screening in December 2016 and due to the nature of the designation the client relationship was also reported to the Hong Kong Joint Financial Intelligence Unit. The annual premium of the three life insurance policies is US\$10,309, HKD4,880 (approximately US\$625) and HKD11,789 (approximately US\$1,510). There have been no premiums received since and there have also been no claims or other outward payments since the OFAC designation. One of the three policies has lapsed and the other two policies remain in force and are being funded by the policies' cash value.

The fourth individual, designated on 22 August 2017 pursuant to US Executive Order 13722 took out one insurance policy with Prudential's Hong Kong insurance subsidiary in September 2016 with an annual premium of US\$12,927. The case was discovered in September 2017 during the periodic customer sanctions screening. The client relationship was reported to the Hong Kong Joint Financial Intelligence Unit. There have been no premiums received and there have also been no claims or other outward payments since policy inception. The policy remains in force and is being funded by the policy cash value.

As the provisioning of insurance liabilities is undertaken on a portfolio basis, it is not practical to estimate the 2016 net profits on the contracts referred to above.

Prudential does not intend to engage in further new business dealings with these individuals.

In the UK, The Prudential Assurance Company Limited operates a pension scheme for employees of the UK branch of government-owned Iranian bank. A total of 36 scheme members are receiving benefits, with 27 deferred members. All members are inactive in that no member contributions are being made.

The scheme is closed to new members. Due to the long term nature of a pension scheme it is not practical to advise the net profit, but the fund value at 31 December 2017 stood at £7,830,627. In return for administering the scheme there are standard Prudential scheme charges: an annual fee of £751, plus £11 per member, £61 per quote and a Trustee Accounts charge (£1,944).

The annual invoice paid on 14 September 2017 was for £3,762 (£751 scheme fee, £396 member fees, £671 fees on quotes and £1,944 Trustee Accounts). In addition to this an Annual Management Charge of 1.25 per cent is reflected in the fund value.

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The UK governmental sanctions authority, Office of Financial Sanctions Implementation (OFSI), has been informed of this arrangement and in 2008 advised Prudential that following an analysis of the deeds, the fund is not owned, held or controlled by the Iranian bank. Payments out of the fund have been approved by OFSI through a licence. The trustees of the scheme have indicated that they may want to wind up the scheme, in which case, the existing members of the scheme may be provided with their own personal pension plans with us and we would deal with them as individual customers.

Employee benefit plan compliance

Jackson issues certain types of general account stable value products, such as Guaranteed Investment Contract ('GICs') and funding agreements, to employee benefit plans and to investment vehicles that pool the investments of such plans. Many of these plans are retirement plans that are subject to the fiduciary standards of ERISA and that are tax-qualified under the Internal Revenue Code. As such, Jackson may be subject to certain fiduciary and prohibited transaction rules imposed by ERISA and taxes imposed by the Internal Revenue Code if Jackson violates those rules. The DOL and the IRS have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

In the instance where an insurer issues a guaranteed benefit policy to a plan, ERISA provides that plan's assets include the policy and do not include the insurer's underlying assets. Accordingly, the insurer does not become a fiduciary with respect to the plan solely as a result of the issuance of the policy. Under Section 401 of ERISA, a guaranteed benefit policy means an insurance policy to the extent such policy provides for benefits the amount of which the insurer guarantees.

In 1993, in *John Hancock Mutual Life Insurance Company v. Harris Trust & Savings Bank*, the US Supreme Court held that a portion of the funds held under a certain type of general account annuity contract did not constitute a 'guaranteed benefit policy' within the meaning of ERISA, a holding which potentially exposes insurers with similar types of contracts to the application of ERISA's fiduciary and prohibited transaction provisions in connection with the management of plan assets in their general accounts.

Although no assurances can be given, Jackson believes that none of its contracts are of the type to which the Harris Trust ruling would be applicable. Moreover, the DOL has issued Prohibited Transaction Exemption 95-60, which generally exempts external, unaffiliated investment transactions from ERISA's prohibited transaction provisions. If the Harris Trust ruling is applied to its contracts, the Jackson contracts covered by the Harris Trust Ruling would be subject to ERISA's fiduciary and prohibited transaction provisions described above.

The DOL released a final version of its fiduciary rule in April 2016, with initial application from April 2017 (which was extended to June 2017) and partial implementation in January 2018. The effective date of the remaining portions of the rule was delayed until 1 July, 2019. On 15 March 2018, the U.S. Court of Appeals for the Fifth Circuit in a 2-1 decision vacated the fiduciary rule. The Rule as written, would have subjected many advisers who work with qualified retirement plans and Individual Retirement Accounts to certain of the fiduciary requirements of ERISA, including obligations to avoid conflicts of interest. Those conflict of interest rules may be incompatible with many compensation structures that have historically been permissible and resulted in product and distribution changes throughout the industry. The DOL can appeal the Fifth Circuit decision.

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

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Financial services regulatory and legislative issues

The Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank Act'), which represents a comprehensive overhaul of the financial services industry within the US, was enacted in July 2010. While the majority of the Dodd-Frank Act has been met with finalised rules, it is possible that is and/or the rules promulgated pursuant to it will be repealed, reversed, or otherwise limited if the Financial Choice Act is passed by the US Congress. It is unclear, however, whether any meaningful change is forthcoming given other priorities facing Congress and the current administration. The impact of Dodd Frank on Jackson and Prudential operations is minimal.

The Dodd-Frank Act also established the Federal Insurance Office ('FIO'). The FIO has no direct regulatory authority over US insurers, but it does have certain authority to represent the US government on prudential aspects of international insurance matters, including at the IAIS. The FIO is also authorised to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry.

The Dodd-Frank Act vests the Financial Stability Oversight Council (the 'Council') with the power to designate domestic systemically important non-bank institutions which will be subject to special regulatory supervision and other provisions intended to prevent or mitigate the impact of future disruptions in the US financial system. If Jackson is designated in the US as a systemically important non-bank institution, it may be subject to heightened prudential standards to be administered by the US Federal Reserve Board, including heightened capital, leverage and liquidity standards, risk management requirements, single counterparty credit concentration limits, resolution plans and stress tests, and potential discretionary requirements relating to contingent capital, enhanced public disclosure and short term debt limits. As discussed under the Global Regulatory Developments and trends section, Prudential Group was designated as a G-SII in July 2013, which is separate from a Dodd-Frank designation.

Dodd-Frank Act rules and guidance outlining the manner in which the Council will determine which companies should be so designated in the US were adopted in April 2012. The rules set forth a three-stage process of increasingly in-depth evaluation and analysis, drawing on both qualitative and quantitative information (but preserving significant Council discretion). Section 113 of Dodd-Frank authorises the Financial Stability Oversight Council (FSOC) to designate a non-bank financial company to be subject to supervision by the Federal Reserve and enhanced prudential standards if the company's material financial distress or the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities could pose a threat to U.S. financial stability. Three of the four companies initially designated by the FSOC under Section 113 were insurers. AIG and Prudential Financial were designated by the FSOC in 2013; MetLife was designated in 2014. In March 2016, a federal court order rescinded the FSOC designation of MetLife, which has been appealed by the FSOC and remains pending. In September 2017, the FSOC announced that it rescinded the designation of AIG.

In addition, Title VII of the Dodd-Frank Act created a new regulatory regime for certain derivatives called swaps and security-based swaps. Prudential and Jackson have determined that they are not required to register as swap dealers, security-based swap dealers, major swap participants, or major security-based swap participants under Title VII of the Dodd-Frank Act. However, CFTC regulations requiring that swaps be reported to trade repositories and, in some cases, cleared through registered central counterparties and traded on registered exchanges may apply to certain derivatives entered into by Jackson and, in some circumstances, Prudential. Similar rules for security-based swaps have been proposed, and in some cases finalised, but not yet implemented.

Under Title VII of the Dodd-Frank Act, certain derivatives instruments, including standardised interest rate swaps and index credit default swaps, are required to be cleared and traded on an exchange. While the transition to exchange-traded derivative instruments may limit counterparty risk, it may increase costs associated with such investments, including transaction and exchange fees. The standardisation of exchange-traded derivative instruments may also limit the ability of Jackson and the mutual funds to

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customise certain derivative instruments with their counterparties. Exchange-traded derivative instruments may also require Jackson and the mutual funds to post additional collateral or limit the types of collateral that may be used for such transactions. Variation margin requirements for uncleared swaps are now fully effective for all market participants, including Jackson and the mutual funds while initial margin requirements for these market participants will be phased in through September 2020, based on the notional amount of the participant's uncleared swaps. These developments may limit the ability of Jackson and the mutual funds that its subsidiaries advise to effectively deploy assets in a timely manner.

The timing and the ultimate impact on the management and operations of Prudential and the regulations promulgated, or to be promulgated, pursuant to these statutory provisions, cannot yet be definitively determined.

Proposals to change the laws and regulations governing the financial services industry are frequently introduced in the US Congress, in the state legislatures and before the various regulatory agencies. Recently, these include fiduciary or other standards of conduct under the DoL Rule, possible proposals by the SEC to define standards of conduct applicable to investment advisers and broker-dealers when they provide investment advice to retail investors, and proposals by various states to impose fiduciary obligations on brokers and insurance agents. The likelihood and timing of any proposals or legislation, and the impact they might have on Jackson, its subsidiaries, or other Prudential subsidiaries doing business in the US, cannot be determined at this time.

State legislatures and/or state insurance regulatory authorities frequently enact laws and/or regulations that significantly affect insurers supervised by such authorities. Although the US federal government does not directly regulate the insurance business, federal initiatives may also have an impact on the insurance industry. State insurance regulators, the NAIC and other regulatory bodies regularly reexamine existing laws and regulations applicable to insurance companies and their products.

Federal and state regulators have focused on the mutual fund and variable annuity and insurance product industries including the broker-dealer system. As a result of publicity relating to widespread perceptions of industry abuses, including fraudulent and anti-competitive practices among insurance brokers and mutual funds, there have been numerous regulatory inquiries and proposals for legislative and regulatory actions that could affect the operations and management of market participants. In addition, the SEC has implemented a data analytics review process, and periodically makes data requests from registered entities. It is difficult to predict at this time whether changes resulting from industry investigations and/or new laws and regulations will affect the Group's insurance or investment management businesses, and, if so, to what degree.

US tax reform

On 22 December 2017, a significant US tax reform package, The Tax Cuts and Jobs Act, was enacted into law effective from 1 January 2018. The tax reform package as a whole, which includes a reduction in the tax rate from 35 per cent to 21 per cent and a number of specific measures affecting US life insurers, is expected to be beneficial in the longer term. The 2017 impact resulted in a decrease of US\$ 810 million (£628 million) to Jackson's statutory total adjusted capital. The impact on the Group's IFRS income statement and on other comprehensive income of the US tax changes are set out in notes B4 and C8 to the consolidated financial statements.

Additional jurisdictions

The Group has also invested in businesses located in various other markets. The Group has operations in Poland, Ireland, Myanmar, Ghana, Kenya, Uganda, Zambia and Nigeria.

These developments and such incremental regulation remain immaterial at present in terms of the overall business of the Group.

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GOVERNANCE

Introduction

This report provides an explanation of the Group's governance arrangements and its activities in this area during 2017.

Good governance encourages decisions to be made in the best interests of the business, taking account of the views of stakeholders. We aim to achieve this through a responsive governance framework that supports and challenges our executives' decision making.

Effective leadership

One of the Chairman's priorities is how the Board can improve and work together even more effectively. The Board undertakes an annual review of its performance, both collectively and as individuals and uses the outcomes of these reviews to drive improvements over the coming year. The actions taken by the Board in 2017 to address the recommendations of the 2016 review are set out in the How We Operate section of this report. An external independent evaluation was conducted at the end of 2017 in order to provide shareholders with further comfort that the Board continues to operate effectively. Details of the 2017 review can be found in the How We Operate section. The review concluded that the Board's strengths included "strong leadership in a collegiate and constructive environment", "effective use of time and materials", and "strong risk and control oversight".

2017 has seen a refresh of the Board in both Non-executive and Executive roles. The changes to the Board have highlighted the strength of its succession planning activities which have allowed it to successfully navigate a number of changes without disruption. This planning has enabled the Board to recruit very high calibre candidates to the Board, with diverse skills and expertise. Succession planning has therefore been a particular area of focus during the year and the Board will continue to keep this under active review. The activities of the Nomination & Governance Committee in this respect are set out in the Governance Committees section and all changes to the Board are set out in the Board of Directors section of this report.

Risk and internal controls

Fundamental to demonstrating good governance and stewardship is having in place processes to allow the Board to make a robust assessment of the risks facing the business and those internal controls used to mitigate them. Details of the Board's approach to internal controls and risk management are set out in this report. The Audit Committee report in the Governance Committees section describes how the Committee monitors the effectiveness of the internal control and risk management systems and the Risk Committee report in the Governance Committees section sets out how that Committee has considered the Group's risk appetite.

Culture

Prudential believes that tone is set from the top and the Board and senior management must therefore exhibit the behaviours expected throughout the Group. Individual businesses are also shaping culture locally, contributing to the shared values of the Group. Under the Chairman's stewardship, the international volunteering programme, Chairman's Challenge, has grown significantly and over 8,000 colleagues offered their time and skills to supporting the community in 2017.

The Board has set itself an objective for the Group to develop a framework for a measureable, definable culture. As part of this, a risk culture survey was developed by the Risk Committee covering all businesses. The Board will continue to build on this in 2018, bringing together the many strands of initiatives around the Group.

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In December, the Board approved an updated Group Code of Conduct which introduced standards of business conduct. This clarifies expectations over employee behaviour and seeks to ensure employees understand the individual obligations that the Group imposes on them through its policies, including financial crime prevention, conflicts of interest, information security and securities dealing, public communications and social media, people related policies and confidential reporting.

Strategic projects

In 2017, the Board considered a number of strategic projects. Most notably, it announced in August 2017 the intention to merge the Group's UK asset manager, M&G, and its UK life insurance business to form M&G Prudential. The combined business manages over £330 billion in assets for more than six million customers. Further details of the merger are set out in the Strategic report. From a governance perspective, the Board and Audit Committee spent significant time considering the benefits of the transaction for shareholders and customers and the impact on its wider stakeholders.

During the year the Board also announced the sale of its broker-dealer network in the US, which was owned by its subsidiary National Planning Holdings Inc. and consisted of INVEST Financial Corporation, Investment Centres of America, Inc, National Planning Corporation and SII Investments, Inc., to LPL Financial LLC. This allows the Board to focus on its primary strategy in North America of being the leading manufacturer of retirement products.

Looking after our stakeholders

The Board continues to be aware of the impact of its decisions on all of its stakeholders. Feedback received from engaging with stakeholders helps the Board to devise and manage policies and processes.

In 2017, the Group published its first environmental, social and governance (ESG) report which gave a detailed account of its approach to ESG matters. That report explains that while serving customers is at the centre of the Group's business, other stakeholders are approached with the same sense of responsibility and commitment, from the suppliers and employees to the wider communities in which the Group operates. The Board expects to publish its next ESG report in May 2018.

Looking forward

On the governance front, of key interest will be the changes proposed to the UK Corporate Governance Code, which are set to include a range of new requirements for both behaviour and reporting. Once in place, the Board and its Committees will consider how any changes will affect the way the Board works.

On a regulatory level, the impact of International Financial Reporting Standard 17 (IFRS 17) on the Group will be further assessed following work already undertaken by the Board and Audit Committee.

Board of Directors

The Prudential Board consists of 16 directors as at 22 March 2018.

Set forth below are the names, ages, positions, business experience and principal business activities performed by the current Directors, as well as the dates of their initial appointment to the Prudential Board. This includes those Directors who joined the Board up to the date of filing. Ages are given at 22 March 2018.

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Board of Directors

Paul Manduca

Chairman

Appointment: October 2010

Committees: Nomination & Governance (Chair)

Age: 66

Relevant skills and experience

Paul has held a number of senior leadership roles. Notable appointments include serving as chairman of the Association of Investment Companies (1991 to 1993), acting as founding CEO of Threadneedle Asset Management Limited (1994 to 1999), directorships of Eagle Star and Allied Dunbar, holding the offices of European CEO of Deutsche Asset Management (2002 to 2005), global CEO of Rothschild Asset Management (1999 to 2002), chairman of Bridgewell Group plc and a director of Henderson Smaller Companies Investment Trust plc.

Other previous appointments include the chairmanship of Aon UK Limited and JPM European Smaller Companies Investment Trust Plc. From September 2005 until March 2011, Paul was a non-executive director of Wm Morrison Supermarkets Plc, including as senior independent director, audit committee chairman and remuneration committee chairman. He was also a non-executive director and audit committee chairman of KazMunaiGas Exploration & Production until the end of September 2012. During 2017, Paul stepped down as chairman and as a member of the board of Henderson Diversified Income Limited with effect from 26 April 2017 and was appointed to the board of RateSetter (Retail Money Market Limited) with effect from 1 June and as chairman from 17 July.

Paul initially joined the Board in October 2010 as the Senior Independent Director and member of the Audit and Remuneration Committees, roles he held until his appointment as Chairman in July 2012. On becoming Chairman, Paul was also appointed Chair of the Nomination & Governance Committee, having been a member of the Committee since January 2011.

Other appointments

Securities Institute

Rate Setter (Retail Money Market Limited) (chairman)

Templeton Emerging Markets Investment Trust (TEMIT) (chairman)

TheCityUK advisory council

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Michael Wells

Group Chief Executive

Appointment: January 2011

Age: 57

Relevant skills and experience

Mike has more than three decades' experience in insurance and retirement services, having started his career at the US brokerage house Dean Witter, before going on to become a managing director at Smith Barney Shearson.

Mike joined the Prudential Group in 1995 and became Chief Operating Officer and Vice-Chairman of Jackson in 2003. In 2011, he was appointed President and Chief Executive Officer of Jackson, and joined the Board of Prudential.

During his leadership of Jackson, Mike was responsible for the development of Jackson's market-leading range of retirement solutions. He was also part of the Jackson teams that purchased and successfully integrated a savings institute and two life companies.

Mike joined the Board in 2011 and was appointed Group Chief Executive in June 2015.

Executive Directors

Mark FitzPatrick CA

Chief Financial Officer

Appointment: July 2017

Age: 49

Relevant skills and experience

Mark previously worked at Deloitte for 26 years, building his industry focus on insurance and investment management globally. During this time, Mark was Managing Partner for Clients and Markets, a member of the executive committee and a member of the board of Deloitte UK. He was a vice chairman of Deloitte for four years, leading the CFO Programme and developing the CFO Transition labs. Mark previously led the Insurance & Investment Management audit practice and the insurance industry practice.

Mark joined the Board as an Executive Director and Chief Financial Officer in July 2017.

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John Foley

Chief Executive of M&G Prudential
Appointment: January 2016
Age: 61

Relevant skills and experience

John spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury of the combined TSB and Hill Samuel Bank. Before joining Prudential, John spent three years as general manager, global capital markets at National Australia Bank.

John joined Prudential as Deputy Group Treasurer in 2000 and became Managing Director of Prudential Capital and Group Treasurer in 2001. During his career at Prudential, John has held the offices of Chief Executive of Prudential Capital, Group Chief Risk Officer, Group Investment Director and Chief Executive of Prudential UK & Europe.

John first joined the Board in 2011 as Group Chief Risk Officer and was reappointed in January 2016, having stepped down during his time as Group Investment Director.

In 2017, John's role was expanded from Chief Executive of Prudential UK & Europe to Chief Executive of M&G Prudential, the Group's combined UK asset management and savings and retirement solutions business.

Nicolaos Nicandrou ACA
 Chief Executive of Prudential Corporation Asia
Appointment: October 2009
Age: 52

Relevant skills and experience

Nic started his career at PricewaterhouseCoopers. Before joining Prudential, he worked at Aviva, where he held a number of senior finance roles, including Norwich Union Life finance director and board member, Aviva group financial control director, Aviva group financial management and reporting director and CGNU group financial reporting director.

In July 2017, Nic became Chief Executive of Prudential Corporation Asia having originally joined the Board in October 2009 as an Executive Director and Chief Financial Officer.

Other appointments

European Insurance CFO Forum (chairman)

CITIC-Prudential Life Insurance Company Limited (a Prudential plc joint venture)

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Anne Richards

Deputy Chief Executive of M&G Prudential and Chief Executive of M&G

Appointment: June 2016

Age: 53

Relevant skills and experience

Anne became an analyst for Alliance Capital in 1992 and then moved into portfolio management roles at JP Morgan Investment Management and Mercury Asset Management. She joined the board of Edinburgh Fund Managers plc as chief investment officer and joint managing director in 2002 and continued in this role following Aberdeen Asset Management PLC's acquisition of Edinburgh Fund Managers in 2003. Anne was chief investment officer and head of the EMEA region for Aberdeen Asset Management PLC, positions she held until February 2016.

Anne joined the Board in 2016 as an Executive Director and Chief Executive of M&G. She became Deputy Chief Executive of M&G Prudential in 2017 whilst remaining Chief Executive of M&G.

Other appointments

Financial Services advisory board

CFA UK Advisory

Financial Conduct Authority practitioner panel (chair)

Standing Council on Europe

IBDE advisory board

Barry Stowe

Chairman and Chief Executive Officer of the North American Business Unit

Appointment: November 2006

Age: 60

Relevant skills and experience

Before joining Prudential, Barry was president, accident & health worldwide for AIG Life Companies. He joined AIG in 1995 after having held senior positions at Pan-American Life and Willis in the United States.

Barry joined the Board in 2006 as an Executive Director and the Chief Executive of Prudential Corporation Asia, leading Prudential's Asian business through a period of major growth and development.

Barry fulfilled this role until June 2015 when he became Chairman and Chief Executive of the North American Business Unit.

Other appointments

International Insurance Society

American Council of Life Insurers

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Non-executive Directors

The Hon. Philip

Remnant CBE FCA

Senior Independent Director

Appointment: January 2013

Committees: Audit, Remuneration, Nomination & Governance

Age: 63

Relevant skills and experience

Philip was a senior advisor at Credit Suisse and a vice chairman of Credit Suisse First Boston (CSFB) Europe and head of the UK Investment Banking Department. He was twice seconded to the role of director general of the Takeover Panel. Philip also served on the board of Northern Rock plc and as chairman of the Shareholder Executive.

Philip joined the Board in January 2013 as a Non-executive Director, as Senior Independent Director and as a member of each of the Audit Committee, the Remuneration Committee and the Nomination & Governance Committee.

Other appointments

City of London Investment Trust (chairman)

M&G Group Limited (Prudential plc subsidiary) (chairman)

Severn Trent plc

Takeover Panel

UK Financial Investments Limited

Sir Howard Davies

Appointment: October 2010

Committees: Risk (Chair), Audit, Nomination & Governance

Age: 67

Relevant skills and experience

Sir Howard has a wealth of experience in the financial services industry, across the Civil Service, consultancy, asset management, regulatory and academia. Sir Howard was previously chairman of the Phoenix Group and an independent director of Morgan Stanley Inc.

Sir Howard joined the Board in October 2010 as a Non-executive Director and Chair of the Risk Committee. He joined the Audit Committee in November 2010 and the Nomination & Governance Committee in July 2012.

Other appointments

China Banking Regulatory Commission international advisory board

China Securities Regulatory Commission international advisory board (chairman)

Institut d'Études Politiques (Sciences Po)

Millennium LLC regulatory advisory board

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David Law ACA

Appointment: September 2015

Committees: Audit (Chair),
Risk, Nomination & Governance

Age: 57

Relevant skills and experience

David was the Global Leader of PricewaterhouseCoopers (PwC) insurance practice, a partner in PwC's UK firm, and worked as the lead audit partner for multi-national insurance companies until his retirement in 2015. David has also been responsible for PwC's insurance and investment management assurance practice in London and the firm's Scottish assurance division.

David joined the Board in September 2015 as a Non-executive Director and member of the Audit Committee. David was appointed Chair of the Audit Committee and a member of the Risk Committee and of the Nomination & Governance Committee in May 2017.

Other appointments

L&F Holdings Limited (CEO) and its subsidiaries (the professional indemnity captive insurance group that serves the PwC network and its member firms)

Kaikhushru

Nargolwala FCA

Appointment: January 2012

Committees: Risk,
Remuneration

Age: 67

Relevant skills and experience

Kai spent 19 years at Bank of America and was based in Hong Kong in roles as group executive vice president and head of the Asia Wholesale Banking Group during 1990 to 1995. He spent 10 years working for Standard Chartered PLC in Singapore as group executive director responsible for Asia Governance and Risk during 1998 to 2007. Kai was chief executive officer of the Asia Pacific Region of Credit Suisse AG during 2008 to 2010 and now serves as director and chairman of their remuneration committee.

Kai has served on a number of other boards, including Singapore Telecommunications and Tate and Lyle plc.

Kai joined the Board in January 2012 as a Non-executive Director and member of the Remuneration and Risk Committees.

Other appointments

Clifford Capital Pte. Ltd (chair)

Credit Suisse Group AG

Duke-NUS Medical School (chairman)

Prudential Corporation Asia Limited (Prudential plc subsidiary) (chairman)

PSA International Pte Ltd

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Anthony Nightingale CMG SBS JP	Relevant skills and experience	Other appointments
<p>Appointment: June 2013 Committees: Remuneration (Chair), Nomination & Governance Age: 70</p>	<p>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.</p> <p>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.</p>	<p>Jardine Matheson Holdings (and other Jardine Matheson group companies)</p> <p>Schindler Holding Limited</p> <p>Shui On Land Limited</p> <p>The Hong Kong-APEC trade policy study group (chairman)</p> <p>UK-ASEAN Business Council</p> <p>Vitasoy International Holdings Limited</p>
<p>Alice Schroeder Appointment: June 2013 Committees: Audit, Risk Age: 61</p>	<p>Relevant skills and experience</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Other appointments</p> <p>Bank of America Merrill Lynch International</p> <p>Showfer Media LLC (formerly WebTuner Corp) (chair)</p>

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Lord Turner FRS

Appointment: September 2015

Committees: Audit, Risk

Age: 62

Relevant skills and experience

Lord Turner began his career with McKinsey & Co, advising companies across a range of industries.

He served as director-general of the Confederation of British Industry, vice-chairman of Merrill Lynch Europe, chairman of the Pensions Commission and as a non-executive director of Standard Chartered Bank.

Lord Turner was chairman of the UK's Financial Services Authority, a member of the international Financial Stability Board and a non-executive director of the Bank of England.

Lord Turner joined the Board in September 2015 as a Non-executive Director and member of the Risk Committee. He became a member of the Audit Committee in May 2017.

Other appointments

Chubb Europe (chairman)

Energy Transition Commission (chairman)

House of Lords crossbench member (from 2005)

Institute for New Economic Thinking (chairman)

London School of Economics and Cass Business School (visiting professor)

OakNorth Bank (advisor)

Thomas Watjen

Appointment: July 2017

Committees: Remuneration

Age: 63

Relevant skills and experience

Tom started his career at Aetna Life and Casualty before joining Conning & Company, an investment and asset management provider, where he became partner in the capital markets and venture capital division.

He joined Morgan Stanley in 1987 as a managing director in its insurance practice and in 1994, was appointed executive vice president and chief financial officer of Provident Companies Inc.

A key architect of Provident's merger with Unum in 1999, Tom was appointed president and chief executive officer of the renamed Unum Group in 2003, a role he held for 12 years before becoming non-executive chairman until his retirement in May 2017.

Tom joined the Board in July 2017 as a Non-executive Director and member of the Remuneration Committee.

Other appointments

SunTrust Banks, Inc

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Executive Director appointment post year end

James Turner FCA	Relevant skills and experience	Other appointments
Group Chief Risk Officer Appointment: March 2018 Age: 48	James led internal audit teams in UBS in both the UK and Switzerland. Prior to joining Prudential, James was the deputy head of compliance for Barclays plc. He also held a number of senior internal audit roles across the Barclays group, leading teams that covered the UK, the US, Western Europe, Africa and Asia retail and commercial banking activities.	West Bromwich Building Society
	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.	

Board changes

Non-executive Directors

Ann Godbehere retired from the Board at the conclusion of the Annual General Meeting held on 18 May 2017.

David Law succeeded Ms Godbehere as Chair of the Audit Committee and became a member of the Risk Committee and the Nomination & Governance Committee with effect from 19 May 2017. Lord Turner was appointed a member of the Audit Committee with effect from 19 May 2017.

Tom Watjen was appointed to the Board and as a member of the Remuneration Committee with effect from 11 July 2017.

Post year end, Alice Schroeder was appointed a member of the Risk Committee with effect from 1 March 2018.

Executive Directors

Tony Wilkey stepped down as a member of the Board and as Chief Executive of Prudential Corporation Asia and Nic Nicandrou succeeded him in this position. Mark FitzPatrick was appointed to the Board to succeed Mr Nicandrou as Chief Financial Officer. The effective date for these changes was 17 July 2017.

In August 2017, the Company announced its intention to merge its asset manager, M&G, and Prudential UK & Europe to form M&G Prudential. John Foley became Chief Executive of M&G Prudential and Anne Richards became Deputy Chief Executive of M&G Prudential (retaining her role as Chief Executive of M&G).

Penny James stepped down from the Board and as Chief Risk Officer with effect from 30 September 2017. James Turner was appointed as an Executive Director and as Group Chief Risk Officer with effect

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from 1 March 2018. Pat Casey held the role of Group Chief Risk Officer on an interim basis until 1 March 2018.

Other Executive Officers

The name, business experience, functions and areas of experience of each of the Executive Directors and their biographical details are set out above.

For information relating to the compensation paid to all Prudential Directors see the section 'Compensation and Employees'.

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BOARD PRACTICES

How we operate

How the Board leads the Group

The Group is headed by a Board which the Chairman is responsible for leading. A majority of Directors on the Board, excluding the Chairman, are independent Non-executive Directors. Biographical details of each of the Directors can be found in the Board of Directors section 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 later in this section.

The Board is collectively responsible to shareholders for the success of the business through:

The delivery of sustainable value to shareholders;

Setting the Group's strategy and overall risk appetite;

Providing leadership within a framework of effective controls; and

Monitoring management's performance against strategic goals and ensuring sufficient resources are in place to achieve these goals.

Specific matters are reserved for decision by the Board, including: Determination of dividends;

Approval of strategic projects;

Approval of the three year business and financial plan;

Approval of key financial reporting including the Group's full and half yearly Report and Accounts; and

Responsibility for the system of internal control and risk management In making decisions, the Board has regard to the balance of interests between all relevant stakeholders, including shareholders, employees, customers, regulators and the community.

Our governance framework

The Group has established a governance framework for the business which is designed to promote appropriate behaviours across the Group.

The governance framework outlines the key mechanisms through which the Group sets strategy, plans its objectives, monitors performance, considers risk management, holds business units to account for delivering on business plans and arranges governance. The Group Governance Manual (the Manual) sets out the policies and procedures by which the Group operates within this framework, taking into account relevant statutory, regulatory and governance matters.

Business units manage and report compliance with Group-wide mandatory requirements set out in the Manual through their Governance, Risk Management and Internal Control Annual Statement of Compliance attestations. This includes compliance with our risk management framework, details of which are set out on pages later in this section.

The content of the Manual is reviewed regularly with significant changes reported to the relevant Board Committee, reflecting the developing nature of both the Group and the markets in which it operates.

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Material Subsidiary governance

Material Subsidiaries

Jackson National Life Insurance Company

M&G Group Limited

Prudential Corporation Asia Limited

The Prudential Assurance Company Limited

Prudential has appointed independent non-executive directors to the boards of its four Material Subsidiary entities within the Group. Each Material Subsidiary has a board of directors led by an independent chair and an audit committee and risk committee, composed entirely of independent non-executives. Dialogue between the Group Chair, Group Risk Committee Chair and Group Audit Committee Chair and their counterparts in the Material Subsidiaries provides an effective information flow.

An externally facilitated evaluation of each Material Subsidiary board and their audit and risk committees was carried out by Lintstock Limited, a corporate advisory firm, which concluded that each of those boards and committees operated effectively during the year.

The Nomination & Governance Committee is responsible for oversight of governance arrangements for the Material Subsidiaries. The activities of the Nomination & Governance Committee during 2017 is set out in the committee reports section.

Independent scrutiny of corporate social responsibility actions

As part of the Group's focus on corporate responsibility, the Chairman has instructed the boards of our Material Subsidiaries to consider updates on corporate responsibility activities and spend in their communities on an annual basis. This initiative has added a layer of independent scrutiny and helped to ensure that those boards are close to the community and charitable activities of their business units.

Regulatory environment

The Group's business means it is subject to regulatory requirements and oversight. The Group's primary regulator is the Prudential Regulatory Authority (PRA). We are also regulated by the Financial Conduct Authority in the UK and by other regulators worldwide.

Interactions with our regulators shape our governance framework and the Chairman and Group Chief Executive play a leading role in representing the Group to regulators and ensuring our dialogue with them is constructive.

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Board roles and governance

Chairman Paul Manduca

The Chairman is responsible for the leadership and governance of the Board, ensuring its smooth and effective running in discharging its responsibilities to the Group's stakeholders and managing Board business.

Managing Board business

Responsible for setting the Board agenda, ensuring the right issues are brought to the Board's attention through collaboration with the Group Chief Executive and the Group General Counsel and Company Secretary

Meeting with Non-executive Directors throughout the year. In 2017, the Chairman met with Non-executive Directors without Executive Directors being present on three occasions

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

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

Acting as key contact for independent chairs of Material Subsidiaries

Working with the Group General Counsel and Company Secretary to ensure continued good governance

Meeting with the independent chairs of the Group's Material Subsidiaries on a regular basis and reporting to the Board on the outcome of those meetings

Relationship with the Group Chief Executive

Discussing broad strategic plans with the Group Chief Executive prior to submission to the Board

Ensuring the Board is aware of the necessary resources to achieve the strategic plan

Providing support and advice to the Group Chief Executive

Representing the Group externally to shareholders and other stakeholders

Representing the Board externally at business, political and community level. Presenting the Group's views and positions as determined by the Board

Balancing the interests of different categories of stakeholders, preserving an independent view and ensuring effective communication

Playing a major role in the Group's engagement with regulators

Engaging in a programme of meetings with key shareholders throughout the year and reporting to the Board on the issues raised at those meetings

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Group Chief Executive Mike Wells

The Group Chief Executive leads the Executive Directors and senior executives and is responsible for the operational management of the Group on behalf of the Board on a day-to-day basis:

Responsible for the implementation of Board decisions

Establishes processes to ensure operations are compliant with regulatory requirements

Sets policies, provides day-to-day leadership and makes decisions on matters affecting the operation, performance and strategy of the Group, seeking Board approval for matters reserved to the Board

Supported by the Group Executive Committee (GEC) which he chairs and which receives reports on performance and implementation of strategy for each business unit and discusses major projects and other activities related to the attainment of strategy

Chairs the Chief Executive's Committee (CEC) meetings which are held weekly to review matters requiring approval under the Group's framework of delegated authorities

Keeps in regular contact with the Chairman and briefs him on key issues

Meets with key regulators worldwide

Committee Chairs

Each of the Committee Chairs is responsible for the effective operation of their respective Committees:

Senior Independent Director Philip Remnant

The Senior Independent Director acts as an alternative conduit to the Board for shareholder concerns and leads the evaluation of the Chairman:

Keeps in close contact with the Chairman and acts as sounding board for him

Leads the Non-executive Directors in conducting the Chairman's annual evaluation

Holds meetings with Non-executive Directors without management being present, typically at least once a year to evaluate the performance of the Chairman

Offers meetings to major shareholders to provide them with an additional communication point on request and is generally available to any shareholder to address concerns not resolved through normal channels

Non-executive Directors

All of the Non-executive Directors are deemed to be independent and together have a wide range of experience used to attain the strategic aims of the Group through:

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Responsible for the leadership and governance of their Committee

Constructive and effective challenge

Sets the agenda for Committee meetings

Scrutinising the performance of management in meeting agreed goals and objectives

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

Serving on at least one of the Board's principal Committees

Works with the Group General Counsel and Company Secretary to ensure the continued good governance of each Committee during the year

Engaging with Executive Directors and management at Board and Committee meetings as well as at site visits, training sessions and on an informal basis

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

Taking part in one-to-one meetings with the Group Strategy team and participation in the annual Strategy Away Day

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The Board has established four principal Committees whose functions are summarised below.

Board

Nomination & Governance Committee	Audit Committee	Risk Committee	Remuneration Committee
Chair Paul Manduca	Chair David Law	Chair Howard Davies	Chair Anthony Nightingale
Responsible for reviewing, maintaining and enhancing the balance of skills and experience on the Board in support of the Group's strategic objectives	Responsible for the integrity of the Group's financial reporting, including scrutinising accounting policies	Leads on and oversees the Group's overall risk appetite, risk tolerance and strategy	Recommends the Directors' Remuneration Policy for approval by shareholders
Maintains an effective framework for senior succession planning including at Board level	Monitors the effectiveness of internal control and risk management systems, including compliance arrangements	Approves the Group's risk management framework and monitors its effectiveness	Approves individual remuneration packages of the Chairman, the Executive Directors, other senior executives and the non-executive directors of Material Subsidiaries
Recommends appointments to the Board and its principal Committees and appointments of non-executive chairs to the boards of the Material Subsidiaries	Monitors the effectiveness and objectivity of internal and external auditors	Supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk	Determines the overall Remuneration Policy for the Group
Oversees the governance of Material Subsidiaries and the Group's overall governance framework See Nomination & Governance Committee report later in this section.	Approves the internal audit plan and recommends the appointment of the external auditor	Provides advice to the Remuneration Committee on risk management considerations to inform remuneration decisions	Reviews the design and development of share plans and approves and assesses performance targets where applicable
	See Audit Committee report later in this section.	See Risk Committee report later in this section.	See Remuneration Committee report later in this section.

The roles and responsibilities of each Committee are set out in their terms of reference which are reviewed by each Committee and approved by the Board on an annual basis.

Table of Contents**Key areas of focus how the Board spent its time**

The Board held 10 meetings during 2017. In addition to those meetings set out in the table below, the Board held a separate three day strategy event in June. In addition to meetings, the Board receives monthly update reports from management.

	Feb	Mar(1)	May	Jun	Jul	Aug	Sep	Nov	Dec
Strategy and implementation									
approval and review of strategic priorities		•							
strategic priorities monitoring			•		•		•		•
approval of three year operating plan									•
strategic project ⁽²⁾			•		•	•	•	•	•
tax strategy reporting			•						
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	•		•		•		•	•	•
North American business unit	•		•		•		•	•	•
M&G Prudential ⁽³⁾	•		•		•		•	•	•
Risk, regulatory and compliance									
regulatory and compliance updates	•		•		•		•	•	•
Chief Risk Officer's report	•		•		•		•	•	•
government relations	•		•		•		•	•	•
PRA relations	•	•			•				
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				•					
feedback on investor meetings	•							•	•

Notes

- (1) The Board held two meetings in March 2017.
- (2) Strategic projects during the year included the merger of our business units M&G and Prudential UK & Europe and the sale of our broker-dealer network in the USA.
- (3)

Prior to their merger in August 2017, M&G and Prudential UK & Europe reported to the Board separately.

Table of Contents**Board and Committee meeting attendance throughout 2017**

Individual Directors' attendance at meetings throughout the year is set out in the table below.

	Board	Nomination & Governance Committee	Remuneration Committee	Risk Committee	Joint Audit and Risk Committee	General Meeting
Number of meetings held	10	9	4	6	6	1
Chairman						
Paul Manduca	10		4			1
Executive Directors						
Mike Wells	10					1
Mark FitzPatrick(1)	5/5					
John Foley	10					1
Nic Nicandrou	10					1
Anne Richards	10					1
Barry Stowe	10					1
Executive Directors who stepped down during the year						
Tony Wilkey(2)	4/5					1
Penny James(3)	8/8					1
Non-executive Directors						
Philip Remnant	10	9	4	6		1
Howard Davies	10	9	4		6	1
David Law	10	9	2/2		3/3	1
Kai Nargolwala	10			6	6	1
Anthony Nightingale	10		4	6		1
Alice Schroeder	10	9				1
Lord Turner	10	5/5			6	1
Tom Watjen(4)	5/5			2/2		
Non-executive Director who stepped down during the year						
Ann Godbehere(5)	4/4	4/4	2/2		3/3	1

Notes

- (1) Mark FitzPatrick joined the Board with effect from 17 July 2017.
- (2)

Tony Wilkey stepped down from the Board with effect from 17 July 2017.

(3)

Penny James stepped down from the Board with effect from 30 September 2017.

(4)

Tom Watjen joined the Board with effect from 11 July 2017.

(5)

Ann Godbehere retired from the Board with effect from 18 May 2017.

Full details of changes to the Board during the year can be found in the Board of Directors section.

Board and Committee papers are usually provided one week in advance of a meeting. Where a Director is unable to attend a meeting, his or her views are canvassed in advance by the Chairman of that meeting where possible.

Board effectiveness

Actions during 2017

During the year, the action points that had been identified in the 2016 evaluation were addressed and the Board received an update on progress against those actions in September 2017 and February 2018.

Subsidiary governance the 2016 review identified that ensuring good subsidiary governance was maintained was a continuing priority from 2015.

Group Secretariat continued to monitor and support the regular interactions between the Chairman, Audit Committee Chair and Risk Committee Chair with their Material Subsidiary counterparts;

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Reports of all material issues at subsidiary level were given to the Board and to the Audit and Risk Committees as regular agenda items;

Subsidiary independent non-executive directors and chairs, along with all Prudential Non-executive Directors, were invited to a meeting at which the Executive team gave presentations on each business unit with a question and answer session. The sessions also provided the opportunity for the Prudential Board and subsidiary boards to spend time together in an informal setting; and

Group Secretariat continued its established quarterly 'round table' sessions with subsidiary counterparts to share governance best practices.

Board agenda the 2016 review noted that time spent at meetings should flex to reflect strategic priorities, with an increased focus on products and customers.

Agendas continued to be reviewed by the Chairman, Group Chief Executive and the Group General Counsel and Company Secretary, as well as other senior executives where appropriate;

The Board specifically debated at its July 2017 meeting, as part of a wider discussion on good governance, whether sufficient time was allowed for discussion and debate and concluded positively; and

The aspiration to create an information pack on products and markets for Board background information was developed into an app, which was trialled to the GEC in the first quarter of 2018.

Senior employee focus the 2016 review noted the focus on rebuilding strength in senior management teams around the Group, following a number of successful internal promotions.

The Board met all members of the Prudential Corporation Asia executive committee as well as a number of senior Prudential Corporation Asia executives at its Jakarta sessions in April 2017. All members of the Prudential Indonesia executive committee also presented to the Board on this occasion;

The Board held a two-day session in Craigforth in September 2017 at which the M&G Prudential executive committee and senior executives gave business and strategy updates, including on the merger of the M&G and UK & Europe businesses;

The Board received reports from all business units at its meetings on key joiners and leavers; and

A number of senior executives below GEC level presented to each of the Audit Committee and Risk Committee on a regular basis during the year.

Remuneration the 2016 review noted the growing complexity of remuneration across all UK-listed companies and, over the course of 2017, the Board noted the increased governance focus in this area.

A training session on remuneration was established for those Non-executive Directors who do not serve on the Remuneration Committee, to discuss the Directors' Remuneration Policy and broader market practice information. This took place in May 2017 and further sessions will be delivered on an as-required basis; and

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A specific and detailed induction was arranged for Mr Watjen on his appointment, given his role as a member of the Remuneration Committee.

2017 review and actions for 2018

The Board undertook an external evaluation of its performance and that of its Committees in 2017. The review was facilitated by Boardroom Review Limited, a consultancy which undertakes no other business for the Company. The external nature of the review met the provision of the UK Corporate Governance Code which requires external evaluations on no less than three-yearly intervals.

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The evaluation included interviews with all Board members and the Group General Counsel and Company Secretary, and attendance and observation by Dr Tracy Long at a number of Board and Committee meetings. Supporting materials to enhance the assessment team's understanding of how the Board and its Committees operate were provided.

The findings were presented to the Board in December 2017 and a collective Board discussion to exchange ideas and agree priorities arising from the report took place.

The report identified a number of strengths of the Board, including strong leadership from the Chairman and Group Chief Executive; a collegiate and constructive environment; effective use of time; high quality information flow; robust risk and control oversight; appropriate tone through the Remuneration Committee; attention to leadership development and effective shareholder communication.

Through the evaluation and subsequent discussion at the Board meeting in February 2018, the Board identified areas of particular focus and related actions:

Theme	Summary of actions
Creating the right environment for critical decision making	Spend additional time on site visits. Continue to hold Non-executive Director only sessions on an as-required basis
Highlighting culture on the agenda	Provide further reports to the Board on culture in 2018 and mature the Group's strategic objective to 'develop a framework for a measurable, definable culture'
Increasing the Board's resilience	Continue to focus on gender and other diversity in all new Board appointments. Introduce a skills map to monitor experience and expertise more formally

Director evaluation

The performance during 2017 of the Non-executive Directors and the Group Chief Executive was evaluated by the Chairman in individual meetings. Philip Remnant, the Senior Independent Director, led the Non-executive Directors in a performance evaluation of the Chairman.

Executive Directors are subject to regular review and the Group Chief Executive individually appraised the performance of each of the Executive Directors as part of the annual Group-wide performance evaluation of all staff.

The outcome of these evaluations is reported to the Nomination & Governance Committee in February each year in order to inform the Committee's recommendation that each Board member be put forward for re-election by shareholders.

Executive Director performance is also reviewed by the Remuneration Committee as part of its deliberations on bonus payments.

Building Directors' knowledge

Induction new Directors

On appointment, each new Director is provided with a comprehensive induction, tailored to reflect the experience of the individual and his or her position as a Non-executive or Executive Director.

Our two new Directors, Mr Watjen and Mr FitzPatrick each received a full induction to the business.

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A summary of the general topics covered, as well as the role specific topics on which they each received comprehensive briefings, are set out in the table below.

General induction programme relevant to all new Directors		Role-specific induction programme for new Directors	
Understanding our governance	Understanding our business	Mark FitzPatrick	Tom Watjen
Meetings with the Chairman and the Group Chief Executive separately	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 members of the Group Finance function	Human Resources-specific induction provided by the Director of Human Resources, including an overview of Group Reward, current UK remuneration hot topics, and the role of the Remuneration Committee and business unit remuneration committees
Explanation of the Group's strategy and business plan		Company financial reporting overview on key Group issues including US GAAP differences, IFRS Insurance Performance Management, IFRS contracts and tax	
Explanation of Prudential's corporate structure, Board and Executive Committee structure	Introductory meetings with all Group functions		Meeting with the Chair of the Remuneration Committee to discuss the annual cycle of Committee work, its current focus and focus for 2018 and beyond
Briefings on Group governance framework and key policies	Comprehensive briefings on the regulatory environment in which the Group operates	Walkthrough of financial reporting disclosures	
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	Briefings on top risks and internal controls	Additional tailored support in his first role as Chief Financial Officer of a global financial services operation	

Induction role changes

Since Mr Nicandrou was appointed Chief Executive of Prudential Corporation Asia he has continued to deepen his knowledge of the Asia business with a tour of operations across each of the 14 markets in which Prudential Corporation Asia operates. As part of his visits, Mr Nicandrou spent time with senior management, staff and agents of both Prudential Corporation Asia's Life and Eastspring operations. He held a regional conference to provide insights on the strategic direction of the business and to discuss opportunities to broaden distribution, simplify products and services, and the role of digital technology in upgrading the way the business engages and services its customers. He has also engaged extensively with regulators, government officials, existing and prospective partners and hosted a regional investor conference.

Mr Law had been a member of the Audit Committee for almost two years at the time of his appointment as Chair, which provided him with detailed knowledge of its operations and he worked closely with the outgoing Chair to ensure a smooth transition. In addition Mr Law met with

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the Chief Financial Officer and other members of Group Finance, the Group-wide Internal Audit Director, the Group Regulatory and Government Relations Director and the Director of Group Compliance in preparation for his role as Chair. Mr Law attended one of each of the Material Subsidiary audit committee meetings to gain a better understanding of their operations. He also met with the Group

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Chief Risk Officer and other members of Group Risk to prepare him for his role as a member of the Risk Committee.

Lord Turner received a detailed briefing from the Director of Group Finance on appointment to the Audit Committee.

A full description of all Board and role changes during 2017 are set out in the Board of Directors section.

Board site visits

Jakarta, Indonesia March 2017

All Board members made a site visit to the Group's operations in Jakarta, Indonesia in March 2017. The visit included presentations from the Prudential Corporation Asia executive team on regional financial performance and an overview of the asset management and life businesses across Asia.

This was followed by detailed presentations by the local Indonesian executive team focusing on agency, Sharia strategy, products, operations, compliance and risk management, brand and corporate social responsibility.

The Board also attended an agency 'Greater Together' recognition event at the Kasablanca Hall with more than 4,000 agents and visited an agency training centre and two agency offices in Menara 88 (PruVictory and PruFavor) which gave an opportunity to see the Group's distribution in action.

Craigforth, Scotland September 2017

All Board and GEC members visited the Group's operations in Craigforth, Scotland in September 2017. The visit included presentations from the M&G Prudential executive team, which gave opportunity to demonstrate to the Board the activity that had taken place in merging the M&G and Prudential life businesses.

In addition, focus sessions were held to provide an in-depth understanding of Prudential Savings & Retirement Solutions and M&G. These included sessions on the annuities business, the customer vision and strategy, distribution, investment management, transformation and culture.

As well as formal presentations, the Board visited different parts of the Craigforth site for demonstrations from employees on typical processing systems and technology innovation.

Continuing development of knowledge and skills

During 2017, the Board and its Committees received a number of technical and business updates as part of their scheduled meetings, providing information on external developments relevant to the Group and on particular products or operations. Below is an overview of how Directors are kept up to date:

The Board holds an annual strategy session, which allows for detailed updates on each of the business units and deep dives on strategic direction and objectives for the Group;

The Board receives updates on brand and corporate responsibility activities, usually once a year;

The Board receives updates at each of its full Board meetings on corporate governance, political and regulatory developments, and the dynamics of equity and currency markets. In 2017, this included updates on the political environment, such as Brexit and tax reform in the USA. The Board also considered MiFID II, the General Data Protection Regulation, the Modern Slavery Act, and the review of the FRC's UK Corporate Governance Code;

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In December 2017, the Group ran a focused cyber training session for members of the Risk and Audit Committees, which was open to all Directors;

The Board reviews each business unit at least once a year and conducts periodic site visits as part of this. In 2017, the Board met in Jakarta, Indonesia and Craigforth, Scotland. Details of the activities undertaken on these visits are set out above;

The Board and the Risk Committee receive regular updates on market developments and key risks, including updates on Solvency II and cyber risk. The Risk Committee reviews top risks on an annual basis and deep dives into specific topics in response to the identification of key risks. This review covers the financial, operational and strategic risks, whilst also identifying and addressing business environment and insurance risks within the Group. The identification of such risks inform the risk reporting provided to the Committee and the Board;

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The Audit Committee receives updates on developments affecting financial reporting and the role of audit committees generally. In 2017 this included updates on MiFID II, audit matters for consideration, and financial reporting disclosures as well as forward looking consideration for IFRS 17; and

The Remuneration Committee receives updates on regulatory and governance developments affecting the Group's remuneration arrangements. In 2017, these included the PRA's guidance on Solvency II remuneration requirements, the Investment Association Principles of Remuneration, BEIS Corporate Governance reform concerning remuneration and gender pay gap reporting.

Further information on the activities of the Board and its Committees can be found in the tables explaining how the Board and its Committees spent their time.

All Directors have the opportunity to discuss their individual development needs as part of the annual Board effectiveness review and Directors are asked to provide a record of training received externally on an annual basis. All Directors have the right to obtain professional advice at Prudential's expense.

Diversity

Given the global reach of the Group's operations, and our business strategy and long-term focus, the Board makes every effort to ensure it is able to recruit Directors from different backgrounds, with diverse experience, perspective and skills. This diversity not only contributes towards Board effectiveness but is essential for successfully delivering the strategy of an international Group.

This is reflected in our Group Diversity and Inclusion Policy which aims to provide equal opportunities to all who apply for and who perform work for our organisation including our Directors irrespective of sex, race, age, ethnic origin, educational, social and cultural background, marital status, pregnancy and maternity, civil partnership status, any gender reassignment, religion or belief, sexual orientation, disability, or part-time/fixed-term work, and to ensure appropriate diversity of experience, skill sets and professional backgrounds.

The Board is committed to recruiting the best available talent and appointing the most appropriate candidate for each role while at the same time aiming for an appropriate diversity on the Board. The Nomination & Governance Committee takes into account the Group Diversity and Inclusion Policy when considering succession planning. Prudential has a preference for using suppliers recognised for their commitment to diversity. The Board considers that its diversity of experience, skill-set and professional background has been increased as a result of Board level succession in 2017.

The Board continues to commit to developing a robust and diverse talent pipeline and to increasing representation of women in senior positions in the Group and on the Board. As part of this commitment the Board may endorse relevant measurable objectives for increasing diversity. For example, in 2016 the Board decided to sign the HM Treasury Women in Finance Charter with an aim to achieve at least 30 per cent of women in senior management by the end of 2021 and in 2017, all Executive Directors volunteered to mentor members from our senior management team of various ages, gender, educational and professional backgrounds. The Group also engaged in a number of targeted activities in support of our Diversity and Inclusion Policy, including awareness training of unconscious bias.

Shareholder engagement

As a major institutional investor, the Board recognises the importance of maintaining an appropriate level of two-way communication with shareholders.

A full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is conducted each year by the Group Chief Executive and the Chief Financial Officer, led by the Investor Relations team. A conference for investors and analysts is held on a regular basis, including

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in-depth business presentations and opportunities for attendees to meet with members of the Board and senior executives and an opportunity for the executive team to communicate progress and strategy outside of the financial reporting cycle. The most recent event was held in November 2017 and feedback was provided to the Board in December 2017.

The Group Chief Executive, Chief Financial Officer and Investor Relations team also attend major financial services conferences to present to and meet with the Company's shareholders.

In 2017, as part of the investor relations programme, over 320 meetings were held with approximately 700 individual institutional investors in London, continental Europe, the USA and Asia.

The Company holds an ongoing programme of regular contact with major shareholders, conducted by the Chairman, to discuss their views on the Company's governance. The Senior Independent Director offers meetings to major shareholders as needed. Engagement with institutional investors on the Directors' Remuneration Policy and implementation is led by the Remuneration Committee Chair. Other Non-executive Directors are available to meet with major shareholders on request.

Shareholder feedback and key issues from these meetings is communicated to the Board. Details of when feedback was discussed by the Board in 2017 can be found in the table 'Key areas of focus how the Board spent its time'.

The Annual General Meeting is an opportunity for further shareholder engagement, for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors then in office attended the 2017 Annual General Meeting.

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 Corporate Governance Code (the UK Code), the Hong Kong Corporate Governance Code (HK Code) as appended to the Hong Kong Listing Rules (the HK Listing Rules) and the Companies Act 2006.
Terms of appointment	<p>Non-executive Director tenure is shown in 'Compensation'.</p> <p>Non-executive Directors are appointed for an initial term of three years, commencing with their election by shareholders.</p> <p>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.</p> <p>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.</p> <p>The Directors' remuneration report sets out the terms of the Non-executive Directors' letters of appointment and the terms of Executive Directors' service contracts.</p>

Time commitment

At present, the average time commitment expected of a Non-executive Director is 32.5 days per annum. In addition, all Non-executive Directors currently serve on at least one of the Board's principal Committees, which requires an additional commitment of time dependent on the Committee and role.

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.

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Area	Prudential's approach
	<p>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.</p>
Independence	<p>The independence of the Non-executive Directors is determined by reference to the UK Code and HK Listing Rules as follows:</p> <p>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</p> <p>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.</p> <p>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.</p> <p>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.</p>
Audit Committee experience	<p>In relation to the provisions of the UK Corporate Governance Code and HK Listing Rules, the Board is satisfied that Mr Law has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the business operates. Full biographies of the Committee members including experience and professional qualifications, are set out in the Board of Directors section.</p>
Indemnities	<p>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.</p> <p>Suitable insurance cover is in place in respect of legal action against directors and senior managers of companies within the Group.</p> <p>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.</p>

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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 2017 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.

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Governance Committees

Committee Reports

The principal Board Committees are the Nomination & Governance, Audit, Risk and Remuneration Committees. These Committees form a key element to the Group governance framework, facilitating effective independent oversight of the Group's activities by the Non-executive Directors.

Each Committee Chair provides an update to the Board of each Committee meeting, supported by a short written summary of the Committee business considered.

Nomination & Governance Committee report

This report describes how the Nomination & Governance Committee has fulfilled its duties under its terms of reference during the year.

The Board changes in 2017 have again demonstrated the effectiveness of its preparations for Board level succession. Full details of all Board changes during the year can be found in the Board of Directors section.

The smooth transition of David Law as the new Audit Committee Chair, who also joined this Committee in May, and the appointment and induction of Tom Watjen has helped to refresh the Non-executive roles on the Board.

The move by Nic Nicandrou to become Chief Executive of Prudential Corporation Asia and the appointment of Mark FitzPatrick as Chief Financial Officer demonstrates both the effectiveness of the succession planning preparations and the ability of the Committee to recruit high calibre candidates with the appropriate skills and knowledge for the business.

Having the right individuals in place in leadership roles is fundamental to the successful delivery of Prudential's strategy. The Board requires a diverse skill set which can be deployed across the Committees and businesses for the benefit of the Group and its stakeholders.

Careful ongoing review and planning ensures that the Board continues to attract the high calibre individuals it requires and that there are no gaps in leadership. In 2017, the Committee formalised its approach in this area by creating a skills map to support succession planning, which identifies sector-specific and general operational competencies as well as geographic and business experience.

The retirement of Ann Godbehere, in May 2017, at the end of nine years of service as a Non-executive Director, and Penny James stepping down as an Executive Director and Group Chief Risk Officer in September 2017, have impacted the Board's gender diversity. The Committee has therefore committed to focus particularly on strengthening gender diversity, alongside diversity of skills, in its succession planning in 2018.

The role of the Committee has grown since 2016 when it took on responsibility for overseeing the governance arrangements in the Group. This includes the governance of its Material Subsidiaries, in order to ensure that those boards operate effectively and that the independent non-executive directors can constructively challenge and monitor performance in those businesses. The Committee spent time considering the composition and effectiveness of those boards, the processes around its risk and audit committees, and the tenure and succession of its non-executives.

The Committee Chair oversees the governance arrangements for the Committee. The Committee considered its terms of reference in November 2017, and in the preparation of this report the Chairman considered the time commitment, number of meetings and skills and experiences required for Committee members.

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The Committee Chair also has responsibility for ensuring the Committee runs effectively and makes the most of its meeting time. To ensure it does so, open debate and contributions from all Committee members is encouraged by the Committee Chair.

As part of the Board's effectiveness review, described in more detail in the How We Operate section, the Committee was found to be operating effectively and given action points around developing its skills map and considering Committee membership, both of which are ongoing tasks.

Committee members

Paul Manduca (Chair)
Howard Davies
David Law (from May 2017)
Anthony Nightingale
Philip Remnant
Ann Godbehere (until May 2017)

Regular attendees

Group Chief Executive
Group Human Resources Director
Group General Counsel and Company Secretary

Number of meetings in 2017: Four

How the Committee spent its time during 2017

	Feb	May	Jun	Nov
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, skills mapping and appointments				
Chairman				•
Non-executive Directors	•		•	•
Group Chief Executive	•			
Executive Directors		•		•
GEC composition				•
Governance				
membership review of principal Board Committees	•			
Committee terms of reference				•
Material Subsidiary governance				
subsidiary board composition, non-executive succession planning and appointments			•	•
Material Subsidiary committee attendance				•
terms of reference for Material Subsidiary boards, chairs and committees	•			•
Material Subsidiary governance manual	•			•
Material Subsidiary board, chair and director evaluations	•			

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Matter considered	How the Committee addressed the matter
Succession planning	
Succession planning	<p>Throughout the year, the Committee kept succession plans for all Executive and Non-executive Board roles under review. Succession plans are supported by the year end Board evaluation and individual performance evaluations.</p> <p>The Committee takes account of the size, structure and composition of the Board and its Committees, including existing knowledge, experience and diversity. In doing so, the Committee considers the Group's strategic needs and anticipates future needs, skills and experience. The Committee is responsible for developing and periodically reviewing objectives established for the implementation of diversity on the Board and monitoring progress toward the achievements of those objectives. A description of the Group Diversity and Inclusion Policy is included in the How We Operate Section. Following the departure of Ann Godbehere and Penny James in 2017, the Committee is focusing on gender diversity, alongside diversity of skills, in its succession planning in 2018.</p> <p>The Committee works with the Group Chief Executive and Group Human Resources Director to ensure that when a vacancy or a gap in the Board's skills is identified, a role specification is prepared, taking into account feedback from the Committee and the Group's Diversity and Inclusion Policy. Once the specification is agreed, specialist talent agencies are typically engaged to create a shortlist of candidates for review by the Committee and other stakeholders. Interviews with individuals then take place and feedback is provided to the Committee members. In this manner, a preferred candidate is selected and the Committee then recommends the individual to the Board for appointment (subject to regulatory approval where required).</p> <p>Contemporaneously with this process, thorough due diligence checks are undertaken on the candidate and we liaise with the FCA and PRA as to the suitability of the individual from a regulatory perspective, as needed.</p>
Non-executive Directors	<p>During the year, the Committee finalised the terms of appointment of Mr Watjen as a Non-executive Director. The work of the Committee was supported by Russell Reynolds as search consultant. In 2017, the Committee debated and approved a skills map for use in Non-executive succession planning discussions. The skills map identifies key skills and experiences, including sector, geographic and operational skills, which are desirable for the Board as a whole, taking account of the Group's strategic direction.</p> <p>As part of its focus on searching for an additional Non-executive Director, in November 2017 The Miles Partnership was instructed to begin a market mapping exercise with particular focus on potential female candidates to ensure that the Board's gender diversity was addressed in a positive manner.</p>

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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 roles. The development and renewal of these plans was led by the Group HR Director, supported by Egon Zehnder in the case of the Group Chief Executive plan and by Talent Intelligence for the other Executive Director roles and GEC members. In 2017, Talent Intelligence prepared long-lists and short-lists with a focus on gender and ethnic diversity requirements. The Committee has oversight of senior executive level succession planning and the talent pipeline.

The Committee discussed these plans closely with the Group Chief Executive to identify business requirements and plan for future succession needs and gave feedback on the planning process. The Company continues to commit to developing a robust and diverse talent pipeline, increasing representation of women in senior positions.

During 2017:

Mr FitzPatrick was appointed as Chief Financial Officer in July 2017, following completion of a comprehensive search;

Following the departure of Penny James in September 2017, Prudential appointed Pat Casey as Interim Group Chief Risk Officer while the search for a permanent successor continued. Following a recommendation from the Committee, the Board appointed James Turner as an Executive Director and as Group Chief Risk Officer with effect from 1 March 2018; and

Mr Nicandrou took on the role of Chief Executive Prudential Corporation Asia, following Mr Wilkey's departure.

In each case, the Committee was well prepared and responsive, considering candidate profiles and skills and conducting interviews.

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Use of search consultancies	Neither Russell Reynolds nor The Miles Partnership have any additional connection with Prudential. In addition to acting as search consultant for certain executive hires, Egon Zehnder also provides support for senior development assessments. Talent Intelligence also provides additional succession planning support to the Group below GEC level.
Review of principal Committee membership	<p>The Committee regularly reviews the membership of all principal Committees and makes recommendations to the Board as appropriate.</p> <p>In February 2017, the Committee made recommendations to the Board to appoint Lord Turner to the Audit Committee and to appoint Mr Law to the Risk Committee and as Audit Committee Chair, which changes became effective in May 2017. The Committee recommended the appointment of Mr Watjen to the Remuneration Committee on his appointment as a Non-executive Director in July 2017.</p> <p>In February 2018, the Committee also recommended the appointment of Ms Schroeder as a member of the Risk Committee, which was effective from 1 March 2018.</p> <p>Full details of changes to the membership of the principal Committees are set out in the Board of Directors section.</p>
Election of Directors	<p>As part of its ongoing work on Board succession planning, the Committee considered the terms of appointment for the Chairman, Committee Chairs and Non-executive Directors taking into account time commitment and the general balance of skills, diversity, experience and knowledge on the Board, assessing length of service in their roles.</p> <p>Particular attention has been paid to the recommendation to re-elect Mr Nargolwala and Sir Howard Davies at the Annual General Meeting to be held in 2018 due to their length of service.</p> <p>Having reviewed the performance of the Non-executive Directors in office at the time, and having received feedback from the Group Chief Executive on the performance of the Executive Directors, the Committee concluded that each Director continued to perform effectively and was able to devote sufficient time to fulfil their duties, taking account of the number and nature of their external appointments. The Committee recommended to the Board that all Directors should stand for election at the Company's Annual General Meeting.</p>

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Independence and conflicts of interest

Independence criteria

The Committee considered the independence of the Non-executive Directors against relevant requirements as outlined in the Further Information on Directors section.

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.

Governance

Group subsidiaries

During the year under review, the Committee carried out various duties related to the Material Subsidiaries including succession

planning arrangements for non-executive directors, evaluating the performance of the Material Subsidiary boards, chairs and directors, reviewing Material Subsidiary governance arrangements, including principles for attendance at committee meetings, and the terms of reference for the Material Subsidiary boards and chairs.

Appointment of Tom Watjen

The Committee undertook a thorough and international search for potential candidates, supported by Russell Reynolds who were engaged for this purpose. The objective of the search was to enhance the Board's US expertise and insurance executive experience. Mr Watjen was identified as a preferred candidate following interviews with the Chairman, the Senior Independent Director and Group Chief Executive. The Committee reviewed Mr Watjen's skills and experiences against the needs of the business, noting in particular his knowledge of the insurance sector, his many years in senior executive roles and his understanding of US regulatory matters. His appointment was then recommended to the Board for consideration and subsequently approved in July 2017.

Audit Committee report

This report describes how the Audit Committee has fulfilled its duties under its terms of reference during the year.

Following the retirement of Ann Godbehere from the Board in May 2017, David Law has taken over responsibility as Chair of the Committee, building upon the significant contribution Ann made to the Committee during her nine years of service.

In May 2017 Lord Turner joined as an additional Committee member. Lord Turner's biography is included in the Board of Directors section.

A key part of the Committee's role is to provide the Board with assurance as to the integrity of the business through its activities in monitoring financial reporting and the second and third lines of defence as part of the internal control environment.

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The Committee continued to focus on the integrity of the Group's financial reporting and ensuring appropriate financial accounting policies are adopted and implemented. It also reviewed management's annual process for setting assumptions which underpin the Group's IFRS insurance liabilities and European Embedded Value (EEV) results and requested additional information and clarification where needed. Building on work undertaken in prior years, in 2017 the Committee further accelerated its year end process and carried out a substantive review of key judgements, such as UK mortality and expenses, policyholder behaviour assumptions in Jackson and, for EEV reporting in particular, persistency in Asia, before the year end. As in previous years, the Committee reviewed the Group's Annual Report and Accounts and advised the Board that they were considered to be fair, balanced and understandable. The Committee also reviewed the Group's Solvency II reporting disclosures forming part of its 2016 full year and 2017 half and full year reports. Following a transfer of duties from the Risk Committee during the year, the Committee is now responsible for reviewing the Solvency and Financial Condition Report (SFCR) and the Regulatory Supervisory Report (RSR), which is a private regulatory filing.

An important part of the Committee's duties is to monitor the relationship with the Group's external and internal auditors. The Committee reviewed the activities of KPMG as external auditor and made a recommendation to the Board concerning their continuing appointment (subject to shareholder approval) which took into account a number of factors including independence and objectivity, the level of remuneration, effectiveness, and tenure. The Committee also approved non audit work that was considered appropriate and in line with the Group's policy. During the year, KPMG scored highly in the Committee's effectiveness review which included feedback from senior finance personnel across all the Group's business units. It remains the Committee's current view that, without exceptional circumstances, change to auditors should not occur prior to the adoption of the new accounting standards on insurance contracts (IFRS 17). A plan to identify their successors to ensure a smooth transition has been developed.

During the year the Committee continued to receive regular briefings from the Group-wide Internal Audit (GwIA) function. Delivery of the internal audit plan represents a key component of the Committee's oversight of the Group's internal controls procedures. GwIA undertook a programme of risk-based audits covering matters across the business units in addition to assurance work on significant change programmes such as preparations for the implementation of the General Data Protection Regulations (GDPR) and MiFID II. The Committee also approved the 2018 audit plan which focuses on matters such as financial, business change, regulatory and operational risks as well as consideration of controls to deliver appropriate customer outcomes. The plan was mapped to the key risks identified by the Group Risk Committee and is kept under review throughout the year as necessary to ensure the programme remains in line with business needs.

The Committee regularly reviews the performance of GwIA and monitors the adequacy of the resourcing available to the function. In addition, in 2017 an independent External Quality Assessment (EQA) of GwIA was undertaken by Deloitte in line with the Chartered Institute of Internal Auditors Standards (the Standards). The EQA concluded that GwIA met the Standards and code of ethics, and assisted both the Committee and the executive management in identifying and mitigating risk.

During the year the Committee Chair was involved in recruiting a successor to the role of Director of GwIA. After an extensive internal and external search, the Committee appointed an individual with extensive knowledge of the Group, having previously been the Chief Operating Officer of Group Risk, and before that the Group Compliance Director.

The Committee received updates against the annual Compliance Plan (the Plan). In 2017 the Plan focused on a number of areas to help strengthen the compliance framework, which is intended to aid the Group in meeting regulatory obligations. The Plan also included the management and review of Group Compliance top risks, including anti-money laundering and anti-bribery and corruption.

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The Committee also refreshed the Group's whistleblowing protocols and spent time with the Group Resilience Director to gain comfort that he was appropriately supported. The Committee sponsored a special review to ensure there was no evidence of abuse of power in the workplace.

During 2017 the Committee reviewed the Group's first published tax strategy and environmental, social and governance (ESG) report, both released in May. Another key piece of work was the review of the disclosures about the merger of M&G and Prudential UK & Europe into one business and an additional meeting was held to discuss these. Members of the Committee also received additional updates on the impact of MiFID II and reviewed the financial disclosures relating to the partial sale of the UK annuity portfolio.

The Committee looks to identify matters likely to impact the Group going forward. In addition to its usual activities, in 2018 the Committee expects to consider further the impact of IFRS 17, as well as monitoring regulatory changes and the impact of major projects such as the creation of M&G Prudential on the Group's internal controls functions.

The Committee also works closely with the Risk Committee to make sure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, the Committee Chair works with Sir Howard to agree the most appropriate Committee to consider the matter. In December both Committees held a joint informational session on cyber security, to which all Directors were invited.

As part of the transition for the Committee Chair, as well as the regular meetings with the Material Subsidiary audit committee chairs to facilitate escalation of important matters and reporting of material issues to the Committee, the Chair attended one of each of the Material Subsidiary audit committee meetings to gain a better understanding of how they operate. This was found to be helpful and the Committee will look to repeat this in the coming years.

It is the role of the Chair to consider the governance arrangements for the Committee. The Committee considers its terms of reference at least annually and proposed changes to its terms of reference in December 2017. The only significant change related to the review of Solvency II disclosures which now rests with the Committee.

The Committee Chair also has the responsibility for ensuring the Committee runs effectively. To ensure it does so and provides constructive challenge to management, open debate and contributions from all Committee members is encouraged by the Chair.

Committee members are encouraged to meet with management or the internal and external audit team where this assists them in their preparations. The Committee Chair reports to the full Board after each meeting on the main matters discussed.

An annual review of the Committee's effectiveness was carried out as part of the Board evaluation, described in more detail in the How We Operate section. The Committee was found to be functioning effectively.

Committee members

David Law (Chair) (from May 2017)
Ann Godbehere (until May 2017)
Howard Davies
Philip Remnant
Alice Schroeder
Lord Turner (from May 2017)

Regular attendees

Chairman of the Board
Group Chief Executive
Chief Financial Officer
Group Chief Risk Officer
Director of Group Finance
Group Regulatory and Government Relations Director
Group General Counsel and Company Secretary
Director of Group Compliance
Director of Group-wide Internal Audit
External Audit Partner

Number of meetings in 2017: Nine. In addition, a joint meeting was held with the Risk Committee.

Table of Contents**How the Committee spent its time during 2017**

	Feb	Mar(1)	May	Jul	Aug(1)	Nov	Dec
Financial reporting and external auditor							
Periodic financial reporting including:							
Key accounting judgements and disclosures		•	•	•	•	•	•
Solvency II results and governance processes							
Associated audit reports							
Review of announcement of the merger of M&G and Prudential UK & Europe					•		
Developments in tax disclosures	•		•			•	•
Audit planning, fees, independence, effectiveness and re appointment	•		•	•			
Internal control framework							
Internal control framework effectiveness		•					
Internal auditors							
Status updates and effectiveness	•		•	•		•	•
Internal audit plan				•			•
Compliance							
Status updates	•		•	•		•	•
Compliance plan							•
MiFID II updates						•	•
Financial crime and whistleblowing							
Update on whistleblowing issues raised	•		•	•		•	•
Financial crime prevention including anti-money laundering, prevention of tax evasion and anti-bribery and corruption programmes	•						•
Governance and reporting							
Material Subsidiaries updates	•	•	•	•	•	•	•
Internal framework effectiveness/refresh	•		•	•		•	•
Environmental, social and governance reporting			•				
Business unit audit committee effectiveness, status updates and terms of reference	•		•	•		•	•
Committee terms of reference							•

Note

- (1) Two meetings were held in each of March and August 2017.

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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.

The Committee assessed whether appropriate accounting policies had been adopted throughout the accounting period and whether management had made appropriate estimates and judgements over the recognition, measurement and presentation of the financial results. There were no new or altered accounting standards in 2017 that had a material effect on the Group's financial statements.

The Committee considered compliance with accounting standards and obligations under applicable laws, regulations and governance codes. Particular areas on which the Committee focused during the year included the fair, balanced and understandable requirement under the UK Corporate Governance Code, providing advice to the Board in respect of this requirement and reviewing the up-date of these disclosures for revised reporting requirements.

In May 2017 the Group published externally, for the first time, a Group tax strategy document and a Group environmental, social and governance report. Both documents were reviewed by the Committee, which was updated on the approach and progress as the documents were developed.

Key assumptions and judgements

The Committee reviewed the key assumptions and judgements made in valuing the Group's investments, insurance liabilities and deferred acquisition costs under IFRS, together with reports on the operation of internal controls to derive these amounts. It also reviewed the assumptions underpinning the Group's European Embedded Value (EEV) metrics. The Committee considered information, including peer comparisons if relevant and available, on the following key assumptions:

Persistency, mortality, morbidity and expense assumptions within the Asia life businesses;

Economic and policyholder behaviour assumptions (including mortality) affecting the measurement of Jackson guaranteed liabilities and amortisation of deferred acquisition costs; and

Mortality, expense and credit risk assumptions for the UK annuity business. Mortality assumptions were a particular focus for the Committee following a detailed review of granular historic experience data by the UK business and the release of new industry mortality improvement tables. Further information is contained in the consolidated financial statements.

The Committee was satisfied that the assumptions adopted by management were appropriate.

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Key matters considered during the year

Matter considered

How the Committee addressed the matter

The Committee also received information on the nature of goodwill and intangible asset values and considered what factors might give rise to an impairment of the Group's intangibles and whether those factors had arisen in the period. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2017.

The Committee reviewed and challenged updates to the Group's independent price valuation policy for investments and endorsed the proposed enhancements to Group Finance oversight of this policy. It also received information on the carrying value of investments in the Group's balance sheet including data on the approach used in that valuation (for example, the level of asset valued on a mark to market basis).

The Committee satisfied itself that overall investments were valued appropriately.

The Committee regularly reviews the Group's provisions, including the level of provisioning for regulatory and litigation matters and provisions for certain open tax items including tax matters in litigation. The Committee was satisfied that the level of provisioning adopted by management was appropriate.

Other financial reporting matters and tax reporting

The Committee considered various analyses from management regarding Group and subsidiary capital and liquidity prior to recommending to the Board that it could conclude that the financial statements should continue to be prepared on the going-concern basis and the disclosures on the Group's longer-term viability were both reasonable and appropriate.

As part of its assessment of the description of performance within the Annual Report, the Committee considered judgemental aspects of the Group's reporting across the Group's IFRS and EEV metrics.

This assessment included a review to ensure that the allocation of items between operating and non-operating profit was in accordance with the Group's accounting policy. The Committee considered the impact of equity and interest rate movements on the IFRS results of the Group's US business and after discussion, the Committee was satisfied that the presentation and disclosure of such impacts was appropriate and consistent with prior periods. Following the announcement of the merger of M&G and the UK life business, the Committee re-evaluated the Group's segmental disclosure, resulting in a revision to reflect the revised business unit structure. Prior to the announcement of the merger, the Committee also reviewed the basis of preparation of the costs and synergies disclosed. This work was supported by external independent review of management's proposed disclosures.

The potential impact of proposed US tax reforms was considered in advance of their implementation in December 2017 and the impact of the final rule changes were discussed in detail post year end.

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Key matters considered during the year

Matter considered

How the Committee addressed the matter

The Committee reviewed and approved the Group's tax strategy which was subsequently published in May 2017 and was also updated on the 2016 country by country tax disclosures required to be filed with HM Revenue & Customs by the end of 2017.

The Committee reviewed the parent company profit and loss account and balance sheet, which included recognition of a pension surplus asset.

In addition to these reporting matters, the Committee also received and considered regular updates from management on the status and implications for the Group of financial reporting developments, including new accounting standards due to be implemented over the period 2018-2021. In particular it received an overview of the requirements of IFRS 17 on insurance contracts, following publication of the final standard in the first half of 2017.

External audit

Review of effectiveness, non-audit services and auditor reappointment

External audit effectiveness

The Group's external auditor is KPMG LLP (KPMG) and oversight of the relationship with them is one of the Committee's key responsibilities. This included challenging and querying KPMG's approach to risk and other issues regularly throughout the year.

The Committee approved KPMG's terms of engagement for the statutory audit, and approved fees for both audit and non-audit services in accordance with the Group's policy. To assess the effectiveness of the auditor, the Committee reviewed the audit approach and strategy, and received an internal report on their performance.

The separate internal evaluation of the auditor was conducted using a questionnaire which was circulated to the Committee, the Chief Financial Officer and the Group's senior financial leadership for completion.

The feedback provided was reviewed and compiled into a report for the Committee which covered areas such as the knowledge and expertise of the partners and team members, their understanding of the Group, the resourcing applied to the audit and continuity of the team, liaison with Group-wide Internal Audit and approach to resolution of issues, as well as factors such as their coordination across the Group's multiple jurisdictions and quality of their written and oral communication. The degree of challenge and robustness of approach to the audit were key components of the evaluation.

The Committee Chairman invited other Group stakeholders to provide their views on the performance of the auditor, and KPMG were given the opportunity to respond to the findings in the report.

KPMG also provided commentary on the findings of the FRC's Annual Audit Quality Review of KPMG and the firm-wide actions being taken to address observations made.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
	<p>On completion of the activities outlined above, the Committee concluded that the audit had been effective and the challenge appropriately robust across all parts of the Group.</p>
Auditor independence and objectivity	<p>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:</p> <ul style="list-style-type: none"> Audit its own firm's work; Make management decisions for the Group; Have a mutuality of financial interest with the Group; or Be put in the role of advocate for the Group. <p>The Policy has two permissible service types: those that require specific approval by the Committee on an engagement basis and those that are pre-approved by the Committee with an annual monetary limit. In accordance with the Policy, the Committee approved these permissible services, classified as either audit or non-audit services, and monitored the usage of the annual limits on a quarterly basis. All non-audit services undertaken by KPMG were agreed prior to the commencement of work and were confirmed as permissible for the external auditor to undertake under the rules and regulations of the US Securities and Exchange Commission (SEC) and the standards of the Public Company Accounting Oversight Board (PCAOB). In 2016, the Committee considered and approved revisions to the Policy with effect from 1 January 2017, to reflect final rules and guidance issued by the Financial Reporting Council, in connection with the implementation of broader European Union (EU) reforms to the audit market. This ensured that the schedule of prohibited non-audit services was in line with EU reforms referenced above. In 2017 the Committee reconsidered the Policy and concluded that it remained appropriate.</p> <p>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.</p>
Fees paid to the auditor	<p>The fees paid to KPMG for the year ended 31 December 2017 amounted to £17.3 million (2016: £16.2 million) of which £2.6 million (2016: £2.8 million) was payable in respect of non-audit services. Non-audit services accounted for 15 per cent of total fees payable (2016: 17 per cent). A breakdown of the fees paid to KPMG can be found in Note B2.4 to the financial statements.</p>

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
	<p>Of the £2.6 million of non-audit services, the principal types of non-audit engagements approved for 2017 were other assurance services of £1.5 million (of which £0.8 million related to Solvency II reporting and disclosures) and other non-audit services of £0.7 million. In accordance with the Policy, all non-audit services were pre-approved by the Committee. It was considered appropriate for KPMG to undertake work relating to the Group's Solvency II reporting and disclosure requirements because the terms of the engagement were in compliance with the Policy and KPMG's knowledge of the Group's processes facilitated the efficient execution of the work.</p>
Reappointment	<p>Based on the outcome of the effectiveness evaluation and all other considerations, the Committee concluded that there was nothing in the performance of the auditor which would require a change. The Committee therefore recommended that KPMG be reappointed as the auditor. A resolution to this effect will be proposed to shareholders at the 2018 Annual General Meeting.</p>
Audit tender	<p>The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements, the Company will be required to change audit firm no later than for the 2023 financial year end.</p> <p>The external audit was last put out to competitive retender in 1999 when the present auditor, KPMG, was appointed. Since 2005, the Committee has annually considered the need to retender the external audit service. The Committee recognises that the industry is in a period of unprecedented change with the IASB issuing its new insurance accounting standard in 2017, for implementation in 2021. The Committee currently believes any change of auditor should be scheduled to limit operational disruption during such a period of change and, as a consequence, is not currently planning to change auditors before the adoption of IFRS 17. This remains subject to the Committee's normal annual review of auditor performance and recommendation to shareholders as described above. The Committee considered its strategy on audit tendering in November 2017, concluding that the existing timeline for appointing a new auditor by the 2022 year end did not need to be amended. In conducting this review, the Committee concluded that it would be appropriate to commence a competitive tender for the 2022 audit in 2019.</p> <p>The Company has complied throughout the 2017 financial year with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the Competition and Markets Authority.</p> <p>A plan to identify successor firms to ensure that there is sufficient time for an orderly transition and to safeguard independence was considered and agreed by the Committee.</p>

Table of Contents**Key matters considered during the year**

Matter considered	How the Committee addressed the matter
	<p>In line with the FRC Ethical Standard, the rules and regulations of the SEC and the standards of the PCAOB, a new lead audit partner, Philip Smart, has been appointed in respect of the 2017 financial year. Mr Smart is expected to be in place until the completion of the 2021 reporting cycle. Prior to taking up this role, Mr Smart shadowed the outgoing lead audit partner. During the 2016 year end audit, he met with members of the Committee and management team, including management teams of our business units, and attended Committee meetings and met with members of the Committee.</p>
Third line oversight	
Internal audit	
Regular reporting	<p>The quality of the internal control systems is assessed by the Group's Internal Audit function using independent audit procedures. Each of the Group's business units has an Internal Audit team, the heads of which report to the Director of GwIA. The Committee received regular updates from GwIA on audits conducted and management's progress in addressing audit findings within agreed timelines. Any delays in implementing remediation action are escalated to the Committee and given particular scrutiny. The independent assurance provided by GwIA formed a key part of the Committee's deliberations on the Group's overall control environment. The Director of GwIA reports functionally to the Chairman of the Committee and for management purposes to the Group Chief Executive, and also has direct access to the Chairman of the Board. In addition to formal Committee meetings, the Committee meets with the Director of GwIA in private to discuss matters relating to, for example, the effectiveness of the internal audit function, significant audit findings and the risk and control culture of the organisation.</p>
Annual plan and focus for 2018	<p>The Committee approved the half year update of the 2017 plan. It also considered and approved the Internal Audit Plan, resource and budget for 2018.</p> <p>At the half year, the Committee considered recommendations to refresh the Internal Audit Plan in response to changes in the business unit operating environments and an update to the Group's top risks. The 2018 Internal Audit Plan was formulated based on a bottom-up risk assessment of audit needs mapped against various metrics combined with top-down challenge. The plan was then mapped against a series of risk and control parameters, including the top risks identified by the Risk Committee, to verify that it is appropriately balanced between financial, business change, regulatory and operational risk drivers and provides appropriate coverage of key risk areas and audit themes within a risk-based cycle of coverage. Key areas of focus for 2018 include strategic change initiatives, customer outcomes, cyber security and digitalisation.</p>
Internal audit effectiveness	<p>The Committee is responsible for approval of the GwIA charter, audit plan, resources, and for monitoring the effectiveness of the function. The Committee assesses the effectiveness of GwIA through a combination of EQA reviews, required every five years, and an annual internal effectiveness review, performed by the GwIA Quality Assurance Director.</p>

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Key matters considered during the year

Matter considered

How the Committee addressed the matter

In 2017, Deloitte performed an EQA of GwIA, which assessed that GwIA generally conforms with the Institute of Internal Audit (IIA) Standards and Code of Ethics (the highest rating under the IIA's framework), and displays an overall level of adherence to the principles set out in the UK Chartered IIA Code. The assessment also considered GwIA's purpose, position, processes and reporting in the context of Group's wider systems of governance. In addition, to ensure GwIA skill sets and resourcing levels align to the approved audit plan, a skills and resource gap analysis was undertaken to highlight any resource shortfall or required change in available skill sets to support the delivery of the plan. The analysis concluded that resources were sufficient to execute the plan.

Having considered the findings of the EQA, and the 2017 internal effectiveness review, the Committee concluded that GwIA had continued to operate in compliance with the requirements of GwIA policies, procedures and practice standards in all material respects and had remained aligned to mandated objectives during 2017.

Business unit audit committees

The Committee is supported by the work carried out by the audit committees at the level of individual business units, in particular those established by our Material Subsidiaries, which provide oversight of the respective business units. The Committee annually reviews the effectiveness of these committees in meeting their defined terms of reference.

Membership of the committees for all Material Subsidiaries comprises solely of independent non-executive directors of those subsidiaries. Minutes of business unit audit committees were provided to the Committee and their meetings were attended by the external auditor, as well as senior management from the business unit (including the Business Unit Chief Executive, heads of Finance, Risk, Compliance and GwIA) and from Group Head Office. In addition, the Committee Chair meets in person or telephonically with the chairs of each of the Material Subsidiary audit committees, usually on a quarterly basis. The Chair has also attended one of each of the Material Subsidiary audit committee meetings since his appointment to enhance his understanding of how they operate.

An assessment of the business unit audit committees was completed and the outcomes reported to the Committee and to the business unit audit committees in February 2018. The assessment was supported by local teams from GwIA and considered whether each of the committees fulfilled the responsibilities documented in their terms of reference. The evaluation also considered attendance rates by audit committee members and evidence of the audit committees' coverage of key business unit issues, as well as the appropriate escalation of concerns to the Committee. The evaluation concluded that the audit committees operated in accordance with their terms of reference.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
Business unit model terms of reference	<p>The Committee approved the Group's standard terms of reference for the Material Subsidiary and other business unit audit committees, which were updated to reflect changes in the Committee's own responsibilities to align them with best practice. These were adopted by the business unit audit committees, with minor variations to address local regulations or the particular requirements of the business where necessary.</p> <p>The Committee also reviewed the membership of the Material Subsidiary audit committees.</p>

**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 2017 Compliance Plan, the outcome of compliance monitoring activities across the Group and the effectiveness of business units' compliance activities.
Compliance Plan and focus for 2018	The Committee considered and approved the 2018 Group Compliance Plan. The strategic focus of the Plan in 2018 will be on enhancing the assurance framework, building on work undertaken in 2017. Group Compliance will also continue to drive forward capabilities within the team and wider compliance community, carrying out activities to maintain oversight of the top risks identified.
Financial crime prevention	<p>The Committee received the Money Laundering Reporting Officer's report which assessed the operation and effectiveness of the Group's systems and controls in relation to managing financial crime risks.</p> <p>As part of its responsibility for the oversight of financial crime prevention, the Committee received updates on Anti-bribery and Corruption and Anti-money Laundering, Sanctions and Fraud procedures. The Risk Committee was updated on risk assessments of anti-bribery and corruption and fraud prevention, during the year, which informed the update provided to the Committee in early 2018.</p>
Whistleblowing	<p>In 2016 Prudential launched a Group-wide whistleblowing programme ('Speak Out'). The programme captures and comprehensively records matters raised through the Group's confidential reporting process.</p> <p>Throughout the year the Committee received regular updates on matters raised through the programme and on actions taken to address them. The Committee also reviewed the arrangements for the monitoring and reporting of whistleblowing activities to ensure they continue to comply with regulatory requirements and governance best practice. The procedures were refreshed during the year and the Chair communicated the enhanced protocols to the chairs of each of the Material Subsidiary audit committees. The Committee and the Chair also spent time privately with the Group Resilience Director to ensure cases were being appropriately followed up.</p>

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
	<p>The role of the whistleblowing champion, for the purpose of the Senior Insurance Managers Regime, is carried out by the chair of the audit committee of Prudential Assurance Company (PAC), who is an independent non-executive director of PAC and is supported by the PAC audit committee. The terms of reference for each Material Subsidiary audit committee provides for them to ensure Speak Out arrangements are in place for those business units. The Committee was also updated on arrangements for promoting awareness of the Speak Out policy, including computer based training tailored for each business unit, and the distribution of communications across the Group.</p> <p>At Group level, the Chair of the Audit Committee is responsible for oversight of whistleblowing activities across the whole of the Group.</p>

Internal control

Internal control and risk management systems	<p>The Committee is responsible for reporting and making recommendations to the Board on the effectiveness of Group-wide internal control and risk management systems.</p> <p>The Committee considered the outcome of the annual review of the systems of internal control and risk management. The report considered all material controls, including financial, operational and compliance controls, risk management systems and the adequacy of the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions. The review identified a number of areas for improvement and the necessary actions have been or are being taken.</p> <p>Having considered the review, the Committee made recommendations to the Board regarding the ongoing process for identifying, evaluating and managing the significant risks faced by the Group, noting that it had been in place throughout the period and confirming that the systems remain effective.</p>
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Governance

Group Governance Framework	<p>The Group Governance Manual sets out the policies and procedures by which the Group operates within its framework of internal governance, taking into account relevant statutory and regulatory matters. Used as a platform for mandating specific ways of working across the Group, each business unit attests annually to compliance with:</p> <p>Mandatory requirements set out in Group-wide policies, including matters which must be reported to the Group functions; and</p> <p>Matters requiring prior approval from those parties with delegated authority.</p> <p>The Committee reviewed the results of the Group Governance Manual annual content review and the results of the year end certification of compliance with Group Governance Manual requirements for the year ended 31 December 2017.</p>
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Key matters considered during the year

Matter considered	How the Committee addressed the matter
Committee effectiveness	A review of the Committee's activities was conducted against applicable regulation and codes of conduct. The results of this assessment were provided to the Committee alongside the outcome of the part of the annual Board evaluation relating to the Committee.

Risk Committee report

This report describes how the Risk Committee has fulfilled its duties under its terms of reference during the year.

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 advise the Board on current and future risk exposures of the Group, including those which have the potential to impact on the delivery of the Group's Business Plan. The Committee reviews the Group Risk Framework and recommends changes to it for approval by the Board, to ensure that it remains effective in identifying and managing the risks faced by the Group.

The Committee works 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, the Committee Chair works with Mr Law to agree the most appropriate Committee to consider the matter. During the year responsibility for the review of Solvency II disclosures was transferred to the Audit Committee.

The Committee received regular reports from the Group Chief Risk Officer (CRO), who is advised by the Group Executive Risk Committee (GERC). As part of the annual evaluation of the Board and its members, the Committee Chair provided feedback on the performance of the CRO to the Group Chief Executive Officer. The Committee also received regular reports from the Group-wide Internal Audit and Compliance functions and updates from other areas of the business as needed.

During 2017, the Committee reviewed the Group's risk policies and the aggregate limits accompanying the Group risk appetite statements. In addition, the Group's risk appetite limits were reviewed and updated where necessary to reflect changes in the Group's risk profile and the evolving regulatory and macroeconomic environments. The Committee also reviewed the principal risks facing the Group and received regular updates on these through the course of the year. The Committee received regular reports from the Chief Risk Officers of our major subsidiaries. A fuller explanation of key risks facing the Group and the way in which the Group manages these is set out in the Group Risk Framework section.

In respect of the Group's principal risks, the Committee continued to focus on those arising from the products offered to customers, those inherent in the investment portfolios and the risks that arise from the operation of the Group's businesses. The Committee regularly reviewed the strength of the capital and liquidity positions, and the significant ongoing changes to the regulatory framework and environment. In addition, the Committee closely monitored risks arising from the macroeconomic environment and the pace of regulatory developments across the globe.

The Committee reviewed in depth the risks arising from the business. This included a further review into the Jackson hedging programme and providing oversight of implementation of recommended actions. Reviews were also performed on asset liability management for the UK with-profits business, China joint ventures and other aspects relating to the Group's Asia business.

During the year we continued to oversee the work required as a result of the Group's continuing designation as a Global Systemically Important Insurer (G-SII), which included the approval of the 2017 Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan.

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The Committee reviewed the methodology and annual calibration of the Solvency II internal model, and also oversaw the successful submission of the Group's Major Model Change application in November 2017 in respect of the model.

Cyber security remains an area of focus which saw attention from the Committee in 2017. During the year the Committee reviewed progress achieved on the implementation of our Cyber Defence Plan. The Committee considered the Group-wide approach, and changes in governance and processes required, for compliance with the EU's General Data Protection Regulations which are due to come into force in May 2018. The Group also prepared its first environmental, social and governance report in 2017 with the Committee reviewing the risk elements included in that report.

During 2017 the Committee considered the results of a Group-wide risk culture assessment which built on the previous work of the Committee in this area. The assessment was intended to compare the Group's risk culture against best practice behaviours, identify any areas which need improvement and provide high-level industry benchmarking and peer comparison.

In August, Prudential announced the merger of two of the Group's business units to form M&G Prudential. The Committee considered the approach for managing risks associated with the merger, and will monitor and assess these risks through 2018.

The Committee will remain focused on monitoring the Group's principal risks, including those posed by regulatory developments and macroeconomic conditions, in the context of the Group's operations as a whole and the environment in which we operate.

The Committee Chair meets the Material Subsidiary risk committee chairs to facilitate escalation of important matters and reporting of material issues to the Committee.

Alice Schroeder joined the Committee with effect from 1 March 2018. Her biography is set out in the 'Board of Directors' section.

Part of the role as Chair is to consider the governance arrangements for the Committee. The Committee considers its terms of reference at least annually and in October 2017 considered proposed changes to its terms of reference. The Committee formalised its role in considering how changes in the financial environment impact the Group's risk profile. It also refreshed its terms of reference to reflect the Committee's role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

The Committee Chair has responsibility for ensuring the Committee operates effectively. To ensure it does so and provides constructive challenge to management, open debate and contributions is encouraged from all Committee members. An annual review of the Committee's effectiveness was carried out as part of the Board evaluation, described in more detail in the How We Operate section. The Committee was found to be functioning effectively.

Committee members

Howard Davies (Chair)
Ann Godbehere (until May 2017)
David Law (from May 2017)
Kai Nargolwala
Alice Schroeder (from March 2018)
Lord Turner

Regular attendees

Chairman of the Board
Group Chief Executive
Group Chief Risk Officer
Chief Financial Officer
Group Regulatory and Government Relations Director
Group General Counsel and Company Secretary
Director of Group-wide Internal Audit

Number of meetings in 2017: Six. In addition, a joint meeting was held with the Audit Committee.

Table of Contents**How the Committee spent its time during 2017**

	Feb(1)	May	Jul	Oct	Dec
Markets and Group risk updates					
Group risk update		•	•	•	•
Risk management					
Group top risk identification	•				
Top risk discussions	•	•	•	•	•
Business unit specific risk matters	•	•	•	•	•
Risk assessment of Business Plan					•
Risk function effectiveness	•				
Risk culture survey				•	
Risk oversight of remuneration			•	•	•
Regulatory matters					
Regulatory matters	•	•	•	•	•
Risk framework					
Solvency II internal model development	•				•
Solvency II Major Model Change			•	•	
Group risk appetite review				•	
Risk limit updates		•			
Risk policy framework refresh	•	•	•		
Year-end E-cap results		•			
Group operation risk appetite statement	•				
Responsible investing framework		•			
Governance and reporting					
Material Subsidiaries updates	•	•	•	•	•
Year-end risk disclosures	•		•		
Policy compliance	•	•	•		
Own Risk and Solvency Assessment	•	•			
Governance, Risk and Compliance report	•	•	•		•
Global Systemically Important Insurer	•				
Liquidity Risk Management Plan, Systemic Risk Management Plan and Recovery Plan				•	
Pillar 3 reporting		•			
Solvency II reporting and governance processes	•	•	•	•	•
Environmental, Social and Governance reporting		•			
Committee terms of reference				•	

Note

- (1) Two meetings were held in February 2017.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
Business Plan	<p>As part of the Committee's role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed Group Risk's assessment of the Group's Business Plan, which covered a range of both financial and non-financial considerations.</p> <p>As part of the Group Risk's review of the annual Group Business Plan, Group Approved Limits were reviewed, updated and approved by the Committee.</p>
Risk appetite	<p>The Risk Committee is responsible for recommending the Group's overall risk appetite and tolerance to the Board.</p> <p>The Committee approved the Group Risk Appetite Statement, which sets aggregate risk limits in respect of capital requirements, earnings volatility and liquidity as well as maintaining the existing tolerance levels associated with each of these limits.</p>
Risk management	<p>Annually, business units must assess and certify their compliance with the Group Risk Framework and risk policies as part of the annual Group Governance Manual certification. The annual certification process for risk policies is facilitated by Group Risk and subject to oversight by the Risk Committee. In 2017, the Group Risk Framework and risk policies were subject to their annual review, with changes being approved by the Risk Committee.</p> <p>In October 2017, the Committee considered the results of a Group-wide survey on Risk Culture which provided high-level industry and peer benchmarking.</p> <p>The Risk Committee considered the results of a number of 'deep dive' reviews undertaken during 2017. These focused on risks embedded within the existing portfolio of products in our US, Asia and UK businesses.</p> <p>The Cyber Strategy and Cyber Defence Plan articulates the strategic outcomes and key deliverables relating to our cyber resilience. The Group Cyber Risk Strategy was reviewed by the Risk Committee in mid-2017. The Committee also reviewed the Cyber Defence Plan and were provided further detail around the implementation of the Cyber Strategy at the end of 2017.</p> <p>The Committee considered the Group-wide approach for compliance with GDPR regulations and received updates through the year on progress on implementation activity.</p> <p>The Committee also agreed the characteristics of an effective risk function and conducted its second annual review of risk effectiveness in May.</p>
Group top risks	<p>The Committee evaluated the Group's top risks, considering recommendations for promoting additional risks, expanding the scope of existing risks, and removing those risks no longer requiring particular focus from the Committee. The Committee received regular reporting on the top risks and mitigating actions over the course of the year.</p> <p>The Group Chief Risk Officer's reports also provided the Committee with regulatory updates, particularly regarding Solvency II and the Group's Internal Model; the implications of the developing global capital standards; and developments and the deliverables required as a result of the Group's designation as a Global Systemically Important Insurer (see further, below).</p>

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Key matters considered during the year

Matter considered

How the Committee addressed the matter

Solvency II and Pillar 3 reporting

The Committee considered the Own Risk and Solvency Assessment report based on the outcomes of the Group's Business Plan and the FY16 risk and solvency positions prior to its approval by the Board. The report was also considered in light of the results of the Group's regular stress testing.

The Committee reviewed the methodology and annual calibration of the Solvency II internal model. The 2017 Major Model Change application was closely overseen by the Committee throughout the year and we approved the model changes as part of the submission of the application to the regulator.

Solvency II results and associated governance processes were considered in a separate meeting held jointly with the Audit Committee.

Global Systemically Important Insurer

The Financial Stability Board (FSB) announced on 21 November 2016 that the Group continues to be designated as a Global Systemically Important Insurer. In 2017, the Group was required to consider and approve updated deliverables associated with the designation. These included the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan.

Reverse 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 to confirm the Group's position as being significantly resilient to certain business failure scenarios. The report related to the Group's year end 2017 position and was submitted to the PRA.

Remuneration

The role of the Committee with respect to the provision of advice to the Remuneration Committee on risk management considerations in respect of remuneration was formalised during the year.

The Committee considered a plan enabling it to meet its Remuneration responsibilities and received updates on Remuneration-related matters.

Committee effectiveness

A review of the Committee's activities was conducted against applicable regulation and codes of conduct. The results of this assessment were provided to the Committee alongside the outcome of the part of the annual Board evaluation relating to the Committee.

Compliance reporting

The Committee received regular reporting on key compliance risks and mitigation activity, including assessments and reporting on anti-bribery and corruption customer commitments.

The Committee also reviewed and approved a number of regulatory compliance risk-related policies.

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Audit Committee Financial Expert

The Board has determined that David Law, Chair of the Audit Committee, qualifies as audit committee financial expert within the meaning of Item 16A of Form 20-F, and that David Law is independent within the meaning of Rule 10A-3 under the Exchange Act.

Differences between Prudential's Governance Practice and the NYSE Corporate Governance Rules

The application of the New York Stock Exchange ('NYSE') corporate governance rules are restricted for foreign companies, recognizing that they have to comply with domestic requirements. As a foreign private issuer, Prudential must comply with the following NYSE rules:

1. The Company must satisfy the audit committee requirements of the SEC;
2. The Group Chief Executive must promptly notify the NYSE in writing after any executive officer of the Company becomes aware of any non-compliance with any applicable provisions of Section 303(A) of the NYSE's Listed Company Manual;
3. The Company must submit an executed written affirmation annually to the NYSE affirming the Company's compliance with applicable NYSE Corporate Governance Standards and submit an interim written affirmation notifying it of specified changes to its audit committee or a change to the Company's status as a foreign private issuer; and
4. The Company must provide a brief description of any significant difference between its corporate governance practices and those followed by US companies under the NYSE listing standards.

As a company listed on the London Stock Exchange, Prudential is required to comply with the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Rules issued by the FCA. Prudential is also required, pursuant to the Listing Rules, to report on its compliance with the UK Corporate Governance Code (the "UK Code") which is issued by the Financial Reporting Council. The UK Code consists of a number of main principles, supporting principles, and a series of more detailed provisions. The Listing Rules stipulate that Prudential must set out to shareholders how it has applied the main principles of the UK Code and a statement as to whether it has complied with all relevant provisions. Where it has not complied with all the applicable provisions of the UK Code, it must set out reasons for such deviation (the so-called "comply or explain" regime).

As a result of its listing on the Hong Kong Stock Exchange, Prudential is also required to comply with certain continuing obligations set forth in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'HK Listing Rules') and is expected to comply with or explain any deviation from the provisions of the Corporate Governance Code contained in Appendix 14 to the HK Listing Rules (the 'HK Code').

A description of how Prudential complies with both the UK Code and the HK Code is set out in 'Governance'.

The material differences between Prudential's corporate governance practices and the NYSE rules on corporate governance (NYSE Rules) are set out below. Unless specifically indicated otherwise, references to compliance with the UK Code below also includes compliance with the HK Code.

Independence of directors

The NYSE Rules require that the majority of the Board be independent and sets out specific tests for determining director independence. The UK Code requires at least half of the Board, excluding the Chairman, to consist of non-executive directors whom the directors have determined to be independent.

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The UK Code also requires that the Board should include a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the Board's decision taking.

The Independence of directors is outlined in 'Governance'.

The Board is required to determine whether non-executive directors are independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could affect, the directors' judgement. If the Board determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination it shall state its reasons. In undertaking this process the Board is required to take into account the factors set out in the UK Code.

Every Non-executive Director must satisfy the Hong Kong Stock Exchange that he or she has the character, integrity, independence and experience to effectively fulfill his or her role. The HK Listing Rules set out a number of factors which may impact independence. Each independent Non-executive Director is asked, on an annual basis, to self-certify whether any of the factors are relevant to their personal circumstances (without treating any such factor as necessarily conclusive).

Separation of duties

The NYSE Rules do not specify a requirement for roles of the Chairman and the CEO to be separated.

The UK Code requires that these roles be fulfilled by different individuals. As at 22 March 2018, the roles of the CEO and Chairman are fulfilled by Mike Wells and Paul Manduca respectively.

Committees of the board

Prudential has established a number of Board Committees which are similar in both composition and purpose to those required under the NYSE Rules. The membership of these committees is entirely made up of non-executive directors whom the board has deemed to be independent. The chairman of the Nomination & Governance Committee is Paul Manduca, the Chairman of the Board, as permissible under the UK and HK Codes. He is not a member of the Remuneration or Audit Committee.

In accordance with Rule 10A-3 of the Exchange Act, Prudential is required to have an Audit Committee which complies with the requirements of that rule. The Audit Committee of Prudential complies with these requirements except that it is responsible for considering the appointment, re-appointment or removal of the auditor and to make recommendations to the Board, to be put to shareholders to be considered at the Annual General Meeting. Shareholders are asked at the Annual General Meeting to authorise the Audit Committee to set the remuneration of the auditor. Prudential's Audit Committee reviews the Company's internal financial controls and, unless expressly addressed by the Board itself, reviews the Company's internal control and risk management systems in relation to financial reporting. The Risk Committee has responsibility for the oversight of risk management.

The role of the compensation committee under NYSE rules is fulfilled at Prudential by the Remuneration Committee, which consists entirely of independent Non-executive Directors, in line with the UK Code.

Prudential has established a Nomination & Governance Committee whose membership consists of independent non-executive directors and the Chairman. The Committee is not responsible for developing and recommending a set of corporate governance guidelines to apply to the Company as would be applicable for a US domestic company.

Non-executive Director meetings

To empower non-management directors to serve as a more effective check on management, the NYSE Rules require that the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

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Prudential complies with the equivalent provisions set out in the UK Code. The Chairman held meetings throughout the year with Non-executive Directors without management being present.

Code of ethics

Under the NYSE Rules, US companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waiver of the code for directors or executive officers.

Prudential's Code of Business Conduct is available on Prudential's website. Although not required by the Sarbanes-Oxley Act, Prudential has extended the applicability of its Code of Business Conduct to all employees and agents.

Approval of equity compensation plans

The NYSE Rules for US companies require that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans. Prudential complies with corresponding domestic requirements in the Listing Rules issued by the UK Listing Authority where appropriate, which mandate that the Company must seek shareholder approval for certain employee share plans, however, the Board does not explicitly take account of the NYSE definition of 'material revisions'. The HK Listing Rules also provide that shareholder approval is required when making certain amendments to equity compensation plans.

Memorandum and Articles of Association

Prudential plc is incorporated and registered in England and Wales, under registered number 1397169. Its objects are unrestricted, in line with the default position under the Companies Act 2006.

The following is a summary of both the rights of Prudential shareholders including certain provisions of Prudential's Articles of Association (the Articles). Rights of Prudential shareholders are set out in the Articles or are provided for by English law. This document is a summary and, therefore, does not contain full details of the Articles. A complete copy of the Articles was filed as an exhibit to Form 20-F for the year ended 31 December 2008. In addition, the Articles may be viewed on Prudential's website.

Issued share capital

The issued share capital as at 31 December 2017 consisted of 2,587,175,445 (2016: 2,581,061,573; 2015: 2,572,454,958) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2017, there were 48,086 (2016: 48,534; 2015: 56,276) accounts on the register. Further information can be found in Note C10 to the consolidated financial statements.

As at 21 March 2018, the issued share capital of Prudential consisted of 2,587,298,754 ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Exchange. No shares were held in treasury.

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.

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Rights and obligations

The issued share capital of Prudential is not currently divided into different classes of shares. The Companies Act 2006 abolished the requirement for a company to have an authorised share capital.

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, by its duly authorised corporate representatives, has one vote. The same individual may be appointed as proxy or as a corporate representative by more than one member.

Holders of Ordinary Shares have the right to participate in a distribution of profits, by way of dividend and have the right to participate in the surplus assets of the Company available for distribution in the event of a winding up or liquidation, voluntary or otherwise in proportion to the amounts paid up or credited as paid up on such Ordinary Shares.

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 registered owner in accordance with the relevant plan rules. Trustees may vote at their discretion, but do not vote on any unawarded shares held as surplus assets.

As at 21 March 2018, Trustees held 0.47 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various plans are set out in Compensation and Employees.

Transfer of shares

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. 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.

Changes in share capital and authority to issue shares

Under English law and the Company's articles, the Directors require authority from shareholders in relation to the issue of shares, other than under certain types of employee share schemes. Subject to certain exemptions set out in the Company's articles, including with respect to fractional entitlements and overseas shareholders, 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.

Shares may not be consolidated or sub-divided without approval by an ordinary resolution of the shareholders.

Reductions in Prudential's issued share capital and share premium account must be approved by a special resolution of the shareholders and must be confirmed by an order of the court.

If the share capital is divided into different classes of shares, the rights of any class of shares may be changed or deemed varied, only if such measure is approved by a special resolution passed at a separate meeting of the members of that class, or with the written consent of members holding at least three quarters of the shares of that class. At least two persons holding or representing by proxy at least

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one-third in nominal amount of the issued shares of the class must be present at such a meeting in person or by proxy to constitute a quorum.

The Board may not authorise, create or increase the amount of, any shares of any class or any security convertible into shares of any class or any security which is convertible into shares of any class ranking, as regards rights to participate in the profits or assets in the company, in priority to a series or class of preference shares without the consent in writing of at least three-quarters in nominal value of, or the sanction of a special resolution of, the holders of such series or class of preference shares.

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 rights applying. Dis-application of statutory pre-emption procedures is also for rights issues. The existing authorities to issue shares and dis-apply pre-emption rights are due to expire at the end of this year's Annual General Meeting. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 17 May 2018.

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.

Shares authorised but not issued

Preference shares

The Directors have authority to allot Sterling preference shares up to a maximum nominal amount of £20 million, Dollar preference shares up to a maximum nominal amount of US\$20 million, and Euro preference shares up to a maximum nominal value of €20 million, the terms of which will be determined by the Board on allotment. This authority, originally granted in 2009, was renewed by shareholders at the 2014 Annual General Meeting and is due to expire in May 2019 (or at the 2019 Annual General Meeting, if earlier).

Prior to the date of allotment, the Board shall determine whether the preference shares are to be redeemable and the terms of any redemption, their dividend rights, their rights to a return of capital or to share in the assets of the Company on a winding up or liquidation and their rights to attend and vote at general meetings of the Company prior to the date on which the preference shares are allotted.

The Board may only capitalise any amounts available for distribution in respect of any series or class of preference shares if to do so would mean that the aggregate of the amounts so capitalised would be less than the multiple, if any, determined by the Board of the aggregate amount of the dividends payable in the 12 month period following the capitalisation on the series or class of preference shares and on any other preference shares in issue which rank *pari passu* in relation to participation in profits. This restriction may be overturned with either: (i) the written consent of the holders of at least three-quarters in nominal value; or (ii) a special resolution passed at a general meeting of the holders of the class or series of preference shares.

Mandatory Convertible Securities (MCS)

Together with other European insurers, the Company is subject to the Solvency II regulatory framework. Under Solvency II, at least half of the Company's overall capital requirements may only be met with Tier 1 Capital, including share capital, retained profits and, for up to 20 per cent of Tier 1 Capital, by other items including bonds that are written-down, or, in the case of MCS, bonds that are converted into ordinary shares in the event that the Company's capital position falls below defined levels.

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At the Company's Annual General Meeting held on 18 May 2017, Directors were granted authority by shareholders to issue Ordinary Shares or grant rights to subscribe for or to convert or exchange any security in the Company in connection with an issue of MCS. The authority gave the Company the ability to make allotments of equity securities pursuant to any proposal to issue MCS without the need to comply with the pre-emption requirements of the UK statutory regime. The authority is limited to approximately twenty per cent of the issued Ordinary Share capital of the Company as at 4 April 2017. The authority to allot MCS will expire at the earlier of 30 June 2018 or the conclusion of the Company's 2018 Annual General Meeting if not renewed by shareholders.

The authority allows the Company to maintain an appropriate capital structure under Solvency II and enables the Group to issue the full range of Solvency II capital instruments.

Any MCS issued would automatically convert into new Ordinary Shares upon the occurrence of predefined trigger events. The holder of MCS would have no rights to require the conversion of MCS into Ordinary Shares in any other circumstances. Under Solvency II, the terms of any MCS must provide for full automatic conversion to occur if, broadly, the amount of capital held by the Group falls below 75 per cent of its capital requirements. The Directors may also issue MCS that include terms providing for automatic conversion to occur in other defined circumstances. The terms and conditions of any MCS issued would specify the conversion price or a mechanism for setting a conversion price, which is the rate at which the MCS would be converted into Ordinary Shares of the Company.

Dividends

Under English law, Prudential may pay dividends only if distributable profits are available for that purpose. Distributable profits are accumulated, realised profits not previously distributed or capitalised, less accumulated, realised losses not previously written off in a reduction or reorganisation of capital. Even if distributable profits are available, Prudential may only pay dividends if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (including, for example, the share premium account) and the payment of the dividend does not reduce the amount of the net assets to less than that aggregate. Subject to these restrictions, Prudential's Directors may recommend to ordinary shareholders that a final dividend be declared and recommend the amount of any such dividend or determine whether to pay a distribution by way of an interim dividend, and the amount of any such interim dividend, but must take into account Prudential's financial position. Final dividends become a legal liability of a company upon the later of the date they are declared and the date the shareholder approval expresses them to be payable. Interim dividends only become a legal liability of a company at the point they are paid.

The Company or its Directors determine the date on which Prudential pays dividends. Prudential pays dividends to the shareholders on its share registers on the record date in proportion to the number of Ordinary Shares held by each shareholder. There are no fixed dates on which entitlements to dividends arise. Interest is not payable on dividends or on other amounts payable in respect of Ordinary Shares.

If a shareholder does not claim a dividend within 12 years of such dividend becoming due for payment, such shareholder forfeits their right to receive it. Such unclaimed amounts may be invested or otherwise used for Prudential's benefit.

A number of dividend waivers are in place and these relate to Ordinary 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 meetings

English law provides for shareholders to exercise their power to decide on corporate matters at general meetings. In accordance with English law, the Company is required to call and hold annual general

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meetings. General meetings to consider specific matters may be held at the discretion of Prudential's Directors or must be convened, in accordance with English law, following the written request of shareholders representing at least five per cent of the voting rights of the issued and paid-up share capital. The quorum required under the Articles for a general meeting is two shareholders present in person or by proxy and entitled to vote on the business to be transacted.

Under English law, notice periods for all general meetings must be at least 21 clear days unless certain requirements are met. Prudential seeks an authority annually at its annual general meeting to hold general meetings which are not an annual general meeting on 14 clear days' notice.

Save for where a holder has failed to pay any monies payable in respect of his Ordinary Shares following a call by the Company holders of partly paid Ordinary Shares may attend, be counted in the quorum at meetings and vote. If more than one joint shareholder votes, only the vote of the shareholder whose name appears first in the register is counted. A shareholder whose shareholding is registered in the name of a nominee may only attend and vote at a general meeting if appointed by his or her nominee as a proxy or a corporate representative. Any shareholder who is entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote at the meeting on his or her behalf.

Shareholders resident abroad

There are no limitations on non-resident or foreign shareholders' rights to own Prudential securities or exercise voting rights where such rights are given under English company law.

Board of Directors

Subject to the Articles of Association and to any directions given by special resolution by shareholders, the business of the Company is managed by the Board, which may exercise all the powers of the Company. However, the Company's shareholders must approve certain matters, such as changes to the share capital and the election and re-election of Directors. Directors are appointed subject to the Articles. The Board may appoint Directors to fill vacancies and appoint additional Directors who hold office until the next Annual General Meeting. The Articles require that each Director must have beneficial ownership of a given number of Ordinary Shares. The number of Ordinary Shares is determined by ordinary resolution at a general meeting and is currently 2,500.

Shareholders may appoint and remove Directors by ordinary resolution at a general meeting of the Company. The UK Corporate Governance Code contains a provision recommending that Directors stand for annual re-election at the Annual General Meeting. In line with these provisions, all Directors, except those who are retiring or being appointed for the first time, are expected to stand for re-election at the 2018 Annual General Meeting.

There is no age restriction applicable to Directors in the Articles.

Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge any of its assets provided that the total aggregate amount borrowed (excluding, amongst other things, intra-group borrowings and amounts secured by policies, guarantees, bonds or contracts issued or given by the Company or its subsidiaries in the course of its business) by the Company and its subsidiaries does not, exceed the aggregate of the share capital and consolidated reserves and of one-tenth of the insurance funds of Prudential and each of its subsidiaries as shown in the most recent audited consolidated balance sheet of the Group prepared in accordance with the English law.

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Disclosure of interests

There are no provisions in the Articles that require persons acquiring, holding or disposing of a certain percentage of Ordinary Shares to make disclosure of their ownership percentage. Shareholders are required to disclose certain interests in accordance with Rule 5 of the UK's Disclosure Guidance and Transparency Rules by notifying Prudential of the percentage of the voting rights he or she directly or indirectly holds or controls if the percentage of the voting rights:

reaches, exceeds or falls below 3 per cent and/or any subsequent whole percentage figure as a result of an acquisition or disposal of Ordinary Shares or financial instruments; or

reaches, exceeds or falls below any such threshold as a result of any change in the number of voting rights attached to the Ordinary Shares.

The UK Disclosure Guidance and Transparency Rules set out in detail the circumstances in which an obligation to disclose will arise, as well as certain exemptions from those obligations.

The City Code on Takeovers and Mergers also imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company on all parties to a takeover and also on their respective associates during the course of an offer period.

Directors' interests in contracts

A Director may hold positions with, or be interested in, other companies (subject to Board authorisation where such position or interest can reasonably be regarded as giving rise to a conflict of interest) and, subject to applicable legislation, contract with the Company or any other company in which Prudential has an interest, provided he has declared his interest to the Board.

In accordance with English company law, the Articles allow the Board to authorise any matter which would otherwise involve a Director breaching his duty under the Companies Act 2006 to avoid conflicts of interest or potential conflicts of interest and the relevant Director is obliged to conduct himself or herself in accordance with any terms imposed by the Board in relation to such authorisation.

A Director may not vote or be counted in the quorum in relation to any resolution of the Board in respect of any contract in which he or she has an interest. This prohibition does not, however, apply to any resolution where that interest cannot reasonably be regarded as likely to give rise to a conflict of interest or where that interest arises only from certain matters specified in the Articles, including the following:

certain matters that benefit the Group (such as a guarantee, indemnity or security in respect of money lent or obligations undertaken by the Director at the request of or for the benefit of the Company or one of its subsidiaries);

certain matters that are available to all other Directors and/or employees (such as the provision to the Director of an indemnity where all other Directors are being offered indemnities on substantially the same terms or in respect of any contract for the benefit of Group employees under which the Director benefits in a similar manner to the employees); and

certain matters that arise solely from the Director's interest in shares or debentures of the Company (such as where Prudential or one of its subsidiaries is offering securities in which offer the Director is entitled to participate as a holder of securities or in respect of any contract in which a Director is interested by virtue of his interest in securities in the Company).

The Company may by ordinary resolution suspend or relax these provisions to any extent or ratify any contract not properly authorised by reason of a contravention of these provisions contained in its Articles.

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Directors' power to vote on own terms of appointment

A Director shall not vote on or be counted in the quorum in relation to any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested.

Directors' remuneration

The remuneration of the Executive Directors and the Chairman is determined by the Remuneration Committee, which consists solely of Non-executive Directors. The remuneration of the Non-executive Directors is determined by the Board. For further information, including information on payments to Directors for loss of office, see, 'Compensation and employees'.

Change of control

There is no specific provision in the Articles that would have an effect of delaying, deferring or preventing a change in control of Prudential and that would operate only with respect to a merger, acquisition or corporate restructuring involving Prudential, or any of its subsidiaries.

Exclusive jurisdiction

Under the Articles, any proceeding, suit or action between a shareholder and Prudential and/or its Directors arising out of or in connection with the Articles or otherwise, between Prudential and any of its Directors (to the fullest extent permitted by law), between a shareholder and Prudential's professional service providers and/or between Prudential and Prudential's professional service providers (to the extent such proceeding, suit or action arises in connection with a proceeding, suit or action between a shareholder and such professional service provider) may only be brought in the courts of England and Wales.

Code of Ethics

Prudential has a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act, (which Prudential calls its Group Code of Business Conduct) which applies to the Group Chief Executive, Group Chief Financial Officer, the Group Chief Risk Officer and persons performing similar functions as well as to all other employees. Prudential's Code of Business Conduct is available on its website at www.prudential.co.uk. If Prudential amends the provisions of the Code of Business Conduct, as it applies to the Group Chief Executive, Group Chief Financial Officer and the Group Chief Risk Officer or if Prudential grants any waiver of such provisions, the Company will disclose such amendment or waiver on the Prudential website.

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COMPENSATION AND EMPLOYEES

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.

Remuneration for Executive Directors

Element	Operation	Opportunity
Salary	<p>The Committee reviews salaries annually, considering factors such as:</p> <p>Salary increases for other employees across the Group;</p> <p>The performance and experience of the executive;</p> <p>The size and scope of the role;</p> <p>Group and/or business unit financial performance;</p> <p>Internal relativities; and</p> <p>External factors such as economic conditions and market data.</p> <p>Market data is also reviewed so that salaries remain in a competitive range relative to each Executive Director's</p>	<p>Annual salary increases for Executive Directors will normally be in line with the increases for other employees across our business units. However, there is no prescribed maximum annual increase.</p>

Fixed pay

	local market.	
Benefits	Executive Directors are offered benefits which reflect their individual circumstances and are competitive within their local market, including:	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.
	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.	
Provision for an income in retirement	Current Executive Directors have the option to:	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.
	Receive payments into a defined contribution scheme; and/or	
	Take a cash supplement in lieu of contributions.	In addition, the Chief Executive, PCA receives statutory

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.

contributions into the Mandatory Provident Fund.

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Element	Operation	Opportunity
Annual bonus	<p>Currently all Executive Directors participate in the Annual Incentive Plan (AIP).</p> <p>AIP awards for all Executive Directors, other than the Group Chief Risk Officer, are subject to the achievement of financial and personal objectives. The Group Chief Risk Officer's performance measures are entirely based on a combination of functional and personal measures.</p> <p>Business unit chief executives either have measures of their business unit's financial performance in the AIP or they may participate in a business unit specific bonus plan. For example, the Chairman and CEO, NABU currently participates in the Jackson Senior Management Bonus Pool as well as in the AIP.</p> <p>The financial measures used for the annual bonus will typically include profit and cash flow targets and payments depend on the achievement of minimum capital thresholds. Jackson's profitability and other key financial measures determine the value of the Jackson Senior Management Bonus Pool.</p> <p>In specific circumstances, the Committee also has the power to recover all (or part of) bonuses for a period after they are awarded to executives. These clawback powers apply to the cash and deferred elements of bonuses made in respect of performance in 2015 and subsequent years.</p>	<p>The Chief Executive, M&G has a bonus opportunity of the lower of six times salary or 0.75 per cent of M&G's IFRS profit. For other Executive Directors the maximum AIP opportunity is up to 200 per cent of salary. Annual awards are disclosed in the relevant Annual report on remuneration.</p> <p>In addition to the AIP, the Chairman and CEO, NABU receives a 10 per cent share of the Jackson Senior Management Bonus Pool.</p>
Deferred bonus shares	<p>Executive Directors are required to defer a percentage (currently 40 per cent) of their total annual bonus into Prudential shares for three years. The release of awards is not subject to any further</p>	<p>The maximum vesting under this arrangement is 100 per cent of the original deferral plus</p>

Variable pay

	<p>performance conditions.</p> <p>The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding deferred award in specific circumstances. From 2015, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).</p>	<p>accrued dividend shares.</p>
<p>Prudential Long Term Incentive Plan</p>	<p>Currently all Executive Directors participate in the Prudential Long Term Incentive Plan (PLTIP). The PLTIP has a three-year performance period. Vesting of outstanding awards is dependent on:</p> <p>Relative total shareholder return; and</p> <p>Group IFRS operating profit; or</p> <p>Business unit IFRS operating profit; and</p> <p>Balanced scorecard of sustainability measures.</p> <p>The performance measures attached to each award are dependent on the role of the executive and will be disclosed in the relevant Annual report on remuneration. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and subsequent years, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).</p> <p>From 2017, PLTIP awards are usually subject to an additional two-year holding</p>	<p>The value of shares awarded under the PLTIP (in any given financial year) may not exceed 550 per cent of the executive's annual basic salary.</p> <p>Awards made in a particular year are usually significantly below this limit and are disclosed in the relevant Annual report on remuneration. The Committee would consult with major shareholders before increasing award levels during the life of this policy.</p> <p>The maximum vesting under the PLTIP is 100 per cent of the original share award plus accrued dividend shares.</p>

period following the end of the
three-year performance period.

**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.

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The full policy sets out the Committee's powers in respect of Executive Directors joining or leaving the Board, where a change in performance conditions is appropriate or in the case of corporate transactions (such as a takeover, merger or rights issue). The policy also describes legacy long-term incentive plans under which some Executive Directors continue to hold awards.

Scenarios of total remuneration

The chart below provides an illustration of the future total remuneration for each Executive Director in respect of their remuneration opportunity for 2018. Three scenarios of potential outcome are provided based on underlying assumptions shown in the notes to the chart.

The Committee is satisfied that the maximum potential remuneration of the Executive Directors is appropriate. Prudential's policy is to offer Executive Directors remuneration which reflects the performance and experience of the executive, internal relativities and Group and/or business unit financial performance. In order for the maximum total remuneration to be payable:

Financial performance must exceed the Group and/or business unit's stretching business plan;

Relative TSR must be at or above the upper quartile relative to the peer group;

The sustainability scorecard, aligned to the Group's strategic priorities, must be fully satisfied;

Functional and personal performance objectives must be fully met; and

Performance must be achieved within the Group's and business units' risk framework and appetites.

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Notes

The scenarios in the chart above have been calculated on the following assumptions:

	Minimum	In line with expectations	Maximum
Fixed pay	<p>Base salary at 1 January 2018.</p> <p>Pension allowance at 1 January 2018.</p> <p>Estimated value of benefits based on amounts paid in 2017.</p> <p>Nic Nicandrou and Barry Stowe are paid in HK\$ and US\$ respectively and figures have been converted to GBP for the purposes of this chart.</p>		
Annual bonus	No bonus paid.	<p>50% of maximum AIP.</p> <p>Jackson bonus pool at the average of the last three years.</p>	<p>100% of maximum AIP.</p> <p>Jackson bonus pool at highest of the last three years.</p>
Long-term incentives (excludes share price growth and dividends)	No PLTIP vesting.	Vesting of 62.5% of award under PLTIP (midway between threshold and maximum).	100% of award under PLTIP.

Remuneration for Non-executive Directors and the Chairman

Fees	Benefits	Share ownership guidelines
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Non-executive Directors

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.

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.

Chairman

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.

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

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.

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.

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.

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In setting the Directors' remuneration policy, the Committee considers a range of factors including:

Conditions elsewhere in the Group

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit's salary increase budget is set with reference to local market conditions. The Remuneration Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

Prudential does not consult with employees when setting the Directors' remuneration policy. Prudential is a global organisation with employees and agents in multiple business units and geographies. As such, there are practical challenges associated with consulting with employees directly on this matter. As many employees are also shareholders, they are able to participate in binding votes on the Directors' remuneration policy and annual votes on the Annual report on remuneration.

Shareholder views

The Remuneration Committee and the Company undertake regular consultation with key institutional investors on the remuneration policy and its implementation. This engagement is led by the Remuneration Committee Chair and is an integral part of the Company's investor relations programme. The Committee is grateful to shareholders for their feedback and takes this into account when determining executive remuneration.

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ANNUAL REPORT ON REMUNERATION

The Board has established Audit, Remuneration, Risk and Nomination & Governance Committees as principal standing committees of the Board. These committees form a key element of the Group governance framework.

The operation of the Remuneration Committee

Members

Anthony Nightingale (the Chair of the Committee)
Kai Nargolwala
Philip Remnant
Thomas Watjen (member since 11 July 2017)

Role and responsibility

The role and responsibilities of the Committee are set out in its terms of reference, which are reviewed by the Committee and approved by the Board on an annual basis, and which can be found on the Company's website. The Committee's role is to assist the Board in meeting its responsibilities regarding the determination, implementation and operation of the overall remuneration policy for the Group, including the remuneration of the Chairman and Executive Directors, as well as overseeing the remuneration arrangements of other staff within its purview.

The principal responsibilities of the Committee are:

Determining and recommending to the Board for approval, the framework and policy for the remuneration of the Chairman, Executive Directors and other members of the Group Executive Committee;

Approving the design of performance-related pay schemes operated for the Executive Directors and other members of the Group Executive Committee, and determining the targets and individual payouts under such schemes;

Reviewing the design and development of all share plans requiring approval by the Board and/or the Company's shareholders;

Approving the share ownership guidelines for the Chairman and Executive Directors and other members of the Group Executive Committee, and monitoring compliance;

Reviewing and approving individual packages for the Executive Directors and other members of the Group Executive Committee, and the fees of the Chairman and the Non-executive Directors of the Group's material subsidiaries;

Reviewing and approving packages to be offered to newly recruited Executive Directors and other members of the Group Executive Committee;

Reviewing and approving the structure and quantum of any severance package for Executive Directors and other members of the Group Executive Committee;

Ensuring the process for establishing remuneration policy is transparent and consistent with the Group's risk framework and appetites, encouraging strong risk management and solvency management practices and taking account of remuneration practices across the Group;

Monitoring the remuneration and risk management implications of remuneration of senior executives across the Group, other selected roles and those with an opportunity to earn in excess of £1 million in a particular year; and

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Overseeing the implementation of the Group remuneration policy for those roles within scope of the specific arrangements referred to in Article 275 of Solvency II.

An annual review of the Committee's effectiveness was carried out as part of the Board evaluation, as described in more detail below. The Committee was found to be functioning effectively.

In 2017, the Committee met six times. Key activities at each meeting are shown in the table below:

Meeting	Key activities
February 2017	Approve the 2016 Directors' remuneration report; consider 2016 bonus awards for Executive Directors; consider vesting of the long-term incentive awards with a performance period ending on 31 December 2016; approve 2017 long-term incentive awards, performance measures and plan documentation; and note an update on regulation affecting remuneration.
March 2017	Confirm 2016 annual bonuses and the vesting of long-term incentive awards with a performance period ending on 31 December 2016, in light of audited financial results.
May 2017	Approve remuneration arrangements for a new Executive Director and an Executive Director whose role changed and separation arrangements for an Executive Director who stepped down from the Board.
June 2017	Consider performance for outstanding long-term incentive awards, based on the half-year results; review the remuneration of senior executives across the Group, employees with a remuneration opportunity over £1 million per annum and employees within the scope of the Solvency II remuneration rules; review progress towards share ownership guidelines by the Chairman, Executive Directors and other Group Executive Committee members; approve the Chairman's fees; and note an update on regulation affecting remuneration.
September 2017	Review proposed 2018 remuneration arrangements ahead of consultation with shareholders; approve the Solvency II Remuneration Policy Statement; and review the Remuneration Committee's terms of reference.
December 2017	Review level of participation in the Company's all-employee share plans and dilution levels resulting from the Company's share plans; approve Group Executive Committee members' 2018 salaries and incentive opportunities in light of initial shareholder feedback; consider the annual bonus and long-term incentive measures and targets to be used in 2018; review an initial draft of the 2017 Directors' remuneration report; approve the Committee's 2018 work plan; approve the fees for independent non-executive directors of the material subsidiaries; and note an update on regulation affecting remuneration..

The Chairman and the Group Chief Executive attend meetings by invitation. The Committee also had the benefit of advice from:

Group Chief Risk Officer;

Chief Financial Officer;

Group Human Resources Director; and

Director of Group Reward and Employee Relations.

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Individuals are never present when their own remuneration is discussed and the Committee is always careful to manage potential conflicts of interest when receiving views from Executive Directors or senior management about executive remuneration proposals.

During 2017, Deloitte LLP was the independent adviser to the Committee. Deloitte was appointed by the Committee in 2011 following a competitive tender process. As part of this process, the Committee considered the services that Deloitte provided to Prudential and its competitors, as well as other potential conflicts of interest. Deloitte is a member of the Remuneration Consultants' Group and voluntarily operates under their code of conduct when providing advice on executive remuneration in the UK. Deloitte regularly meet with the Chair of the Committee without management present. The Committee is comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee do not have connections with Prudential that may impair their independence and objectivity. The total fees paid to Deloitte for the provision of independent advice to the Committee in 2017 were £56,000 charged on a time and materials basis. During 2017, Deloitte gave Prudential management advice on remuneration, as well as providing guidance on capital optimisation, digital and technology, taxation, internal audit, real estate, global mobility and other financial, risk and regulatory matters. Remuneration advice is provided by an entirely separate team within Deloitte.

In addition, management received external advice and data from a number of other providers. This included market data and legal counsel. This advice, and these services, are not considered to be material.

During the year, the Company has complied with the appropriate provisions of the UK Corporate Governance Code regarding Directors' remuneration.

Table of 2017 Executive Director total remuneration (the 'single figure')

£000's	2017		2017		Of which:		2017	2017	Total
	taxable	benefits*	total	bonus	Amount	into			
	salary		paid in		Prudential		releases	pension	the 'single
	benefits*		Prudential		cash shares**			benefits	figure's
			bonus						figure's
Mark FitzPatrick(1)	335	18	1,197	718	479			84	1,634
John Foley	765	115	1,283	770	513	2,378		191	4,732
Penny James(2)	478	81						119	678
Nic Nicandrou(3)(8)	869	303	1,414	848	566	2,016		218	4,820
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	3,109		220	9,622
Mike Wells(6)	1,103	493	2,072	1,243	829	4,758		276	8,702
Tony Wilkey(7)	490	456	787	472	315	2,952		123	4,808
Total	5,320	1,678	14,507	8,703	5,803	15,213		1,331	38,049

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

** The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

In line with the regulations, the estimated value of PLTIP releases in 2017 has been calculated based on the average share/ADR price over the last three months of 2017 (£18.52/\$49.12). The actual value of PLTIPs, based on the share price on the date awards are released, will be shown in the 2018 report.

2017 pension benefits include cash supplements for pension purposes and contributions into DC schemes as outlined below.

§

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.

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- (3) To facilitate Nic Nicandrou's relocation to Hong Kong to take up his new role as Chief Executive, PCA, 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, PCA, Nic Nicandrou are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

Table of 2016 Executive Director total remuneration (the 'single figure')

£000's	2016 salary	2016 taxable benefits*	2016 total bonus	Amount paid in cash	Of which:			2016 pension benefits	Total 2016 remuneration the 'single figure'§
					Amount into Prudential shares**	2016 LTIP releases	2016 Other payments		
John Foley(1)	714	134	1,271	763	508	1,993	179	4,291	
Penny James	606	83	962	577	385	388	152	2,191	
Michael McLintock(2)	173	70	920	552	368	2,252	43	3,458	
Nic Nicandrou(3)	711	361	1,236	742	494	1,698	178	4,184	
Anne Richards(4)	228	82	1,368	821	547		2,140	57	3,875
Barry Stowe(5)(8)	820	46	5,229	3,137	2,092	1,379	205	7,679	
Mike Wells(6)	1,081	893	2,151	1,291	860	2,975	270	7,370	
Tony Wilkey(7)(8)	845	828	1,440	864	576	1,707	213	5,033	
Total	5,178	2,497	14,577	8,747	5,830	12,392	2,140	1,297	38,081

*

Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

**

The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

In line with the regulations, the estimated value of PLTIP releases in 2016 has been recalculated based on the actual share/ADR price on the date awards are released, being £16.63/\$41.58.

2016 pension benefits include cash supplements for pension purposes and contributions into DC schemes.

§

Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Notes

(1)

John Foley was appointed to the Board on 19 January 2016. The remuneration above was paid in respect of his service as an Executive Director, other than the LTIP releases which related to his previous role.

(2)

Michael McLintock stepped down from the Board on 6 June 2016. The remuneration above was paid in respect of his service as an Executive Director.

(3)

Nic Nicandrou's benefits relate primarily to relocation support under a legacy relocation clause in his contract, being £156,892 to cover taxes due on stamp duty paid in 2015.

(4)

Anne Richards was appointed to the Board on 7 June 2016. The remuneration above was paid in respect of her service as an Executive Director. In order to facilitate Anne's appointment as Chief Executive, M&G, the Company agreed to replace the deferred bonus awards she forfeited on leaving Aberdeen Asset Management. The terms of the replacement award are designed to replicate those of the forfeited awards and the value is set out in the 'Other payments' column. In addition, to support Anne's appointment as Chief Executive, M&G, the Company pays for accommodation in London and travel from Anne's home in Edinburgh to London totalling £45,493 and the value is included in the 'taxable benefits' column.

(5)

Barry Stowe's bonus figure excludes a contribution of £11,738 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2016 pension benefits.

(6)

To facilitate his move to the UK, Mike Wells's benefits include relocation support including £330,680 to cover taxes due on stamp duty paid in 2015 and £339,624 to cover mortgage interest. In addition, an amount of £497,748 was paid by the Company to meet a payment on account for US tax on these benefits which, as the tax will be payable in the UK, under the UK and US double tax treaty this amount will ultimately be refunded. Mike's benefits figure has been amended to include an additional £20,000 of home leave flights taken in 2016.

(7)

Tony Wilkey's benefits include costs of £260,917 for housing and a £413,663 Executive Director Location Allowance. The LTIP releases relate to his previous role, prior to his service as an Executive Director.

(8)

Barry Stowe and Tony Wilkey are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

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Executive Directors' salaries were reviewed in 2016 with changes effective from 1 January 2017. When the Committee took these decisions it considered:

The salary increases awarded to other employees, which vary across our business units, reflecting local market conditions;

The performance and experience of each Executive Director;

The relative size of each Executive Director's role; and

The performance of the Group.

As reported last year, after careful consideration by the Committee, all Executive Directors, other than the Group Chief Risk Officer, received a salary increase of 2 per cent. The Group Chief Risk Officer received a salary increase of 5 per cent. The 2017 salary increase budgets for other employees across our business units were between 2.5 per cent and 6 per cent. No changes were made to Executives 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
John Foley	Chief Executive, M&G Prudential	FTSE 40 International insurance companies
Penny James	Group Chief Risk Officer	FTSE 40
Nic Nicandrou Mark FitzPatrick	Chief Financial Officer	FTSE 40 International insurance companies
Anne Richards	Chief Executive, M&G	McLagan UK Investment Management Survey International insurance companies
Barry Stowe	Chairman & CEO, NABU	Towers Watson US Financial Services Survey LOMA US Insurance Survey
Mike Wells	Group Chief Executive	FTSE 40 International Insurance Companies
Tony Wilkey Nic Nicandrou	Chief Executive, PCA	Towers Watson Asian Insurance Survey

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Executive Director	2016 salary	2017 salary
Mark FitzPatrick ⁽¹⁾	N/A	£730,000
John Foley ⁽²⁾	£750,000	£765,000
Penny James ⁽³⁾	£606,000	£637,000
Nic Nicandrou ⁽⁴⁾	£711,000	HK\$10,500,000
Anne Richards ⁽⁵⁾	£400,000	£400,000
Barry Stowe	US\$1,111,000	US\$1,134,000
Mike Wells	£1,081,000	£1,103,000
Tony Wilkey ⁽⁶⁾	HK\$8,890,000	HK\$9,070,000

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) John Foley was appointed Chief Executive, UK and Europe on 19 January 2016. The annualised 2016 salary above was paid in respect of his service as Chief Executive, UK and Europe.
- (3) Penny James stepped down from the Board on 30 September 2017.
- (4) Nic Nicandrou was appointed Chief Executive, PCA on 17 July 2017. The annualised 2017 salary above was paid in respect of his service as Chief Executive, PCA.
- (5) Anne Richards was appointed Chief Executive, M&G on 7 June 2016. The annualised 2016 salary above was paid in respect of her service as Chief Executive, M&G.
- (6) Tony Wilkey stepped down from the Board on 17 July 2017.

Annual bonus**2017 annual bonus opportunities**

Executive Directors' bonus opportunities, the weighting of performance measures for 2017 and the proportion of annual bonuses deferred are set out below:

Executive Director	Maximum AIP opportunity (% of salary)	Deferral requirement	Weighting of measures		
			Group financial measures	Business unit financial/functional measures	Personal objectives
Mark FitzPatrick ⁽¹⁾	175%	40% of total bonus	80%		20%
John Foley	180%	40% of total bonus	20%	60%	20%
Penny James ⁽²⁾	160%	40% of total bonus	100% (functional/personal)		
Nic Nicandrou ⁽³⁾	180%	40% of total bonus	20%	60%	20%
Anne Richards	600%	40% of total bonus	20%	60%	20%
Barry Stowe ⁽⁴⁾	160%	40% of total bonus	80%		20%
Mike Wells	200%	40% of total bonus	80%		20%
Tony Wilkey ⁽⁵⁾	180%	40% of total bonus	20%	60%	20%

Notes

- (1) Mark FitzPatrick was appointed to the Board on 17 July 2017. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director. This was not pro-rated for the portion of the year for which he was an Executive Director, as Mark did not receive a 2017 bonus from his previous employer.
- (2) Penny James stepped down from the Board on 30 September 2017. The maximum bonus opportunity shown represents her annual opportunity as an Executive Director but no bonus was paid.
- (3) Nic Nicandrou was Chief Financial Officer until his appointment as Chief Executive, PCA on 17 July 2017. The maximum bonus opportunity and performance measures shown represents his annual opportunity in his current role this was pro-rated for the portion of the year he was in this role and he also received a pro-rated AIP for the portion of the year he was Chief Financial Officer.
- (4) Barry Stowe also receives 10 per cent of the Jackson bonus pool.
- (5) Tony Wilkey stepped down from the Board on 17 July 2017. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director. This was pro-rated for the portion of the year for which he was an Executive Director.

Table of Contents**2017 AIP performance measures and achievement***Target-setting process*

For the financial AIP metrics, the performance ranges are set by the Remuneration Committee prior to, or at the beginning of, the performance period based on the annual business plans approved by the Board. These reflect the ambitions of the Group and business units, in the context of anticipated market conditions.

The Committee seeks advice from the Group Risk Committee on risk management considerations to be applied to remuneration architecture and performance measures to ensure risk management culture and conduct is appropriately reflected in the design and operation of Executive Directors' remuneration.

In 2017, the AIP performance measures were simplified from seven to four measures and Executive Directors' 2017 bonuses were determined by the achievement of IFRS operating profit, operating free surplus, NBP EEV profit and cash flow, which are aligned to the Group's growth and cash generation focus. This reflected the Committee's objective to simplify the AIP metrics.

As part of the continuing implementation of Solvency II, the weightings of the Group Chief Risk Officer's AIP performance targets (with effect from 2017) were changed so that the entire AIP outcome relates to a combination of functional and personal measures.

Financial performance

The Committee reviewed performance against the performance ranges at its meeting in March 2018. Of the bonus performance metrics, the maximum targets were all exceeded other than Group IFRS operating profit, Savings & Retirement Solutions cash flow and IFRS operating profit, and PCA operating free surplus generated and IFRS operating profit which were between plan and maximum and Group NBP EEV profit and PCA NBP EEV profit which were between threshold and plan.

The Group Remuneration Committee considered a report from the interim Group Chief Risk Officer which had been approved by the Group Risk Committee. This report confirmed that the 2017 results were achieved within the Group's and business units' risk framework and appetite. The interim Group Chief Risk Officer also considered the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The interim Group Chief Risk Officer's recommendations were taken into account by the Committee when determining AIP outcomes for Executive Directors.

The level of performance required for threshold, plan and maximum payment against the Group's 2017 Annual Incentive Plan financial measures and the results achieved are set out below.

2017 AIP measure	Weighting	Threshold (£m)	Plan (£m)	Maximum (£m)	Achievement (£m)
Group IFRS operating profit	35%	3,967	4,464	4,785	4,699
Operating free surplus generated	30%	3,090	3,398	3,628	3,640
Group Cash flow	20%	(284)	16	136	159
NBP EEV profit	15%	3,339	3,697	3,836	3,616

The Board believe that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

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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;

Specific goals related to the business or function for which they are responsible and progress on major projects .

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At its meeting in March 2018, the Committee concluded that there had been a high level of performance against these 2017 objectives, as summarised below:

Business	Overview of objectives	2017 highlights
Group Head Office	Objectives included developing relationships with stakeholders, enhancing external publications, continued development of executive bench strength and leveraging digital opportunities	<p>Highly commended in the 2017 Building Public Trust in Corporate Reporting Awards in the category for tax reporting;</p> <p>Developed executive bench strength and succession and emerging talent to leverage high potential talent across the Group as demonstrated by the appointment of the former Group Chief Financial Officer as Chief Executive, PCA; and</p> <p>Won the Insurance category of Managements Today's Britain's Most Admired Companies' award.</p>
Prudential Corporation Asia and Africa	Objectives included leveraging digital opportunities, developing distribution channels, continued development of executive bench strength, developing Eastspring and growing the Group's Africa footprint	<p>Delivered various customer experience enhancements including askPRU, an insurance chatbot with real time information, and roll-out of myDNA, our DNA-based health and nutrition programme that enables customers to take a more personalised approach to their wellbeing;</p> <p>Launched PRU Fintegrate, an initiative that enables us to collaborate with fintech start-ups;</p> <p>Eastspring was chosen by IFC, part of the World Bank, as its first Asian partner in a programme that mobilises funds from institutional investors into projects in emerging markets; and</p> <p>Entered Nigeria, our fifth African market, by acquiring a majority stake in Zenith Life and formed exclusive bancassurance partnerships with Zenith Bank plc.</p>

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Business

North American Business Unit

Overview of objectives

Objectives included leveraging digital opportunities, developing our product range and focusing on core business areas

2017 highlights

Launched Jackson's The Financial Freedom Studio which aims to make retirement and investment choices easier to understand;

Introduced "Retire on Purpose", a new platform with a focus on thoughtful life planning as a crucial first step towards creating a comprehensive financial plan;

Launched Perspective Advisory II and Elite Access Advisory to serve advisers and distributors with a preference for advisory products, and launched Private Wealth Shield, entering the Private Wealth and Trust Market; and

Through our subsidiary National Planning Holdings, sold our US independent broker-dealer network in order to focus on our core business.

M&G Prudential

Objectives included the merger and successful integration of the Prudential UK and M&G businesses, leveraging digital opportunities, developing our range of products and investment offerings, and continued development of executive bench strength

Announced the merger of M&G and Prudential UK to offer customers and distributors wider and better choice and achieve cost savings;

Entered a 10-year partnership with Tata Consultancy Services, a global leader in IT, business process and digital services, to enhance service for our UK savings and retirement customers;

Introduced myM&G, a new online direct-to-consumer investing platform, with lower fund charges; and

Launched our first open-ended infrastructure fund of global listed infrastructure companies, the M&G ESG Global High

Yield Fund and six further M&G funds on the new SICAV platform.

Table of Contents*2017 Annual Incentive Plan payments*

On the basis of the strong performance of the Group and its business units, and the Committee's assessment of each Executive Director's personal performance, the Committee determined the following 2017 AIP payments:

Executive Director	Role	2017 salary(1)	2017 AIP Maximum payment		2017 AIP payment
			2017 AIP maximum)	(% of)	
Mark FitzPatrick ⁽²⁾	Chief Financial Officer	£730,000	175%	94%	£1,197,000
John Foley	Chief Executive, M&G Prudential	£765,000	180%	93%	£1,283,000
Penny James ⁽³⁾	Group Chief Risk Officer	£637,000	160%	0%	£nil
Nic Nicandrou ⁽⁴⁾	Chief Financial Officer/ Chief Executive, PCA	£726,000/ HK\$10,500,000	175%/	90%	£1,414,000
Anne Richards	Chief Executive, M&G	£400,000	600%	100%	£2,400,000
Barry Stowe ⁽⁴⁾	Chairman & CEO, NABU	US\$1,134,000	160%	94%	£5,354,000
Mike Wells	Group Chief Executive	£1,103,000	200%	94%	£2,072,000
Tony Wilkey ⁽⁵⁾	Chief Executive, PCA	HK\$9,070,000	180%	89%	£787,000

Notes

- (1) At 31 December 2017 or on stepping down from the Board if earlier.
- (2) As Mark FitzPatrick did not receive a bonus from his previous employer for 2017, his bonus was not pro-rated.
- (3) Penny James stepped down from the Board on 30 September 2017 and no bonus was paid.
- (4) In addition to the Annual Incentive Plan, Barry Stowe also participates in the Jackson bonus pool (see below).
- (5) Tony Wilkey stepped down from the Board on 17 July 2017. The AIP shown above was paid in respect of his service as an Executive Director.

2017 Jackson bonus pool

In 2017, the Jackson bonus pool was determined by Jackson National Life's profitability, capital adequacy, remittances to Group, in-force experience, ECap solvency ratio and credit rating. Across all these measures Jackson National Life delivered strong performance, and more detail on that performance is set out below. As a result of this performance the Committee determined that Barry Stowe's share of the bonus pool was US\$5,199,580.

Disclosure of targets and achievement for the 2016 Annual Incentive Plan

The level of performance required for threshold, plan and maximum payment against the Group's 2016 Annual Incentive Plan financial measures and the results achieved are set out below.

Weighting

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2016 AIP measure		Threshold (£m)	Plan (£m)	Maximum (£m)	Achievement (£m)
Group cash flow	10%	(357)	(224)	(195)	35
Operating free surplus generated	25%	2,719	3,244	3,394	3,566
Group Solvency II surplus	7.5%	9,400	11,900	12,900	12,483
Group ECap surplus	7.5%	15,551	18,551	20,051	22,470
NBP EEV profit	5%	2,674	2,949	3,009	3,088
In-force EEV profit	10%	1,682	1,912	2,002	2,409
Group IFRS operating profit	35%	3,483	3,733	3,908	4,256

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The Board believe that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

Update on performance against targets for awards made in 2016 and 2017 under the Prudential Long Term Incentive Plan

As at 31 December 2017, Prudential's TSR performance during the period 1 January 2016 and 31 December 2017 was ranked between median and upper quartile and during the period 1 January 2017 to 31 December 2017 was ranked in the upper quartile.

Prudential's Group IFRS operating profit performance between 1 January 2016 to 31 December 2017 was 5 per cent above the stretch target established for 2016 PLTIP awards. The Group's IFRS achievement between 1 January 2017 and 31 December 2017 was 2 per cent above the stretch target adopted for 2017 PLTIP award.

Between 1 January 2017 and 31 December 2017, the Group also made good progress towards meeting the measures which form part of the sustainability scorecard used for 2017 to 2019 PLTIP awards:

Capital measure As at 31 December 2017, the Group's Solvency II operating capital generation was above the plan level.

Conduct measure During 2017, there were no significant conduct/culture/governance issues that resulted in significant capital add-ons or material fines.

Diversity measure As at 31 December 2017, 25 per cent of our Leadership Team was female. This represented good progress towards the target that 27 per cent of the Leadership Team be female by the end of 2019.

Remuneration in respect of performance periods ending in 2017

Long-term incentive plans with performance periods ending on 31 December 2017

Our long-term incentive plans have stretching performance conditions that are aligned to the strategic priorities of the Group. In deciding the portion of the awards to be released, the Committee considered actual financial results against these performance targets. The Committee also reviewed underlying Company performance to ensure vesting levels were appropriate, including an assessment of whether results were achieved within the Group and business units' risk framework and appetite. The Directors' remuneration policy contains further details of the design of Prudential's long-term incentive plans.

Further details may also be found in note B2.2 to the consolidated financial statements.

Prudential Long Term Incentive Plan (PLTIP)

In 2015, all Executive Directors were granted awards under the PLTIP. The awards were subject to challenging targets. The weightings of these measures are detailed in the table below.

Executive Director	Weighting of measures	
	Group TSR(1)	IFRS operating profit (Group or business unit)(2)
John Foley	50%	50% (business unit target)
Barry Stowe	50%	50% (business unit target)
Mike Wells	50%	50% (business unit and Group target)
Tony Wilkey	50%	50% (business unit target)
All other Executive Directors	50%	50% (Group target)

Notes

(1)

Group TSR is measured on a ranked basis over three years relative to peers.

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(2)

IFRS operating profit is measured on a cumulative basis over three years.

(3)

Mike Wells, Barry Stowe and Tony Wilkey received additional awards following their change in role in 2015 and these awards had performance measures reflective of their new roles.

Under the Group TSR measure, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. The peer group for the 2015 awards is:

Aegon	Aflac	AIA	AIG
Allianz	Aviva	AXA	Generali
Legal & General	Manulife	MetLife	Munich Re
Old Mutual	Prudential Financial	Standard Life	Sun Life Financial
Swiss Re	Zurich Insurance Group		

Following the merger of Standard Life and Aberdeen Asset Management during the year, the Remuneration Committee determined that Standard Life would be retained in the peer group for the pre-merger period and the combined entity would be included in the peer group from the date of the merger for all outstanding PLTIP awards.

Prudential's TSR performance during the performance period (1 January 2015 to 31 December 2017) was between the median and upper quartile of the peer group (ranked 6th). The portion of the awards related to TSR that therefore vested was 91.67 per cent.

Under the IFRS measure, 25 per cent of the award vests for meeting the threshold IFRS profit set at the start of the performance period increasing to full vesting for performance at or above the stretch level. The table below illustrates the cumulative performance achieved over 2015 to 2017 compared to the Group targets set in 2015:

2015-17 cumulative targets

Group	Threshold	Plan	Maximum	2015-17 cumulative achievement	Overall vesting
IFRS operating profit	£9,872m	£10,969m	£12,066m	£12,962m	100%

The Committee determined that the cumulative IFRS operating profit target established for the PLTIP should be expressed using exchange rates consistent with the reported disclosures. All the individual business units exceeded their stretch performance target and achieved 100 per cent vesting, other than Asia which exceeded plan performance, but not the stretch target, and therefore vested at 87 per cent.

Details of business unit IFRS targets have not been disclosed as the Committee considers that these are commercially sensitive and disclosure of targets at such a granular level would put the Company at a disadvantage compared to its competitors. The Committee will keep this disclosure policy under review based on whether, in its view, disclosure would compromise the Company's competitive position.

Tony Wilkey holds PCA LTIP awards granted in 2014 and 2015. These PCA LTIP awards were granted before Tony was appointed to the Board. One of these awards, granted in 2014, had performance

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conditions and one of these awards, granted in 2015, had no performance conditions. Details of the performance conditions attached to the 2014 award and performance achieved are set out below:

Performance measure	Weighting	Performance target (to be achieved by 31 December 2017)	Performance achieved by 31 December 2017
PCA IFRS operating profit	50%	£1,826m	£1,855m
PCA operating free surplus generated	50%	£900m	£1,029m

LTIP vesting

The Committee considered a report from the interim Group Chief Risk Officer which had been approved by the Group Risk Committee. This report confirmed that the financial results were achieved within the Group's and business units' risk framework and appetite. On the basis of this report, and the performance of the Group and its business units described above, the Committee determined the vesting of each Executive Director's LTIP awards as set out below.

Executive Director	Maximum value of award at full vesting(1)	Percentage of the LTIP award vesting	Number of shares/ADRs vesting(2)	Value of shares vesting(1)
John Foley	£2,481,758	95.8%	128,376	£2,377,524
Nic Nicandrou	£2,104,050	95.8%	108,838	£2,015,680
Barry Stowe	£3,405,243	95.8% and 89.3%	81,591	£3,109,433
Mike Wells	£4,967,070	95.8%	124,861	£4,758,453
Tony Wilkey	£3,058,597	100% and 89.3%	159,373	£2,951,588

Notes

- (1) The share price used to calculate the value of the LTIP awards with performance periods which ended on 31 December 2017 and vest in 2018 was the average share price/ADR price for the three months up to 31 December 2017, being £18.52/\$49.12.
- (2) The number of shares vesting includes accrued dividend shares.

(3)

Mike Wells, Barry Stowe and Tony Wilkey received additional awards following their change in role in 2015 and these awards had performance measures reflective of their new roles.

Pension entitlements

Pension provisions in 2017 were:

Executive Director	2017 pension arrangement	Life assurance provision
Barry Stowe	Pension supplement of 25 per cent of salary, part of which is paid as a contribution to an approved US retirement plan.	Two times salary
Tony Wilkey/Nic Nicandrou	Pension supplement in lieu of pension of 25 per cent of salary and a HK\$18,000 payment to the Hong Kong Mandatory Provident Fund.	Eight times salary
UK-based executives	Pension contribution to defined contribution plan and/or pension supplement in lieu of pension of 25 per cent of salary.	Up to four times salary plus a dependants' pension

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John Foley previously participated in a non-contributory defined benefit scheme that was open at the time he joined the Company. The scheme provided an accrual of 1/60ths of final pensionable earnings for each year of pensionable service. The normal retirement date is 60 years of age and during 2017 John elected to commence payment of his pension. John took a tax free cash sum of £103,551.06 and from March 2017 received pension payments equivalent to £15,533 per annum, which increased to £15,636 per annum from 1 April 2017, in line with the Consumer Prices Index. The pension will continue to be subject to statutory increases in line with the Consumer Prices Index.

Performance graph and table

The chart below illustrates the TSR performance of Prudential, the FTSE 100 and the peer group of international insurers used to benchmark the Company's performance for the purposes of the PLTIP.

Prudential TSR vs. FTSE 100 and peer group average total return per cent over nine years to December 2017

Note

The peer group average represents the average TSR performance of the peer group used for 2017 PLTIP awards (excluding companies not listed at the start of the period).

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The information in the table below shows the total remuneration for the Group Chief Executive over the same period:

	2009	2009	2010	2011	2012	2013	2014	2015	2015	2016	2017
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
Salary, pension and benefits	1,013	286	1,189	1,241	1,373	1,411	1,458	613	1,992	2,244	1,872
Annual bonus payment	841	354	1,570	1,570	2,000	2,056	2,122	704	1,244	2,151	2,072
As % of maximum)	(92%)	(90%)	(97%)	(97%)	(100%)	(99.8%)	(100%)	(77.3%)	(99.7%)	(99.5%)	(94%)
TIP vesting	1,575		2,534	2,528	6,160	5,235	9,838	3,702	4,290	2,975	4,758
As % of maximum)	(100%)		(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(70.8%)	(95.8%)
Other payments	308										
Group Chief Executive 'single figure' of total remuneration	3,737	640	5,293	5,339	9,533	8,702	13,418	5,019	7,526	7,370	8,702

Notes

- (1) Mark Tucker left the Company on 30 September 2009. Tidjane Thiam became Group Chief Executive on 1 October 2009. The figures shown for Tidjane Thiam's remuneration in 2009 relate only to his service as Group Chief Executive.
- (2) Tidjane Thiam left the Company on 31 May 2015. Mike Wells became Group Chief Executive on 1 June 2015. The figures shown for Mike Wells's remuneration in 2015 relate only to his service as Group Chief Executive.

Percentage change in remuneration

The table below sets out how the change in remuneration for the Group Chief Executive between 2016 and 2017 compared to a wider employee comparator group:

	Salary	Benefits	Bonus
Group Chief Executive	2%	(44.8)%	(3.7)%
All UK employees	3%	3.3%	6.3%

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The employee comparator group used for the purpose of this analysis is all UK employees. This includes employees in the UK insurance operations business, M&G and Group Head Office, and reflects the average change in pay for employees employed in both 2016 and 2017. The salary increase includes uplifts made through the annual salary review, as well as any additional changes in the year; for example to reflect promotions or role changes. The UK workforce has been chosen as the most appropriate comparator group as it reflects the economic environment where the Group Chief Executive is employed.

Relative importance of spend on pay

The table below sets out the amounts payable in respect of 2016 and 2017 on all employee pay and dividends:

	2016	2017	Percentage change
All employee pay (£m) ⁽¹⁾	1,885	1,985	5%
Dividends (£m)	1,122	1,216	8.4%

Note

- (1) All employee pay as taken from note B2.1 to the financial statements.

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Long-term incentives awarded in 2017

2017 share-based long-term incentive awards

As detailed in the Directors' remuneration policy, approved by shareholders at the 2017 AGM, all long-term incentive awards made to Executive Directors in 2017 were granted under the PLTIP. The vesting of these awards will depend on:

Relative TSR (25 per cent of award);

Group or business unit IFRS operating profit (50 per cent of award); and

Balanced scorecard of strategic measures (25 per cent of award).

As part of the continuing implementation of Solvency II, the weightings of the Group Chief Risk Officer's LTIP performance targets (with effect from 2017) were different to the other Executive Directors and were:

Relative TSR (50 per cent of award);

Group IFRS operating profit (20 per cent of award); and

Balanced scorecard of strategic measures (30 per cent of award).

Under the Group TSR measure, 25 per cent of the award vests for TSR at the median of the peer group, increasing to full vesting for performance within the upper quartile. Following a comprehensive review of the peer group, supported by the Remuneration Committee's independent adviser and the Group's Investor Relations team, three companies (Aflac, Munich Re and Swiss Re) were removed for the 2017 awards because their products and geographic footprints are insufficiently similar to those of the Group.

TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison.

The peer group for the 2017 awards is:

Aegon	Aviva	AIA	AIG
Allianz	Manulife	AXA	Generali
Legal & General	Prudential Financial	MetLife	Sun Life Financial
Old Mutual	Zurich Insurance Group	Standard Life Aberdeen	

Under the IFRS measure, 25 per cent of the award vests for meeting the threshold IFRS operating profit, set at the start of the performance period increasing to full vesting for performance at or above the stretch level.

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Under the balanced scorecard, performance is assessed for each of the four measures, at the end of the three-year performance period. Each of the measures has equal weighting and the 2017 measures are set out below.

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: 100 per cent vesting for achieving plan, otherwise 0 per cent vesting. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.

Capital measure: Cumulative three-year Solvency II Group operating capital generation (as captured in published disclosures) relative to plan.

Vesting basis: 100 per cent vesting for achieving plan, otherwise 0 per cent vesting. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.

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: 100 per cent for achieving the Group's expectations, otherwise 0 per cent vesting.

Diversity measure: Percentage of the Leadership Team that is female at the end of 2019. The target for this metric will be based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female by the end of 2021. For this portion of PLTIP awards made in 2017 to vest, at least 27 per cent of our Leadership Team must be female by the end of 2019.

Vesting basis: 100 per cent vesting for achieving the target, otherwise 0 per cent vesting.

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The table below shows the awards made to Executive Directors in 2017 under share-based long-term incentive plans and the performance conditions attached to these awards:

Executive Director	Role	Number of shares or ADRs subject to award*	Face value of award**	Percentage of awards released for achieving	End of performance period	Weighting of performance conditions			IFRS operating segments		
				threshold targets		Group	Balanced	Group	Asia	US	UK
Patrick	Chief Financial Officer	101,360	£ 1,824,987	25%	31 December 2019	25%	25%	50%			
Wiley	Chief Executive, M&G Prudential	114,177	£ 1,912,465	25%	31 December 2019	25%	25%				50%
James	Group Chief Risk Officer	95,073	£ 1,592,473	25%	31 December 2019	50%	30%	20%			
Androu	Chief Financial Officer/ Chief Executive, PCA	108,357	£ 1,814,980	25%	31 December 2019	25%	25%	50%			
Richards	Chief Executive, M&G	107,461	£ 1,799,972	25%	31 December 2019	25%	25%				
Howe	Chairman & CEO, NABU	123,845	\$ 5,216,351	25%	31 December 2019	25%	25%				50%
Wells	Group Chief Executive	263,401	£ 4,411,967	25%	31 December 2019	25%	25%	50%			

ilkey	Chief Executive, PCA	139,340	£ 2,333,945	25%	31 December 2019	25%	25%	50%
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*

Awards over shares were awarded to all Executive Directors other than Barry Stowe whose awards were over ADRs.

**

Awards for Executive Directors are calculated based on the average share price over the three dealing days prior to the grant date, being £16.75 and an ADR price of \$42.12 for all Executive Directors other than Mark FitzPatrick and £18.005 for Mark FitzPatrick.

The 2017 balanced scorecard is assessed on a binary basis. The percentage of awards released for achieving maximum targets is 100 per cent.

Buy-out award

As reported in the 2016 Annual report on remuneration, in order to facilitate Anne Richards's appointment as Chief Executive, M&G, the Company agreed to replace the deferred bonus awards she forfeited on leaving Aberdeen Asset Management. The terms of the replacement award were designed to replicate those of the forfeited awards and are therefore not subject to performance conditions and will accrue dividend equivalents. These awards entitle Anne to receive a cash amount equal to the market value of the specified notional number of Prudential shares on the date of exercise, less an award price of 5p per share. The outstanding awards and the exercise periods are detailed below.

Exercise period	Number of notional shares
1 December 2018 to 1 January 2019	25,078
1 December 2019 to 1 January 2020	25,078
1 December 2020 to 1 January 2021	13,426

In December 2017, Anne exercised the second tranche of this replacement award. The gross value of the award exercised (which included dividend equivalents) was £747,671 and Anne used the net of tax value of £395,174 to buy 21,408 Prudential shares. Anne has committed to use the net of tax value of all her outstanding awards to buy Prudential shares.

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This buy-out award was made under rule 9.4.2 of the UKLA Listing Rules as the award could not be effected under any of the Company's existing incentive plans. Anne is the sole participant in this arrangement and no further awards will be made to Anne under the arrangement.

Chairman and Non-executive Director remuneration in 2017**Chairman's fees**

The Chairman's fee was reviewed by the Committee during 2017 and increased by 2 per cent to £734,000 with effect from 1 July 2017 in order to reflect inflation.

Non-executive Directors' fees

The Non-executive Directors' fees were reviewed by the Board during 2017 and the basic fee was increased by 2 per cent to £97,000. None of the fees for additional duties were increased:

	From 1 July 2016	From 1 July 2017
	(£)	(£)
Annual fees		
Basic fee	95,000	97,000
Additional fees:		
Audit Committee Chair	75,000	75,000
Audit Committee member	27,500	27,500
Remuneration Committee Chair	60,000	60,000
Remuneration Committee member	27,500	27,500
Risk Committee Chair	75,000	75,000
Risk Committee member	27,500	27,500
Nomination Committee member	10,000	10,000
Senior Independent Director	50,000	50,000

Note

If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.

The resulting fees paid to the Chairman and Non-executive Directors are:

£000s			2017		2016	
	2017 fees	2016 fees	taxable benefits*	taxable benefits*	the 'single figure'	the 'single figure'
Chairman						
Paul Manduca	727	710	122	121	849	831
Non-executive Directors						
Howard Davies	209	202			209	202
Ann Godbehere	79	205			79	205
Alistair Johnston ⁽¹⁾		47				47
David Law	176	122			176	122
Kai Nargolwala ⁽²⁾	151	150			151	150
Anthony Nightingale	166	165			166	165
Philip Remnant ⁽³⁾	211	210			211	210

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Alice Schroeder	124	122			124	122
Lord Turner	140	122			140	122
Thomas Watjen ⁽⁴⁾	59				59	
Total	2,042	2,055	122	121	2,164	2,176

*

Benefits include the cost of providing the use of a car and driver, medical insurance and security arrangements.

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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) Alistair Johnston stepped down from the Board on 19 May 2016.
- (2) Kai Nargolwala also received an annual fee of £250,000 (payable in HK\$) in respect of his non-executive chairmanship of Prudential Corporation Asia Limited with effect from 1 February 2016.
- (3) Philip Remnant also received an annual fee of £250,000 in respect of his non-executive chairmanship of M&G Group Limited with effect from 1 April 2016.
- (4) Thomas Watjen joined the Board on 11 July 2017.

Statement of Directors' shareholdings

The interests of Directors in ordinary shares of the Company are set out below. 'Beneficial interest' includes shares owned outright, shares acquired under the Share Incentive Plan (SIP) and deferred annual incentive awards, detailed in the 'Supplementary information' section. It is only these shares that count towards the share ownership guidelines.

	1 January 2017 (or on date of appointment)	During 2017	31 December 2017 (or on date of retirement)			Share ownership guidelines		
	Total beneficial interest (number of shares)	Number of shares acquired	Number of shares disposed	Total beneficial interest* (number of shares)	Number of shares subject to performance conditions	Total interest in shares	Share ownership guidelines (% of salary/fee)	Beneficial interest as a percentage of basic salary/basic fees\$
Chairman								
Paul Manduca	42,500			42,500		42,500	100%	108%
Executive Directors								
Mark FitzPatrick(1)		81		81	101,360	101,441	250%	0%
John Foley	249,965	154,770	154,619	250,116	381,325	631,441	250%	596%
Penny James(2)	41,572	47,365	13,376	75,561	236,049	311,610	N/A	N/A
Nic Nicandrou	304,138	134,338	146,167	292,309	349,310	641,619	250%	510%

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Anne Richards	31,439	54,922		86,361	153,367	239,728	250%	394%
Barry Stowe(3)	265,878	227,178	210,710	282,346	686,398	968,744	250%	585%
Mike Wells(4)	544,534	243,195	125,106	662,623	835,625	1,498,248	400%	1095%
Tony Wilkey(5)	120,528	101,428	147,537	74,419	454,170	528,589	N/A	N/A
Non-executive								
Directors								
Howard Davies	9,049	229		9,278		9,278	100%	178%
Ann Godbehere(6)	15,914			15,914		15,914	N/A	N/A
David Law	6,904	2,162		9,066		9,066	100%	174%
Kaikhushru Nargolwala	70,000			70,000		70,000	100%	1343%
Anthony Nightingale	30,000	20,000		50,000		50,000	100%	959%
Philip Remnant	6,916			6,916		6,916	100%	133%
Alice Schroeder(7)	8,500			8,500		8,500	100%	163%
Lord Turner	5,500	1,052		6,552		6,552	100%	126%
Tom Watjen(8)		5,500		5,500		5,500	100%	106%

*

There were no changes of Directors' interests in ordinary shares between 31 December 2017 and 14 March 2018, with the exception of the UK based Executive Directors due to their participation in the monthly SIP. Mark FitzPatrick acquired a further 31 shares in the SIP, John Foley acquired a further 30 shares in the SIP and Mike Wells acquired a further 30 shares in the SIP during this period.

Further information on share awards subject to performance conditions are detailed in the 'share-based long-term incentive awards' section of the Supplementary information.

Holding requirement of the Articles of Association (2,500 ordinary shares) must be obtained within one year of appointment to the Board. The increased guidelines for Executive Directors were introduced with effect from January 2013 and increased again in 2017. Executive Directors have five years from this date (or date of joining or role change, if later) to reach the enhanced guideline. The guideline for Non-executive Directors was introduced on 1 July 2011. Non-executive Directors have three years from their date of joining to reach the guideline. Where applicable, all directors are in compliance with the share ownership guideline.

§

Based on the average closing price for the six months to 31 December 2017 (£18.23).

The Company and its Directors, Chief Executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, Directors, Chief Executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of Directors' and Chief Executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under

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section 336 of the SFO. The Company is, however, required to file with the Stock Exchange of Hong Kong Limited any disclosure of interests notified to it in the United Kingdom.

Notes

- (1) Mark FitzPatrick was appointed to the Board on 17 July 2017. Total interest in shares is shown from this date.
- (2) Penny James stepped down from the Board on 30 September 2017. Total interest in shares is shown as at this date.
- (3) For the 1 January 2017 figure, Barry Stowe's beneficial interest in shares is made up of 132,939 ADRs (representing 265,878 ordinary shares), (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 31 December 2017, figure the beneficial interest in shares is made up of 141,173 ADRs (representing 282,346 ordinary shares).
- (4) For the 1 January 2017 figure, Mike Wells' beneficial interest in shares is made up of 218,576 ADRs (representing 437,152 ordinary shares) and 107,382 ordinary shares. For the 31 December 2017 figure his beneficial interest in shares is made up of 249,811 ADRs (representing 499,622 ordinary shares) and 163,001 ordinary shares.
- (5) Tony Wilkey stepped down from the Board on 17 July 2017. Total interest in shares is shown as at this date.
- (6) Ann Godbehere stepped down from the Board on 18 May 2017. Total interest in shares is shown as at this date.
- (7) For the 1 January 2017 and 31 December 2017 figure, Alice Schroeder's beneficial interest in shares is made up of 4,250 ADRs (representing 8,500 ordinary shares).
- (8) Tom Watjen was appointed to the Board on 11 July 2017. Total interest in shares is shown from this date. For the 31 December 2017 figure, Tom Watjen's beneficial interest in shares is made up of 2,750 ADRs (representing 5,500 ordinary shares).
- (9) James Turner, who joined the Board as Group Chief Risk Officer on 1 March 2018, has a total beneficial interest in 9,701 shares, awards over 82,976 shares subject to performance conditions and an option over 1,237 shares in the UK Prudential Savings-Related Share Option Scheme. There was no change in his share interests between 1 and 14 March 2018.

The bar chart below illustrates the Executive Directors' shareholding as a percentage of base salary versus the share ownership guideline.

Table of Contents**Outstanding share options**

The following table sets out the share options held by the Executive Directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period. Anne Richards holds options under her buy-out arrangement, details of which were set out above.

	Date of grant	Exercise price (pence)	Market price at 31 Dec 2017 (pence)	Exercise period		Number of options		
				Beginning	End period	Granted	Exercised	End of period
Mark FitzPatrick	21 Sep 17	1455	1905.5	01 Dec 22	31 May 23		2,061	2,061
John Foley	23 Sep 14	1155	1905.5	01 Dec 17	31 May 18	779	779	
John Foley	21 Sep 16	1104	1905.5	01 Dec 19	31 May 20	815		815
John Foley	21 Sep 17	1455	1905.5	01 Dec 20	31 May 21		618	618
Penny James	22 Sep 15	1111	1905.5	01 Dec 18	31 May 19	1,620		1,620
Nic Nicandrou	23 Sep 14	1155	1905.5	01 Dec 19	31 May 20	1,311		1,311
Nic Nicandrou	21 Sep 16	1104	1905.5	01 Dec 21	31 May 22	1,358		1,358
Anne Richards	21 Sep 16	1104	1905.5	01 Dec 19	31 May 20	1,630		1,630
Mike Wells	22 Sep 15	1111	1905.5	01 Dec 18	31 May 19	1,620		1,620

Notes

- (1) A gain of £5,139.84 was made by Directors in 2017 on the exercise of SAYE options.
- (2) No price was paid for the award of any option.
- (3) The highest and lowest closing share prices during 2017 were £19.15 pence and £15.32 pence respectively.
- (4) All exercise prices are shown to the nearest pence.
- (5) Penny James participated in the plan during her time as an Executive Director. The column above marked 'End of period' reflects Penny James's position as at 30 September 2017, the date at which she stepped down from the Board.
- (6) Following Nic Nicandrou's appointment as Chief Executive of PCA on 17 July 2017, he was able to continue saving under his SAYE option contracts at that date but is no longer eligible to participate in future SAYE grants.

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.

Executive Directors	Service contracts		External appointment	
	Date of contract	Notice period to the Company	Notice period from the Company	Fee received in the period the Executive Director was a Group Director
Mark FitzPatrick	17 May 2017	12 months	12 months	
John Foley	8 December 2010	12 months	12 months	
Nic Nicandrou	27 April 2009	12 months	12 months	
Anne Richards	4 July 2016	12 months	12 months	
Barry Stowe	18 October 2006	12 months	12 months	
Mike Wells	21 May 2015	12 months	12 months	

Directors served on the boards of educational, charitable and cultural organisations without receiving a fee for these services.

Details of changes to the Board of Directors during the year are set out in the Corporate governance report.

Table of Contents**Letters of appointment of the Chairman and Non-executive Directors**

Details of Non-executive Directors' individual appointments are outlined below. The Directors' remuneration policy contains further details on their letters of appointment.

Chairman/Non-executive Director	Appointment by the Board	Initial election by shareholders at the AGM	Notice period	Expiry of the current term of appointment
Chairman				
Paul Manduca(1)	15 October 2010	AGM 2011	12 months	AGM 2018
Non-executive Directors				
Philip Remnant	1 January 2013	AGM 2013	6 months	AGM 2019
Howard Davies	15 October 2010	AGM 2011	6 months	AGM 2018
Ann Godbehere(2)	2 August 2007	AGM 2008	6 months	N/A
David Law	15 September 2015	AGM 2016	6 months	AGM 2019
Kai Nargolwala	1 January 2012	AGM 2012	6 months	AGM 2018
Anthony Nightingale	1 June 2013	AGM 2014	6 months	AGM 2020
Alice Schroeder	10 June 2013	AGM 2014	6 months	AGM 2020
Lord Turner	15 September 2015	AGM 2016	6 months	AGM 2019
Thomas Watjen(3)	11 July 2017	AGM 2018	6 months	AGM 2018

Notes

- (1) Paul Manduca was appointed as Chairman on 2 July 2012.
- (2) Ann Godbehere retired from the Board at the 2017 AGM.
- (3) Thomas Watjen joined the Board on 11 July 2017.

Recruitment arrangements

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In making decisions about the remuneration arrangements for those joining the Board, the Committee worked within the Directors' remuneration policy approved by shareholders and was mindful of:

The skills, knowledge and experience that each new Executive Director brought to the Board;

The need to support the relocation of executives to enable them to assume their roles; and

Its commitment to honour legacy arrangements.

Appointing high-calibre executives to the Board and to different roles on the Board is necessary to ensure the Company is well positioned to develop and implement its strategy and deliver long-term value. As the Company operates in an international market place for talent, the best internal and external candidates are sometimes asked to move location to assume their new roles. Where this happens, the Company will offer relocation support. The support offered will depend on the circumstances of each move but may include paying for travel, shipping services, the provision of temporary accommodation and other housing benefits. Executives may receive support with the preparation of tax returns, but no current Executive Director is tax equalised.

Mark FitzPatrick joined the Board during the year. As Mark did not need to relocate to enable him to assume his role and he had no awards from his previous employer to replace, there were no specific arrangements required for his recruitment.

Nic Nicandrou changed Board role during the year. As this change resulted in Nic relocating to enable him to assume his new role, relocation support in line with the approved Directors' remuneration policy was provided. Details of this support are included in the notes to the 2017 'single figure' table.

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Payments to past Directors and payments for loss of office

The Committee's approach when exercising its discretion under the policy is to be mindful of the particular circumstance of the departure and the contribution the individual made to the Group.

Penny James

Penny James stepped down from the Board, and her employment ended, on 30 September 2017. Her remuneration arrangements were in line with the approved Directors' remuneration policy, and disclosed in stock exchange announcements, and the remuneration she received in respect of her services as an Executive Director is set out in the 2017 'single figure' table.

Penny did not receive a loss of office payment.

Penny's deferred bonus awards will be released in accordance with the plan rules and remain subject to malus and clawback provisions.

The Committee determined that Penny should not receive a bonus in respect of the 2017 performance year. The Committee also exercised its discretion in accordance with the approved Directors' remuneration policy and determined that Penny should forfeit her unvested PLTIP awards granted in 2015, 2016 and 2017.

Tony Wilkey

Tony Wilkey stepped down from the Board on 17 July 2017. His remuneration arrangements were in line with the approved Directors' remuneration policy, and disclosed in stock exchange announcements, and the remuneration he received in respect of his services as an Executive Director is set out in the 2017 'single figure' table.

Tony's employment with the Group will end on 17 July 2018 and between 18 July 2017 and 31 December 2017 he received £1,345,308 in respect of salary, benefits and pension in accordance with his contract of employment. Tony did not receive a loss of office payment.

Tony's deferred bonus awards will be released in accordance with the plan rules and remain subject to malus and clawback provisions.

Recognising his contribution to the Company's success, the Committee determined that Tony should be awarded a bonus in respect of the 2017 performance year which was calculated in the usual way and pro-rated for service to 17 July 2017. 60 per cent of this bonus will be paid in 2018 and 40 per cent will be deferred for three years, subject to malus and clawback provisions.

The Committee also exercised its discretion in accordance with the approved Directors' remuneration policy and determined that Tony should be allowed to retain his unvested PCA LTIP and PLTIP awards granted in 2014, 2015, 2016 and 2017. These awards will vest in accordance with the original timetable, subject to the original performance conditions, remain subject to malus and clawback provisions, and will be pro-rated for service.

As referred to above, Tony holds PCA LTIP and PLTIP awards granted in 2014 and 2015. The two PCA LTIP awards were granted before Tony was appointed to the Board: one of these awards, granted in 2014, had performance measures and one of these awards, granted in 2015, had no performance conditions.

As set out in the section 'Remuneration in respect of performance in 2017' the performance conditions attached to Tony's 2015 PLTIP awards were partially met and 89.3 per cent of these awards will be released in 2018 and the performance conditions attached to Tony's 2014 PCA Performance LTIP awards

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were met in full and 100 per cent of these awards will be released in 2018. The details of all Tony's LTIP releases are set out below.

Award	Number of shares vesting(1)	Value of shares vesting(2)
PCA LTIP	42,183	£781,229
PCA LTIP with performance conditions	68,806	£1,274,287
Prudential LTIP	48,384	£896,071

Notes

- (1) The number of shares vesting include accrued dividend shares.
- (2) The share price used to calculate the value was the average share price for the three months up to 31 December 2017, being £18.52.

Michael McLintock

Michael McLintock's employment with the Group ended on 31 July 2016. The 2016 Directors' remuneration report provided details of the remuneration arrangements that would apply to Michael after he left the Board. During the year, tax was paid by the Company in 2017 on certain non-payroll benefits received by Michael in 2016 (and reported in the Annual report on remuneration for 2016), which amounted to £7,496.

Michael holds a PLTIP award granted in 2015 and as set out in the section Remuneration in respect of performance in 2017 the performance condition attached to Michael's 2015 PLTIP awards was partially met and 91.67 per cent of these awards will be released in 2018. These awards were pro-rated for service (16 of 36 months) and the details of the release are set out below.

Award	Number of shares vesting(1)	Value of shares vesting(2)
Prudential LTIP	15,557	£288,116

Notes

- (1) The number of shares vesting includes accrued dividend shares.
- (2)

The share price used to calculate the value was the average share price for the three months up to 31 December 2017, being £18.52.

Additionally, Michael holds phantom share awards granted under the 2015 M&G Executive Long-Term Incentive. The share price of those awards is determined by the increase or decrease in M&G's profitability over the three-year performance period with adjustments for the investment performance of its funds. These awards were pro-rated for service (578 of 1,096 days) and M&G's performance and the resulting phantom share price are shown below:

Award	Three-year profit growth of M&G	Three-year investment performance	2016 phantom share price	Value of awards vesting
2015 M&G Executive LTIP	12%	2 nd quartile	£2.05	£1,277,875

Other Directors

A number of former Directors receive retiree medical benefits for themselves and their partner (where applicable). This is consistent with other senior members of staff employed at the same time. A de

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minimis threshold of £10,000 has been set by the Committee; any payments or benefits provided to a past Director under this amount will not be reported.

Statement of voting at general meeting

At the 2017 Annual General Meeting, shareholders were asked to vote on the new Directors' remuneration policy and the 2016 Directors' remuneration report. Each of these resolutions received a significant vote in favour by shareholders and the Committee is grateful for this support and endorsement by our shareholders. The votes received were:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the Directors' remuneration policy (2017 AGM)	1,773,691,171	90.71	181,582,497	9.29	1,955,273,668	45,820,585
To approve the Directors' remuneration report (2017 AGM)	1,754,440,188	88.86	219,921,823	11.14	1,974,362,011	26,736,043

Statement of implementation in 2018**Executive Directors**

Executive Directors' remuneration packages were reviewed in 2017 with changes effective from 1 January 2018. When the Committee took these decisions, it considered the salary increases awarded to other employees in 2017 and the expected increases in 2018. The external market reference points used to provide context to the Committee were identical to those used for 2017 salaries.

All Executive Directors received a salary increase of 2 per cent. The 2018 salary increase budgets for other employees across the Group's business units were between 2.5 per cent and 10 per cent. No changes have been made to executives' maximum opportunities under either the annual incentive or the long-term incentive plans.

The Executive Directors' bonus opportunity, performance measures and weightings will remain the same as in 2017. The Executive Directors' long-term incentive awards will be made under the PLTIP and the opportunity, performance measures and weightings will remain the same as 2017 other than:

Following the merger of Standard Life and Aberdeen Asset Management, the combined entity of Standard Life Aberdeen will be included in the relative TSR peer group; and

Performance against the balanced scorecard measures in the scorecard used for the 2018 PLTIP awards will be assessed on a vesting scale of threshold, target and maximum performance over a three-year period rather than using the binary, meet/fail, approach used for the 2017 PLTIP awards.

On 1 March 2018, the Company announced that James Turner had joined the Board as Group Chief Risk Officer. James's basic salary will be £625,000 per annum. He will have a maximum bonus opportunity of 160 per cent of base salary under the Annual Incentive Plan. In accordance with the Solvency II remuneration requirements, James's bonus will be assessed solely on functional and personal objectives. Forty per cent of any bonus will be deferred into the Company's shares for three years. Long-term incentive awards, granted under the Prudential LTIP, will have a face value on grant of 250 per cent of base salary. In accordance with the Solvency II remuneration requirements, the vesting of James's PLTIP

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awards will depend on TSR (50 per cent of award), Group IFRS operating profit (20 per cent of award) and the sustainability scorecard (30 per cent of award). James's service contract contains a notice provision under which either party may terminate upon 12 months' notice.

Chairman and Non-executive Directors

Fees for the Chairman and Non-executive Directors were reviewed in 2017 with changes effective from 1 July 2017, as set out above. The next review will be effective 1 July 2018.

Table of Contents**SUPPLEMENTARY INFORMATION****Directors' outstanding long-term incentive awards****Share-based long-term incentive awards**

	Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2017	Conditional awards in 2017	Market price at date of award (pence)	Dividend equivalents on vested shares (Number of shares released)	Rights exercised in 2017	Rights lapsed in 2017	Conditional share awards outstanding at 31 Dec 2017	Date of end of performance period
			(Number of shares)	(Number of shares)	(pence)	(note 3)			(Number of shares)	
Mark										
FitzPatrick	PLTIP	2017		101,360	1828				101,360	31-Dec-19
				101,360					101,360	
John Foley										
	PLTIP	2014	125,776		1317	7,972	89,093	36,683		31-Dec-16
	PLTIP	2014	29,556		1342	1,872	20,935	8,621		31-Dec-16
	PLTIP	2015	122,808		1672				122,808	31-Dec-17
	PLTIP	2016	144,340		1279				144,340	31-Dec-18
	PLTIP	2017		114,177	1672				114,177	31-Dec-19
			422,480	114,177		9,844	110,028	45,304	381,325	
Nic										
Nicandrou	PLTIP	2014	132,375		1317	8,390	93,768	38,607		31-Dec-16
	PLTIP	2015	104,117		1672				104,117	31-Dec-17
	PLTIP	2016	136,836		1279				136,836	31-Dec-18
	PLTIP	2017		108,357	1672				108,357	31-Dec-19
			373,328	108,357		8,390	93,768	38,607	349,310	
Anne										
Richards	PLTIP	2016	45,906		1358.5				45,906	31-Dec-18
	PLTIP	2017		107,461	1672				107,461	31-Dec-19
			45,906	107,461					153,367	
Barry										
Stowe(1)	PLTIP	2014	114,824		1317	7,034	78,462	36,362		31-Dec-16
	PLTIP	2015	113,940		1672				113,940	31-Dec-17
	PLTIP	2015	50,668		1611.5				50,668	31-Dec-17
	PLTIP	2016	274,100		1279				274,100	31-Dec-18

	PLTIP	2017		247,690	1672			247,690	31-Dec-19
			553,532	247,690		7,034	78,462	36,362	686,398
Mike									
Wells(2)	PLTIP	2014	238,954		1317	15,178	169,262	69,692	31-Dec-16
	PLTIP	2015	209,222		1672			209,222	31-Dec-17
	PLTIP	2015	30,132		1611.5			30,132	31-Dec-17
	PLTIP	2016	332,870		1279			332,870	31-Dec-18
	PLTIP	2017		263,401	1672			263,401	31-Dec-19
			811,178	263,401		15,178	169,262	69,692	835,625

Notes

- (1) The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.
- (2) The awards in 2014 and 2015 for Mike Wells were made in ADRs (1 ADR = 2 ordinary shares). The awards in 2016 and 2017 were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.
- (3) A dividend equivalent was accumulated on these awards.

Business-specific cash-based long-term incentive plans

	Year of award	Face value of conditional share awards outstanding at 1 January 2017 £000	Payments made in 2017 £000	Face value of conditional awards outstanding at 31 December 2017 £000	Date of end of performance period
Anne Richards					
M&G Executive LTIP	2016	1,200		1,200	31 Dec 2018

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Note

Under the M&G Executive LTIP, the value of each unit at award is £1. The value of units changes based on M&G's profit growth and investment performance over the performance period.

Other share awards

The table below sets out Executive Directors' deferred bonus share awards.

		Conditional share awards Year of grant	Conditional share awards at 1 Jan 2017	Dividends accumulated in 2017 (note 3)	Share released in 2017	Conditional share awards outstanding at 31 Dec 2017	Date of end of restricted period	Market price at date of release award	Market price at date of vesting or release	
		(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)		(pence)	(pence)	
John Foley										
Deferred 2013 annual incentive award	2014	33,968			33,968		31-Dec-16	03-Apr-17	1,317	1,653
Deferred 2014 annual incentive award	2015	43,651		1,132	44,783		31-Dec-17		1,672	
Deferred 2015 annual incentive award	2016	65,713		1,705	67,418		31-Dec-18		1,279	
Deferred 2016 annual incentive award	2017		30,352	787	31,139		31-Dec-19		1,672	
		143,332	30,352	3,624	33,968	143,340				
Nic Nicandrou										
Deferred 2013 annual incentive award	2014	38,024			38,024		31-Dec-16	03-Apr-17	1,317	1,653
Deferred 2014 annual incentive award	2015	29,887		775	30,662		31-Dec-17		1,672	
Deferred 2015 annual incentive award	2016	39,107		1,014	40,121		31-Dec-18		1,279	
Deferred 2016 annual incentive award	2017		29,504	765	30,269		31-Dec-19		1,672	

award

107,018	29,504	2,554	38,024	101,052
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Anne Richards

Deferred 2016
annual incentive
award

2017		32,668	846		33,514	31-Dec-19		1,672
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		32,668	846		33,514			
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**Barry Stowe
(note 1)**

Deferred 2013
annual incentive
award

2014	32,950			32,950		31-Dec-16	03-Apr-17	1,317	1,653
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Deferred 2014
annual incentive
award

2015	29,046		754		29,800	31-Dec-17		1,672
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Deferred 2015
annual incentive
award

2016	111,618		2,900		114,518	31-Dec-18		1,279
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Deferred 2016
annual incentive
award

2017		134,534	3,494		138,028	31-Dec-19		1,672
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	173,614	134,534	7,148	32,950	282,346			
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**Mike Wells
(note 2)**

Deferred 2013
annual incentive
award

2014	108,578			108,578		31-Dec-16	03-Apr-17	1,317	1,653
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Deferred 2014
annual incentive
award

2015	120,686		3,136		123,822	31-Dec-17		1,672
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Deferred 2015
annual incentive
award

2016	107,112		2,778		109,890	31-Dec-18		1,279
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Deferred 2016
annual incentive
award

2017		51,371	1,332		52,703	31-Dec-19		1,672
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	336,376	51,371	7,246	108,578	286,415			
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Notes

(1)

The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

(2)

The awards for Mike Wells in 2014 and 2015 were made in ADRs (1 ADR = 2 ordinary shares). The awards made in 2016 and 2017 were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

(3)

A dividend equivalent was accumulated on these awards.

All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive Directors are invited to participate in these plans on the same basis as other staff in their location.

Save As You Earn (SAYE) schemes

UK-based Executive Directors are eligible to participate in the HM Revenue and Customs (HMRC) approved Prudential Savings-Related Share Option Scheme. This scheme allows all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Since 2014 participants have been able to elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within

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six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and any other option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

Details of Executive Directors' rights under the SAYE scheme are set out in the 'Outstanding share options' table.

Share Incentive Plan (SIP)

UK-based Executive Directors are also eligible to participate in the Company's Share Incentive Plan (SIP). Since April 2014, all UK-based employees have been able to purchase Prudential plc shares up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the SIP together with matching shares (awarded on a 1:4 basis) and dividend shares.

		Share Incentive Plan awards held	Partnership shares	Matching shares	Dividend shares	Share Incentive Plan awards held in Trust at 31 Dec 2017
	Year of initial grant	in Trust at 1 Jan 2017	accumulated in 2017	accumulated in 2017	accumulated in 2017	
		(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)
Mark FitzPatrick	2017		65	16		81
John Foley	2014	433	104	26	13	576
Nic Nicandrou ⁽¹⁾	2010	1,644	63	16	43	1,766
Mike Wells	2015	270	104	26	8	408

Note

(1)

Following Nic Nicandrou's appointment as Chief Executive of PCA on 17 July 2017, he is no longer eligible to participate in the SIP. However, while his shares remain in the SIP Trust he will receive any dividends payable on these shares.

Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out Executive Directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some executive directors, please see our Annual Report.

Dilution

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Releases from the Prudential Long Term Incentive Plan and the Prudential Agency Long Term Incentive Plan are satisfied using new issue shares rather than by purchasing shares in the open market. Shares relating to options granted under all-employee share plans are also satisfied by new issue shares. The combined dilution from all outstanding shares and options at 31 December 2017 was 1.09 per cent of the total share capital at the time. Deferred bonus awards will continue to be satisfied by the purchase of shares in the open market.

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Share Ownership

Directors shareholdings

The current shareholding policy and the interests of directors in ordinary shares of Prudential are shown under the sections 'Compensation Shareholding guidelines' and 'Compensation Directors' Shareholdings' above.

Prudential is not owned or controlled directly or indirectly by another corporation or by any government or by any other natural or legal person severally or jointly and Prudential does not know of any arrangements that might result in a change in Prudential's control.

In addition, Prudential's directors held, as at 28 February 2018, options to purchase 9,413 shares, all of which were issued under Prudential's Savings-Related Share Option Scheme (SAYE) and Anne Richards also holds share options under her buy out arrangement. These options and plans are described in more detail below under 'Options to purchase securities from Prudential' in this section.

Outstanding options of directors and other executive officers

The SAYE is open to all UK and certain overseas employees. Options under this scheme up to HM Revenue & Customs (HMRC) limits are granted at a 20 per cent discount and cannot normally be exercised until a minimum of three years has elapsed. No payment is made for the grant of any options.

The share options held by the directors and other executive officers as at the end of period are shown under the section 'Compensation Outstanding share options' above.

Options to purchase and discretionary awards of securities from Prudential

As of 28 February 2018, 6,240,988 options were outstanding, which Prudential issued under the SAYE schemes. As of 28 February 2018, directors and other executive officers held 9,413 of such outstanding options. In addition, Anne Richards holds share options under her buy out arrangement. Except as described above in 'Outstanding options of directors and other executive officers', each option represents the right of the bearer to subscribe for one share at a particular pre-determined exercise price at a pre-set exercise date.

As of 28 February 2018, 31,781,930 shares were outstanding under other awards. Of those 1,406,466 shares were outstanding under the Annual Incentive Plan, 256,661 shares were outstanding under the PruCap Deferred Bonus Plan, 28,745 shares were outstanding under the Momentum Retention Plan, 3,818 shares were outstanding under the One Off Awards, 759,158 shares were outstanding under the Restricted Share Plan, 16,779,086 shares were outstanding under the PLTIP, 1,870,726 shares were outstanding under the Deferred Share Plans, 5,810,241 shares were outstanding under the PCA LTIP and 4,867,029 were outstanding under the Prudential Agency Long Term Incentive Plan. Such outstanding awards held by directors or other executive officers at 31 December 2017 are included under 'Long-term incentive plans' in the 'Compensation' section above.

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The aggregate proceeds that would arise if all outstanding options under the SAYE schemes were exercised is £73 million. The latest expiration dates for exercise or release of the securities underlying the options or awards and the number of options or shares are set out in the table below.

Year of Expiration	Options Outstanding Under Savings Related Share Option Scheme	Shares Outstanding Under Other Awards	Total
	(in millions)	(in millions)	(in millions)
2018	0.279	8.675	8.954
2019	1.796	11.438	13.234
2020	1.829	11.282	13.111
2021	1.683	0.221	1.904
2022	0.342	0.045	0.387
2023	0.312	0.12	0.432
Total	6.241	31.781	38.022

Information concerning the Group's share award and share option plans for its employees is provided above as well as in note B2.2 to the consolidated financial statements.

Employees

The average numbers of staff employed by the Prudential group, excluding employees of the venture investment subsidiaries of the PAC with-profits fund, for the following periods were:

	2017	2016	2015
Business operations:			
Asia	15,477	15,439	15,030
US	4,564	4,447	4,562
UK and Europe*	7,110	6,381	5,920
Total	27,151	26,267	25,512

*

The UK and Europe staff numbers include staff from central operations and Africa, which are unallocated to a segment.

At 31 December 2017, Prudential employed 22,912 permanent employees representing an increase in the year from 22,498 employees as at 31 December 2016. Of the 22,912 employees, approximately 31 per cent were located in the United Kingdom, 50 per cent in Asia and 19 per cent in the United States. In the United Kingdom at 31 December 2017, Prudential had 367 employees paying union subscriptions through the payroll. At 31 December 2017, Prudential had 640 temporary employees in the United Kingdom, 3,977 in Asia and 132 in the United States. At 31 December 2017, Prudential had 357 fixed term contractors in the United Kingdom, 771 in Asia and none in the United States.

SUPPLEMENTARY INFORMATION ON THE COMPANY

Company Address and Agent

Prudential plc is a public limited company incorporated on 1 November 1978 and registered in England and Wales. Refer to 'Governance Memorandum and Articles of Association' for further information on the constitution of the Company.

Prudential's registered office is Laurence Pountney Hill, London EC4R 0HH, England (telephone: +44 20 7220 7588). Prudential's agent in the United States for purposes of Item 4 of this annual report

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on Form 20-F is Jackson National Life Insurance Company, located at 1 Corporate Way, Lansing, Michigan 48951, United States of America.

Significant Subsidiaries

The table below sets forth Prudential's significant subsidiaries.

	Main activity	Country of incorporation
The Prudential Assurance Company Limited	Insurance	England and Wales
M&G Investment Management Limited*	Asset management	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
PT Prudential Life Assurance*	Insurance	Indonesia
Prudential Hong Kong Limited*	Insurance	Hong Kong

*

Owned by a subsidiary undertaking of the Company.

The Company has 100 per cent of the voting rights of the subsidiaries except the Indonesian subsidiary, where the Company has 94.6 per cent of the voting rights attaching to the aggregate of the shares across the types of capital in issue. The percentage of equity owned is the same as the percentage of the voting power held.

Each subsidiary operates mainly in its country of incorporation.

Investments

General

The overall financial strength of Prudential and the results, both current and future, of the insurance business are in part dependent upon the quality and performance of the various investment portfolios in the United Kingdom, the United States and Asia.

Prudential's total investments

The following table shows Prudential's insurance and non-insurance investments, net of derivative liabilities, at 31 December 2017. In addition, at 31 December 2017 Prudential had £219.7 billion of external funds under management. Assets held to cover linked liabilities relate to unit-linked and variable

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annuity products. In this table, investments are valued as set out in note A3.1 to the consolidated financial statements.

	At 31 December 2017 £m					Less:	Group
	Asia	US	UK and Europe	Other	Total	assets to cover linked liabilities and external unit holders(a)	excluding assets to cover linked liabilities and external unit holders
Investment properties	5	5	16,487		16,497	(5,421)	11,076
Investments accounted for using the equity method	912		504		1,416		1,416
Financial investments:							
Loans	1,317	9,630	5,986	109	17,042		17,042
Equity securities and portfolio holdings in unit trusts	29,976	130,630	62,670	115	223,391	(144,890)	78,501
Debt securities	40,982	35,378	92,707	2,307	171,374	(25,238)	146,136
Other investments	113	2,459	7,728	123	10,423	(251)	10,172
Deposits	1,291	43	9,540	362	11,236	(1,655)	9,581
Total financial investments	73,679	178,140	178,631	3,016	433,466	(172,034)	261,432
Total investments	74,596	178,145	195,622	3,016	451,379	(177,455)	273,924
Derivative liabilities	(79)	(5)	(1,661)	(1,010)	(2,755)	(29)	(2,784)
Total investments, net of derivative liabilities	74,517	178,140	193,961	2,006	448,624	(177,484)	271,140

(a)

Prudential's Group statement of financial position includes the line by line investments of unit-linked and the consolidated unit-trusts and similar funds. In the table above, these amounts have been deducted in deriving the underlying investments in the right-hand column.

Further analysis is included in the consolidated financial statements, in accordance with IFRS 7 'Financial Instruments: Disclosures'. The further analysis is included in notes C2 and C3 to Prudential's consolidated financial statements.

Prudential's insurance investment strategy and objectives

Prudential's insurance investments support a range of businesses operating in many geographic areas. Each of the operations formulates a strategy based on the nature of its underlying liabilities, its level of capital and its local regulatory requirements.

Internal funds under management

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Prudential manages 67 per cent of its group funds principally through its fund management businesses, M&G Prudential in the UK, PPM America in the United States and Eastspring Investments in Asia. The remaining 33 per cent of the Group's funds mainly relate to assets held to back unit-linked, unit trust and variable annuity liabilities.

In each of the operations, local management analyses the liabilities and determines asset allocation, benchmarks and permitted deviations from these benchmarks appropriate for its operation. These benchmarks and permitted deviations are agreed with internal fund managers, who are responsible for implementing the specific investment strategy through their local fund management operations.

Investments strategy and objectives

Investments relating to M&G Prudential's insurance business

In the UK, M&G Prudential tailors its investment strategy for long-term business, other than unit-linked business, to match the type of product a portfolio supports. The primary distinction is between

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with-profits portfolios and non-participating portfolios, which include the majority of annuity portfolios. Generally, the objective is to maximise returns while maintaining investment quality and asset security and adhering to the appropriate government regulations.

Consistent with the product nature, in particular regarding guarantees, the with-profits fund's investment strategy emphasises a well-diversified equity portfolio (containing some international equities), real estate (predominantly in the UK), UK and international fixed income securities and cash.

For M&G Prudential's pension annuities business and other non-participating non-linked business the objective is to maximise profits while ensuring stability by closely matching the cash flows of assets and liabilities. To achieve this matching, the strategy is to invest in fixed income securities of appropriate maturity dates.

For M&G Prudential's unit-linked business, the primary objective is to maximise investment returns subject to following an investment policy consistent with the representations M&G Prudential has made to its unit-linked product policyholders.

Investments relating to Prudential's US insurance business

The investment strategy of the US insurance operations, for business other than the variable annuity business, is to maintain a diversified and largely investment grade debt securities portfolio that maintains a desired investment spread between the yield on the portfolio assets and the rate credited on policyholder liabilities. Interest rate scenario testing is regularly used to monitor the effect of changes in interest yields on cash flows, the present value of future profits and interest rate spreads.

The investment portfolio of the US insurance operations consists primarily of debt securities, although the portfolio also contains investments in mortgage loans, policy loans, common and preferred stocks and derivative instruments.

Investments relating to Asian insurance business

Prudential's Asian insurance operations' investments, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, largely support the business of Prudential's Singapore, Hong Kong and Malaysia operations.

Prudential manages interest rate risk in Asia by matching liabilities with fixed interest assets of the same duration to the extent possible. Asian fixed interest markets however generally have a relatively short bond issue term, which makes complete matching challenging. A large proportion of the Hong Kong liabilities are denominated in US dollars and Prudential holds US fixed interest securities to back these liabilities.

Description of Property Corporate Property

As at 31 December 2017, Prudential's UK headquartered businesses occupied 111 operating leases in the United Kingdom, Europe, Asia and Africa. These properties are primarily offices with some ancillary storage facilities. Prudential's global headquarters is located in London. Of the remainder, the most significant holdings are offices in London and Reading in England, Stirling in Scotland and Mumbai in India. Of the 111 operating leases, 94 are held leasehold and the rest (17) are short-term serviced offices. The leasehold properties range in size from 500 sq. ft. to 235,000 sq. ft. Overall, the UK, Europe, Africa and Asia property portfolio occupied by the UK headquartered businesses totals approximately 1,005,000 sq. ft.

Prudential's UK headquartered businesses also hold one surplus owned property and approximately eight surplus leasehold interests in the United Kingdom, mostly situated in London. This surplus accommodation (ie not occupied by the Group and including subleases) totals approximately

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215,000 sq. ft. There are also two surplus land holdings in the United Kingdom, totalling 57 acres. A high proportion of the surplus estate has been sublet to third party occupiers generating income for the Group to cover this overhead. As at 31 December 2017 vacancy within the surplus estate stood at 4,556 sq. ft.

Key transactions include the M&G agreement to lease 328,000 sq. ft. of offices in Central London, commencing in 1st quarter 2018. The building will be fitted out in 2018 for occupation in 2019.

In the United States, Prudential owns Jackson National Life's executive and principal administrative office located in Michigan. Prudential owns a total of eight facilities in Lansing, Michigan, which total approximately 876,655 sq. ft. Prudential also leases premises in Michigan, Colorado, Tennessee, California, Illinois, New York, New Jersey, Georgia, Florida, Wisconsin, Massachusetts, Connecticut, New Hampshire, Pennsylvania, Texas, Maryland, Washington D.C. and North Dakota for certain of its operations. Prudential holds 32 operating leases with respect to office space, throughout the United States. The leasehold properties range in size from 150 sq. ft. to 155,000 sq. ft. In the United States, Prudential owns and leases a total of approximately 1,457,000 sq. ft. of property. In addition to the owned and leased properties, Prudential also owns a total of 446 acres of surplus land, all located in Lansing, Michigan.

Prudential's United States headquartered business also sublets three surplus office properties in Lansing, Michigan, totalling approximately 34,193 sq. ft., located in one of its owned properties.

The Jackson leased property at Franklin, Tennessee, USA (154,737 sq. ft.), is under contract for purchase and expected to close 1st quarter 2018. After the transaction is finalised, the total owned property in the United States will increase from 876,655 sq. ft. to 1,031,392 sq. ft. and total leased fall from 580,097 sq. ft. to 425,360 sq. ft. The total owned and leased properties in the United States will remain unchanged at approximately 1,457,000 sq. ft.

In Asia, Prudential owns or leases properties principally in Hong Kong, Singapore, Malaysia, Indonesia, Thailand, the Philippines, China (joint venture), Taiwan, Japan, Vietnam, India (associate), Korea, Myanmar, Laos and Cambodia.

Within these countries, Prudential owns 53 property assets (including those owned by its with-profits funds), ranging from office space to land holdings. The breakdown of these owned assets by country is as follows:

Malaysia (excluding the Malaysia Takaful joint venture) has twenty six individually saleable owned assets, including office and residential space totalling 294,789 sq. ft.

Philippines: two owned assets Office space totalling 4,278 sq. ft.

Singapore: one owned asset Office space totalling 11,883 sq. ft.

Taiwan : sixteen owned assets All surplus land holdings totalling 30,137 sq. ft.

Thailand : eight owned assets Office space and surplus land holdings totalling 36,481 sq. ft.

Prudential in Asia has a total of 339 external operating leases, totalling approximately 3.47 million sq. ft. of property (excluding property interests held by its joint venture/associate businesses in China, India and Malaysia (Takaful)).

The total holdings for Prudential joint venture/associate businesses in China, India and Malaysia (Takaful) comprises approximately 895 leased properties, totalling approximately 2.6 million sq. ft.. There are six owned assets in Malaysia (Takaful) totalling 12,315 sq. ft. and one owned and occupied asset comprising approximately 42,000 sq. ft. in Mumbai, India.

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The Malaysian headquartered businesses (forming part of Prudential Corporation Asia) have agreed a pre-let transaction with a developer to lease 326,500 sq ft of offices in Kuala Lumpur, commencing in 2019. The building is currently under construction.

There have been no other property transactions subsequent to 31 December 2017 which would have a material impact on the financial position of Prudential.

Prudential believes that its facilities are suitable for the conduct of its businesses. Space requirements are periodically reviewed and Prudential may acquire or lease new space as needed to accommodate any future needs of the businesses. Prudential's operating leases have no material commercial value.

In summary, the Prudential shareholder-backed business owns 41 properties which it also occupies and which are accounted for as owner occupied. These properties are comprised of 33 in Asia and eight in the US. The India associate also owns and occupies one property in India. The total value of Prudential's owner occupied properties at 31 December 2017 was £295 million. This represents less than 1 per cent of Prudential's total assets.

Prudential is the lessee under 690 operating leases used as office accommodation, comprising 561 leases held by the Asia business (including the China and Malaysia (Takaful) joint ventures), 32 leases held by the US business and 97 leases held by the UK businesses. For the UK based businesses, Prudential holds a further 17 short-term serviced offices.

Investment Interests

Prudential also holds interests in properties within its investment portfolios accounted for as investment property. At 31 December 2017 the total value of investment properties was £16,497 million and comprised 487 properties held by the UK, 20 held in Asia and 1 held by the US. In total they comprised 3.3 per cent of Prudential's total assets. The UK business' holdings account for over 99 per cent by value of the total investment properties.

Intellectual Property

Prudential conducts business under the 'Prudential', 'Jackson', 'M&G' and 'Eastspring Investments' brand names and logos. It is also the registered owner of over 100 domain names, including 'www.prudential.co.uk', 'www.prudentialcorporation-asia.com', 'www.jackson.com', 'www.mandg.co.uk', 'www.eastspringinvestments.com' and 'www.pru.co.uk'.

Prudential does not operate in the United States under the Prudential name and there have been long-standing arrangements between it and Prudential Financial, Inc. and its subsidiary, the Prudential Insurance Company of America, relating to their respective uses of the Prudential name. Under these arrangements Prudential Financial Inc. has the right to use the Prudential name in the Americas and certain parts of the Caribbean, Japan, Korea and Taiwan, and Prudential has the right to use the name everywhere else in the world although third parties have rights to the name in certain countries.

Legal Proceedings

In addition to the matters set out in note C11 to the consolidated financial statements in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in a number of 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.

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ADDITIONAL INFORMATION

Risk Factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-Looking Statements'.

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, government interest rates remain low in the US, the UK and some Asian countries in which Prudential operates.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include the reduction in accommodative monetary policies in the US, the UK and other jurisdictions together with its impact on the valuation of all asset classes, effects on interest rates and the risk of disorderly repricing of inflation expectations and global bond yields, concerns over sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty and potentially negative socio-political events.

The adverse effects of such factors could be felt principally through the following items:

Reduced investment returns arising on the Group's portfolios including impairment of debt securities and loans, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, and/or have a negative impact on its assets under management and profit;

Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

Failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

Estimates of the value of financial instruments becoming more difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

Increased illiquidity, which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

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In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, Jackson writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

In addition, Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

Also, in the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the significant proportion of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

On 29 March 2017 the UK submitted the formal notification of its intention to withdraw from the EU pursuant to Article 50 of the Treaty on the European Union, as amended. Following submission of this notification, the UK has a maximum period of two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached between the UK and the EU, then it is expected the UK's membership of the EU will automatically terminate two years after the submission of the notification of the UK's intention to withdraw from the EU. The UK's decision to leave the EU will have

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political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including M&G Prudential, and these may be impacted by a UK withdrawal from the EU. The outcome of the negotiations on the UK's withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market, is currently unknown. As a result, there is ongoing uncertainty over the terms under which the UK will leave the EU, whether any transitional arrangements will be agreed between the UK and the EU, the possibility of a lengthy period before negotiations are concluded, and the potential for a disorderly exit by the UK without a negotiated agreement. This uncertainty may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

A significant part of the profit from M&G Prudential's insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopted policies that devalued or otherwise altered the currencies in which its obligations were denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

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Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility that Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax), capital control measures on companies and individuals, regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, or decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively may adversely affect Prudential. The adverse impact from these changes may affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of interventions by governments following recent financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

Recent shifts in the focus of some national governments toward more protectionist or restrictive economic and trade policies could impact on the degree and nature of regulatory changes and Prudential's competitive position in some geographic markets. This could take effect, for example, through increased friction in cross-border trade or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies.

The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission began a review in late 2016 of some aspects of the Solvency II legislation, which is expected to continue until 2021 and covers, among other things, a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the

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'volatility adjustment' for selected US Dollar-denominated business, and UK transitional measures. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position.

The UK's decision to leave the EU could result in significant changes to the legal and regulatory regime under which the Group operates, the nature and extent of which are uncertain while the outcome of negotiations regarding the UK's withdrawal from the EU and the extent and terms of any future access to the single EU market remains unknown.

Currently there are also a number of other global regulatory developments which could impact Prudential's businesses in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs), the Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS), the Markets in Financial Instruments Directive (the "MiFID II Directive"), which recently came into force in the EU and the EU General Data Protection Regulation that comes into force in May 2018. In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments in Solvency II in the UK (as referred to above), National Association of Insurance Commissioners' reforms in the US including any implications from the recently enacted US tax reform legislation and amendments to certain local statutory regimes in some territories in Asia. There remains a high degree of uncertainty over the potential impact of these changes on the Group.

The Dodd-Frank Act provides for a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years. There is also potential uncertainty surrounding future changes to the Dodd-Frank Act under the current US administration.

Prudential's designation as a G-SII was reaffirmed on 21 November 2016. As a result of this designation, Prudential is subject to additional regulatory requirements, including a requirement to submit enhanced risk management plans (such as a Group-wide Recovery Plan, a Systemic Risk Management Plan and a Liquidity Risk Management Plan) to a Crisis Management Group (CMG) comprised of an international panel of regulators.

The G-SII regime also introduces capital requirements in the form of a Higher Loss Absorption (HLA) requirement. While this requirement was initially intended to come into force in 2019, this has now been postponed to 2022. The HLA is also now intended to be based on the ICS. The IAIS has announced that the implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. During the monitoring phase, Internationally Active Insurance Groups, for which Prudential satisfies the criteria, will be required to report on compliance with the ICS to the group-wide supervisor on a confidential basis, although these results will not be used as a basis to trigger supervisory action. The Common Framework (ComFrame) for the Supervision of Internationally Active Insurance Groups will more generally establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions.

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Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise in which Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I which, under its standard IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'), which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. The European Union will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. The implementation of this standard is also likely to require significant enhancements to IT, actuarial and finance systems of the Group, and so will have an increase on the Group's expenses.

Any changes or modification of IFRS accounting policies may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. Such actions may relate to the application of current regulations for example the Financial Conduct Authority's (FCA) principles and conduct of business rules or the failure to implement new regulations. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed. Current regulatory actions include the UK business's undertaking to the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. This will result in the UK business being required to provide redress to certain such customers, the ultimate amount of which remains uncertain.

Regulators may also focus on the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary (subjecting the person or entity to certain regulatory requirements, such as those adopted by the US Department of Labor (DoL). Elements of the DoL fiduciary duty rules, including the impartial conduct standards, became effective on 9 June 2017 but applicability of the remaining

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components of the rules has been delayed until 1 July 2019. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material respects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, the ability to respond to developing demographic trends, customer appetite for certain savings products and technological advances. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors include global life insurers such as Allianz, AXA, and Manulife together with regional insurers such as AIA and Great Eastern, and multinational asset managers such as Franklin Templeton, HSBC Global Asset Management, J.P. Morgan Asset Management and Schroders. In most markets, there are also local companies that have a material market presence.

M&G Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Janus Henderson, Jupiter, Legal & General, Schroders and Standard Life Aberdeen.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as Aegon, AIG, Allianz, AXA Financial Inc., Brighthouse, Lincoln Financial Group, MetLife and Prudential Financial.

Prudential believes competition will intensify across all regions in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

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Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current policyholders, and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A by Standard & Poor's, and A- by Fitch. These ratings are all on a stable outlook.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's, and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa3 by Moody's, A+ by Standard & Poor's, and AA- by Fitch. These ratings are all on a stable outlook.

Jackson's financial strength is rated AA- by Standard & Poor's and Fitch, A1 by Moody's, these ratings all have a stable outlook and A+ Rating Under Review with Developing Implications by AM Best.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA- by Standard & Poor's. This rating is on a stable outlook.

All ratings above are stated as at 21 March 2018.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing partners) of direct or indirect loss resulting from inadequate or failed internal and external processes, systems or human error, the effects of natural or man-made catastrophic events (such as natural disasters, pandemics, cyber-attacks, acts of terrorism, civil unrest and other catastrophes) or from other external events. Exposure to such events could disrupt Prudential's systems and operations significantly, which may result in financial loss and reputational damage.

Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and it employs a large number of models, and user developed applications, some of which are complex, in its processes. The long-term nature of much of the Group's business also means that accurate records have to be maintained for significant periods. Further, Prudential operates in an extensive and evolving legal and regulated environment which adds to the operational complexity of its business processes and controls.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes.

As part of the implementation of its business strategies, Prudential has commenced a number of change initiatives to be established across the Group, some of which are interconnected and/or of large scale, that may have material financial and reputational implications if such initiatives fail (either wholly or in part) to meet their objectives and could place strain on the operational capacity of the Group. These initiatives include the combination of M&G and Prudential UK & Europe, the proposed demerger of M&G Prudential and the intended sale of part of the UK annuity portfolio. In addition, Prudential outsources several operations, including a significant part of its back office and customer-facing functions

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as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational and model risk incidents do happen periodically and no system or process can entirely prevent them although there have not been any material events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or security breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

The proposed demerger of M&G Prudential carries with it execution risk and will require significant management attention

The proposed demerger of M&G Prudential (Prudential's UK business), is subject to a number of factors (including prevailing market conditions, transfer of the Hong Kong business from The Prudential Assurance Company Limited to Prudential Corporation Asia Limited and approvals from regulators and shareholders). Therefore there can be no certainty as to the timing of the demerger, or that it will be completed as proposed (or at all). Further, if the proposed demerger is completed, there can be no assurance that either Prudential plc or M&G Prudential will realise the anticipated benefits of the transaction, or that the proposed demerger will not adversely affect the trading value or liquidity of the shares of either or both of the two businesses. In addition, preparing for and implementing the proposed demerger is expected to require significant time from management, which may divert management's attention from other aspects of Prudential's business.

Attempts by third parties to access or disrupt Prudential's IT systems could result in loss of trust from Prudential's customers, reputational damage and financial loss

Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from Prudential's customers, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. Prudential's increasing market profile, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness and the classification of Prudential as a G-SII could also increase the likelihood of Prudential being considered a target by cyber criminals. Further, there have been recent changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased. Developments in data protection worldwide (such as the EU General Data Protection Regulation that comes into force in May 2018) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third party suppliers') IT systems. To date, Prudential has not identified a failure or breach which has had a material impact in relation to its legacy and other IT systems and processes. However, it has been, and likely will continue to be, subject to potential damage from computer viruses, attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

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Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

The failure to understand and respond effectively to the impacts of transitional and physical risks associated with climate change could adversely affect Prudential's results of operations and its long-term strategy

Climate change poses potentially significant risks to Prudential and its customers, not only from the physical impacts of climate change, driven by specific climate-related events such as natural disasters, but also from the transition risks, associated with the shift to a low carbon economy.

The climate risk landscape continues to evolve and is moving up the agenda of many regulators, governments, non-governmental organisations and investors. For example, the Financial Stability Board (FSB's) Task Force for Climate-related Disclosures recommendations were published in 2017 to provide a voluntary framework on corporate climate-related financial disclosures following the FSB's concern that there may be systemic risk in the financial system related to climate change.

Global commitments to limit climate change were recently agreed and governmental and corporate efforts to transition to a low carbon economy in the coming decades could have an adverse impact on global investment assets. In particular, there is a risk that this transition including the related changes to technology, policies and regulations and the speed of their implementation, could result in some sectors (such as but not limited to the fossil fuel industry) facing significantly higher costs and a disorderly adjustment to their asset values. This could lead to an adverse impact on the value and the future performance of the investment assets of the Group if climate considerations are not effectively integrated into investment decisions and fiduciary and stewardship duties. Where Prudential's investment horizons are long-term, the relevant assets are potentially more exposed to the long-term impact of climate change.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive. Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality are also of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group, especially for Jackson's portfolio of variable annuities. Prudential's

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persistence assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

In addition, Prudential's business may be adversely affected by epidemics and other effects that give rise to a large number of deaths or additional sickness claims. Significant influenza epidemics have occurred a number of times historically but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this "Risk Factors" section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could also be subject to changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

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Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Dividend Data

Under UK company law, Prudential may pay dividends only if it has 'distributable profits' available for that purpose. 'Distributable profits' are accumulated, realised profits not previously distributed or capitalised less accumulated, realised losses not previously written off, on the applicable GAAP basis. Even if distributable profits are available, under English law Prudential may pay dividends only if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (such as, for example, the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate. For further information about the Company, please refer to the section headed Condensed Financial Information of Registrant (Schedule II).

As a holding company, Prudential is dependent upon dividends and interest from its subsidiaries to pay cash dividends. Many of its insurance subsidiaries are subject to regulations that restrict the amount of dividends that they can pay to the Company. These restrictions are discussed in more detail in note D6(a) to Prudential's consolidated financial statements and the section headed Supervision and Regulation of Prudential.

Historically, Prudential has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Since 2016, Prudential makes twice-yearly interim dividend payments instead of the final and interim dividend payments (the 2015 second interim dividend being the first such second interim dividend paid). Subject to the restrictions referred to above, Prudential's directors have the discretion to determine whether to pay an interim dividend and the amount of any such interim dividend but must take into account the Company's financial position. The directors still retain the discretion to recommend payment of a final dividend, such recommendation to be approved by ordinary resolution of the shareholders. The approved amount may not exceed the amount recommended by the directors.

The following table shows certain information regarding the dividends per share that Prudential declared for the periods indicated in pence sterling and converted into US dollars at the noon buying rate in effect on each payment date. First interim dividends for a specific year now generally have a record date in August and a payment date in September of that year, and second interim dividends (or final

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dividends) now generally have a record date in the following March/April and a payment date in the following May.

Year	First Interim Ordinary Dividend (pence)	Interim Ordinary Dividend (US Dollars)	Second interim Dividend (pence)	Final Ordinary Dividend/ Second interim Ordinary Dividend (US Dollars)	Special dividend (pence)	Special dividend (US Dollars)
2013	9.73	0.1558	23.84	0.4019		
2014	11.19	0.1825	25.74	0.4034		
2015	12.31	0.1877	26.47	0.3842	10.00	0.1451
2016	12.93	0.1680	30.57	0.3980		
2017	14.50	0.1948	32.50			

The Board has decided to increase the full-year ordinary dividend by 8 per cent to 47.00 pence per share, reflecting our 2017 financial performance and our confidence in the future prospects of the Group. In line with this, the directors have approved a second interim ordinary dividend of 32.50 pence per share (2016: 30.57 pence per share).

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

Major Shareholders

The Disclosure Guidance and Transparency Rules issued by the FCA provide that a person or corporate entity that acquires an interest of 3 per cent or more in Prudential ordinary shares is required to notify Prudential of that interest. If such interest subsequently reaches, exceeds or falls below a whole percentage point, this must also be notified. Similarly, a notification is required when the interest falls below 3 per cent. At 20 March 2018 Prudential had received the following notifications:

Significant Changes in Ownership

Year	Name of Company	Date Prudential was notified	Number of Prudential shares held	% of total Voting rights attaching to issued share capital	Change in interest
2015	The Capital Group Companies Inc.	February	255,928,904	9.966	Decrease in interest
2016	The Capital Group Companies Inc.	February	260,722,745	10.135	Increase in interest
	The Capital Group Companies Inc.	October	254,501,437	9.87	Decrease in interest

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2017	Norges Bank	April	129,079,401	4.99	Decrease in interest
	Norges Bank	June	103,060,503	3.99	Decrease in interest
2018	n/a	n/a	n/a	n/a	n/a

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No notifications had been received in 2018 as at 20 March 2018.

Shareholder	Date advised	Percentage of share capital	Shareholding
Capital Group Companies, Inc.	25/10/2016	9.87%	254,501,437
BlackRock Inc	05/04/2012	5.08%	129,499,098
Norges Bank	30/06/2017	3.99%	103,060,503

Major shareholders of Prudential have the same voting rights per share as other shareholders. See Governance Memorandum and Articles of Association 'Voting Rights'.

As at 20 March 2018, there were 136 shareholders with a US address on Prudential's register of shareholders. These shares represented approximately 0.01 per cent of Prudential's issued ordinary share capital. As at 20 March 2018, there were 58 registered Prudential ADR holders. The shares represented by these ADRs amounted to approximately 2.27 per cent of Prudential's issued ordinary share capital.

Prudential does not know of any arrangements which may at a subsequent date result in a change of control of Prudential.

Material Contracts

Not applicable.

Exchange Controls

Other than the requirement to report certain events and transactions to HM Revenue and Customs, there are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange controls, or that affect the remittance of dividends or other payments to non-UK residents or to US holders of Prudential's securities, except as otherwise set forth under 'Taxation' in this section.

Taxation

The following is a summary, under current law and practice, of the principal UK tax, US federal income tax, Hong Kong and Singapore tax considerations relating to an investment by a US taxpayer in Prudential ordinary shares or ADSs. This summary applies to you only if:

you are an individual US citizen or resident, a US corporation, or otherwise subject to US federal income tax on a net income basis in respect of your holding of Prudential ordinary shares or ADSs;

you hold Prudential ordinary shares or ADSs or shares held or traded in Singapore through the Central Depository (CDP) as a capital asset for tax purposes;

if you are an individual, you are not resident in the United Kingdom for UK tax purposes, and do not hold Prudential ordinary shares or ADSs for the purposes of a trade, profession, or vocation that you carry on in the United Kingdom through a branch or agency or if you are a corporation, you are not resident in the UK for UK tax purposes and do not hold the securities for the purpose of a trade carried on in the United Kingdom through a permanent establishment in the United Kingdom; and

you are not domiciled in the UK for inheritance tax purposes.

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This summary does not address any tax consideration other than certain UK tax, US federal income tax, Hong Kong tax and Singapore tax considerations and does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors that are subject to special rules. Prudential has assumed that you

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are familiar with the tax rules applicable to investments in securities generally and with any special rules to which you may be subject. You should consult your own tax advisers regarding the tax consequences of the ownership of Prudential ordinary shares or ADSs in the context of your own particular circumstances.

The discussion is based on laws, treaties, judicial decisions, and regulatory interpretations in effect on the date hereof, all of which are subject to change possibly retrospectively.

Beneficial owners of ADSs will be treated as owners of the underlying Prudential ordinary shares for US federal income tax purposes and for purposes of the 24 July 2001 Treaty between the United States and the United Kingdom. Deposits and withdrawals of Prudential ordinary shares in exchange for ADSs generally will not result in the realisation of gain or loss for US federal income tax purposes.

UK Taxation of Dividends

UK tax is not required to be withheld in the United Kingdom at source from cash dividends paid to US resident holders.

UK Taxation of Capital Gains

A holder of Prudential ordinary shares or ADSs who for UK tax purposes is a US corporation that is not resident in the United Kingdom will not be liable for UK taxation on capital gains realised on the disposal of Prudential ordinary shares or ADSs unless at the time of disposal:

the holder carries on a trade in the United Kingdom through a permanent establishment in the United Kingdom, and

the Prudential ordinary shares or ADSs are or have been used, held or acquired for use by or for the purposes of such trade or permanent establishment.

Subject to the comments in the following paragraph, a holder of Prudential ordinary shares or ADSs who, for UK tax purposes, is an individual who is not resident in the United Kingdom will not be liable for UK taxation on capital gains realised on the disposal of Prudential ordinary shares or ADSs unless at the time of the disposal:

the holder carries on a trade in the United Kingdom through a branch or agency, and

the Prudential ordinary shares or ADSs are or have been used, held, or acquired for use by or for the purposes of such trade or for the purposes of such branch or agency.

A holder of Prudential ordinary shares or ADSs who is an individual who is temporarily a non-UK resident for UK tax purposes will, in certain circumstances, become liable to UK tax on capital gains in respect of gains realised while he or she was not resident in the UK.

UK Inheritance Tax

Prudential ordinary shares which are registered on the main Prudential share register are assets situated in the United Kingdom for the purposes of UK inheritance tax (the equivalent of US estate and gift tax). Prudential ADSs are likely to be treated in the same manner as the underlying Prudential ordinary shares and as situated in the United Kingdom. Subject to the discussion of the UK-US estate tax treaty in the next paragraph, UK inheritance tax may apply if an individual who holds Prudential ordinary shares which are registered on the main Prudential share register or ADSs gifts them or dies even if he or she is neither domiciled in the United Kingdom nor deemed to be domiciled there under UK law. For inheritance tax purposes, a transfer of Prudential ordinary shares or ADSs at less than full market value may be treated, to the extent of the undervalue, as a gift for these purposes. Special inheritance tax rules apply (1) to gifts if the donor retains some benefit, (2) to close companies and (3) to trustees of

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settlements. Prudential ordinary shares which are registered on the Hong Kong or Irish branch register should not be treated as situated in the United Kingdom for the purpose of UK inheritance tax.

However, as a result of the UK-US estate tax treaty, Prudential ordinary shares which are registered on the main Prudential share register or ADSs held by an individual who is domiciled in the United States for the purposes of the UK-US estate tax treaty and who is not a UK national will, subject to special rules relating to trusts and settlements, not be subject to UK inheritance tax on that individual's death or on a gift of the Prudential ordinary shares or ADSs unless the Prudential ordinary shares or ADSs:

are part of the business property of a permanent establishment of an enterprise in the United Kingdom, or

pertain to a fixed base in the UK used for the performance of independent personal services.

The UK-US estate tax treaty provides a credit mechanism if the Prudential ordinary shares or ADSs are subject to both UK inheritance tax and to US estate and gift tax.

UK Stamp Duty and Stamp Duty Reserve Tax

Relevant legislation provides that, subject to certain exemptions, UK stamp duty would be payable on a transfer of, and UK stamp duty reserve tax ('SDRT') would be payable upon a transfer or issue of, Prudential ordinary shares to the depositary of Prudential ordinary shares that is responsible for issuing ADSs (the 'ADS Depositary'), or a nominee or agent of the ADS depositary, in exchange for American Depositary Receipts ('ADRs') representing ADSs. For this purpose, the current rate of stamp duty and SDRT is 1.5 per cent (rounded up, in the case of stamp duty, to the nearest £5).

However, as a result of case law, HMRC's current position is that they will not seek to levy a 1.5 per cent SDRT charge on an issue of UK shares to a person providing clearance services or issuing depositary receipts, wherever located. HMRC do not, however, agree that the relevant case law extends to transfers of shares to a person providing clearance services or issuing depositary receipts, wherever located, where that transfer is not an integral part of an issue of share capital. It is recommended that, should this charge arise, independent professional tax advice be sought without delay.

Provided that the instrument of transfer is not executed in the United Kingdom no UK stamp duty should be required to be paid on any transfer of Prudential ADRs representing ADSs. Based on Prudential's understanding of HMRC's application of the exemption from SDRT for depositary receipts a transfer of Prudential ADRs representing ADSs should not, in practice, give rise to a liability to SDRT.

Subject to the special rules relating to clearance services and issuers of depositary receipts, a transfer for value of Prudential ordinary shares (but excluding Prudential ordinary shares registered on the Hong Kong or Irish branch register unless the instruments of transfer are executed in the UK), as opposed to ADSs, will generally give rise to a charge to UK stamp duty, other than where the amount or value of the consideration for the transfer is £1,000 or under and the transfer instrument is certified to that effect, at the rate of 0.5 per cent (rounded up to the nearest £5). The rate is applied to the price payable for the relevant Prudential ordinary shares. To the extent that UK stamp duty is paid on a transfer of Prudential ordinary shares, no SDRT should generally be payable on the agreement for that transfer.

Subject to certain special rules relating to clearance services and issuers of depositary receipts, a transfer of ordinary shares from a nominee to their beneficial owner (other than on sale), including a transfer of underlying Prudential ordinary shares from the ADS Depositary or its nominee to an ADS holder, is not subject to UK stamp duty or SDRT. No UK SDRT should be payable on an agreement to transfer Prudential ordinary shares registered on the Hong Kong or Irish branch registers, subject to the special rule relating to clearance services and issuers of depositary receipts.

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UK stamp duty is usually paid by the purchaser. Although SDRT is generally the liability of the purchaser, any such tax payable on the transfer or issue of Prudential ordinary shares to the ADS Depository or its nominee would be payable by the ADS Depository as the issuer of the ADSs. In accordance with the terms of the Deposit Agreement, the ADS Depository will recover an amount in respect of such tax from the initial holders of the ADSs. However, due to HMRC's position set out above, it is likely that no such tax will be charged in relation to an issue of Prudential ordinary shares into the ADS Depository.

US Federal Income Tax Treatment of Distributions on Prudential Ordinary Shares or ADSs

If Prudential pays dividends, you must include those dividends in your income when you receive them. The dividends will be treated as foreign source income. You should determine the amount of your dividend income by converting pounds sterling into US dollars at the exchange rate in effect on the date of your (or the depository's, in the case of ADSs) receipt of the dividend. Subject to certain exceptions for short-term and hedged positions, the US dollar amount of dividends received by an individual will be subject to taxation at a lower rate than ordinary income if the dividends are 'qualified dividends.' Dividends received with respect to the ordinary shares or ADSs will be qualified dividends if Prudential was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ('PFIC'). Based on the nature of its business activities and its expectations regarding such activities in the future, and taking into account the US tax reform proposals signed into law on 22 December 2017, Prudential believes that it was not treated as a PFIC within the meaning of the Code with respect to its 2017 taxable year and does not anticipate becoming a PFIC for its 2018 taxable year.

US Federal Income Tax Treatment of Capital Gains

If you sell your Prudential ordinary shares or ADSs, you will recognise a US source capital gain or loss equal to the difference between the US dollar value of the amount realised on the disposition and the US dollar basis in the ordinary shares of the ADSs. A gain on the sale of Prudential ordinary shares or ADSs held for more than one year will be treated as a long-term capital gain. The net long-term capital gain generally is subject to taxation at a lower rate than ordinary income. Your ability to offset capital losses against ordinary income is subject to limitations.

US Federal Medicare Tax on Net Investment Income

A 3.8 per cent surtax will generally apply to the net investment income of individuals whose modified adjusted gross income exceeds certain threshold amounts. For 2018, these amounts are \$200,000 in the case of single taxpayers, \$250,000 in the case of married taxpayers filing joint returns, and \$125,000 in the case of married taxpayers filing separately. Net investment income includes, among other items, dividends, interest, and net gain from the disposition of property (other than certain property held in a trade or business).

US Information Reporting and Backup Withholding

Under the US tax code, a US resident holder of Prudential ordinary shares or ADSs may be subject, under certain circumstances, to information reporting and possibly backup withholding with respect to dividends and proceeds from the sale or other disposition of Prudential ordinary shares or ADSs, unless the US resident holder provides proof of an applicable exemption or correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules is not additional tax and may be refunded or credited against the US resident holder's federal income tax liability, so long as the required information is furnished to the IRS.

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Hong Kong Taxation of Dividends

No tax will be payable in Hong Kong in respect of dividends Prudential pays to its US resident holders. Dividends distributed to Prudential's US resident holders will be free of withholding taxes in Hong Kong.

Hong Kong Taxation on gains of sale

No tax is imposed in Hong Kong in respect of capital gains. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the trading gains are derived from or arise in Hong Kong will be chargeable to Hong Kong profits tax. Hong Kong profits tax is currently charged at the rate of 16.5 per cent on corporations and at a maximum rate of 15 per cent on individuals. Certain categories of taxpayers whose business consists of buying and selling shares are likely to be regarded as deriving trading gains rather than capital gains (e.g. financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from the sale of the Prudential Shares by US resident holders effected on the Hong Kong Stock Exchange will be considered to be derived from Hong Kong. A liability for Hong Kong profits tax would thus arise in respect of trading gains derived by US resident holders from the sale of Prudential Shares effected on the Hong Kong Stock Exchange where such trading gains are realised by US resident holders from a business carried on in Hong Kong.

Hong Kong Stamp duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1 per cent on the higher of the consideration for or the value of the Prudential Shares, will be payable by the purchaser on a purchase and by the seller on a sale of Prudential Shares where the transfer is required to be registered in Hong Kong (ie a total of 0.2 per cent is ordinarily payable on a sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of ordinary shares.

Hong Kong Estate duty

Hong Kong estate duty has been abolished with effect to all deaths occurring on or after 11 February 2006.

Singapore Taxation on gains of sale

Disposal of the Prudential Shares

Singapore does not impose tax on capital gains. However, gains of an income nature may be taxable in Singapore. There are no specific laws or regulations which deal with the characterisation of whether a gain is income or capital in nature. Gains arising from the disposal of the Prudential Shares by US resident holders may be construed to be of an income nature and subject to Singapore income tax, especially if they arise from activities which are regarded as the carrying on of a trade or business and the gains are sourced in Singapore.

Adoption of FRS 39 for Singapore Tax Purposes

Any US resident holders who apply, or who are required to apply, the Singapore Financial Reporting Standard 39 Financial Instruments Recognition and Measurement ('FRS 39') for the purposes of Singapore income tax may be required to recognise gains or losses (not being gains or losses in the nature of capital) in accordance with the provisions of FRS 39 (as modified by the applicable provisions of Singapore income tax law) even though no sale or disposal is made. Taxpayers who may be subject to

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such tax treatment should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Prudential Shares.

Singapore Taxation of Dividend distributions

As Prudential is incorporated in England and Wales and is not tax resident in Singapore for Singapore tax purposes, dividends paid by Prudential will be considered as sourced outside Singapore (unless the Prudential Shares are held as part of a trade or business carried out in Singapore in which event the US resident holders of such shares may be taxed on the dividends as they are derived).

Foreign-sourced dividends received or deemed received in Singapore by an US resident individual not resident in Singapore is exempt from Singapore income tax. This exemption will also apply in the case of a Singapore tax resident individual who receives his foreign-sourced income in Singapore on or after 1 January 2004 (except where such income is received through a partnership in Singapore).

Foreign-sourced dividends received or deemed received by corporate investors in Singapore (including US investors carrying on trade or business in Singapore) will ordinarily be liable to Singapore tax. However, foreign-sourced income in the form of dividends, branch profits and service income received or deemed to be received in Singapore by Singapore tax resident companies on or after 1 June 2003 can be exempt from tax if certain prescribed conditions are met, including the following:

- I. such income is subject to tax of a similar character to income tax (by whatever name called) under the law of the territory from which such income is received; and
- II. at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the income is received on any gains or profits from any trade or business carried on by any company in that territory at that time is not less than 15 per cent.

Certain concessions and clarifications have also been announced by the Inland Revenue Authority of Singapore with respect to such conditions.

Singapore Stamp duty

As Prudential is incorporated in England and Wales and the Prudential Shares are not registered on any register kept in Singapore, no stamp duty is payable in Singapore:

- (i) on the issuance of the Prudential Shares; and
- (ii) on any transfer of the Prudential Shares.

Prudential Shares held or traded in Singapore through CDP will be registered on the HK Register. As such, Hong Kong stamp duty will be payable on a transfer of Prudential Shares held or traded in Singapore through CDP. Please refer to the description under the Hong Kong stamp duty section above.

All persons, including US resident holders, who hold or transact in Prudential Shares in Singapore through the SGX-ST and/or CDP should expect that they will have to bear Hong Kong stamp duty in respect of transactions in Prudential Shares effected in Singapore through the SGX-ST and/or CDP. Such persons should consult their brokers, or custodians for information regarding what procedures may be instituted for collection of Hong Kong stamp duty from them.

Singapore Estate duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

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Singapore Goods and Services Tax

There is no Goods and Services Tax ('GST') payable in Singapore on the subscription or issuance of the Prudential Shares. The clearing fees, instruments of transfer deposit fees and share withdrawal fees are subject to GST at the prevailing standard-rate (currently 7 per cent) if the services are provided by a GST registered person to a holder of the Prudential Shares. However, such fees could be zero-rated when provided to a US resident holder of the Prudential Shares belonging outside Singapore provided certain conditions are met. For a holder of the Prudential Shares belonging in Singapore who is registered for GST, the GST incurred is generally not recoverable as input tax credit from the Inland Revenue Authority of Singapore unless certain conditions are satisfied. These GST-registered holders of the Prudential Shares should seek the advice of their tax advisors on these conditions.

Documents on Display

Prudential is subject to the informational requirements of the Securities Exchange Act of 1934 applicable to foreign private issuers. In accordance with these requirements, Prudential files its annual report on Form 20-F and other documents with the Securities and Exchange Commission.

All of the SEC filings made electronically by Prudential are available on the SEC website at www.sec.gov

Prudential also files reports and other documents with the London, Hong Kong and Singapore stock exchanges. This information may be viewed on the websites of each of those exchanges as well as via the UK Financial Conduct Authority's National Storage Mechanism. All reports and other documents filed with each of the exchanges are also published on Prudential's website. The contents of this website are not incorporated by reference into this Form 20-F.

Controls and Procedures

Management has evaluated, with the participation of Prudential plc's Group Chief Executive and Chief Financial Officer, the effectiveness of Prudential plc's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ('Exchange Act')) as of 31 December 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon Prudential plc's evaluation, Prudential plc's Group Chief Executive and Chief Financial Officer have concluded that as of 31 December 2017 Prudential plc's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by Prudential plc in the reports Prudential plc files and submits under the Exchange Act is recorded, processed, summarised and reported, within the time periods specified in the applicable rules and forms and that it is accumulated and communicated to Prudential plc's management, including Prudential plc's Group Chief Executive and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Prudential plc is required to undertake an annual assessment of the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act 2002 ('Section 404'). In accordance with the requirements of Section 404 the following report is provided by management in respect of Prudential plc's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

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Management's Annual Report on Internal Control over Financial Reporting

Management acknowledges its responsibility for establishing and maintaining adequate internal control over financial reporting for Prudential plc. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management has conducted, with the participation of Prudential plc's Group Chief Executive and Chief Financial Officer, an evaluation of the effectiveness of internal control over financial reporting based on the criteria set forth in '2013 Internal Control Integrated Framework' issued by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO'). Based on the assessment under these criteria, management has concluded that, as of 31 December 2017, Prudential plc's internal control over financial reporting was effective.

In addition, there have been no changes in Prudential plc's internal control over financial reporting during 2017 that have materially affected, or are reasonably likely to affect materially, Prudential plc's internal control over financial reporting.

KPMG LLP, which has audited the consolidated financial statements of Prudential plc for the year ended 31 December 2017, has also audited the effectiveness of Prudential plc's internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). KPMG LLP's report on internal control over financial reporting is shown on pages 272-273 in the Consolidated Financial Statements section.

Listing Information

Stock Exchange information

Prudential ordinary shares are listed on the Premium Listing segment of the Official List of the UK Listing Authority and traded on the London Stock Exchange under the symbol 'PRU'. Since 25 May 2010, Prudential ordinary shares have been listed on the Main Board of the Hong Kong Stock Exchange and are traded in board lots of 500 shares with the short name 'PRU' and stock code 2378; and as a secondary listing on the Singapore Stock Exchange, also traded in board lots of 500 shares, with the abbreviated name 'PRU 500'.

Prudential American Depositary Shares (ADSs) have been listed for trading on the New York Stock Exchange since 28 June 2000 under the symbol 'PUK'.

Comparative market price data

The tables below set forth the highest and lowest closing middle-market quotations for Prudential shares, as derived from the Daily Official List of the London Stock Exchange, the actual ADRs high and

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low closing sale prices for the periods indicated on the New York Stock Exchange and the highest and lowest closing prices on the Hong Kong Stock Exchange and Singapore Stock Exchange.

Year	Prudential Ordinary Shares		Prudential ADRs		Prudential Ordinary Shares (Hong Kong)		Prudential Ordinary Shares (Singapore)*	
	High	Low	High	Low	High	Low	High	Low
	(pence)		(US Dollars)		(HK Dollars)		(US Dollars)	
2013	1,340.0	901.5	45.0	28.6	175.0	111.0	16.0	13.1
2014	1,552.5	1,204.0	48.7	38.9	193.0	165.4	21.5	15.8
2015	1,761.5	1,046.0	52.6	40.4	205.0	156.0	25.0	21.0
2016	1,649.0	1,085.0	43.5	29.1	174.9	118.9	22.8	16.0
2017	1,933.5	1,524.0	51.2	38.2	198.8	147.9	25.0	18.9

Quarter	Prudential Ordinary Shares		Prudential ADRs		Prudential Ordinary Shares (Hong Kong)		Prudential Ordinary Shares (Singapore)*	
	High	Low	High	Low	High	Low	High	Low
	(pence)		(US Dollars)		(HK Dollars)		(US Dollars)	
2016								
First quarter	1,519.0	1,085.0	43.5	31.3	174.9	127.0	22.8	19.5
Second quarter	1,469.5	1,096.0	42.2	29.1	163.0	118.9	18.9	16.9
Third quarter	1,448.0	1,139.0	37.9	29.6	146.0	119.2	18.1	16.8
Fourth quarter	1,649.0	1,290.0	41.9	32.5	161.9	125.5	20.8	16.0
2017								
First quarter	1,801.5	1,524.0	44.2	38.2	169.8	147.9	20.8	18.9
Second quarter	1,831.5	1,612.5	46.9	41.1	182.5	158.0	23.2	21.6
Third quarter	1,889.5	1,712.5	49.7	45.1	193.7	176.0	23.6	23.0
Fourth quarter	1,933.5	1,774.5	51.2	47.1	198.8	184.0	25.0	23.8

Month	Prudential Ordinary Shares (UK)		Prudential ADRs		Prudential Ordinary Shares (Hong Kong)		Prudential Ordinary Shares (Singapore)*	
	High	Low	High	Low	High	Low	High	Low
	(pence)		(US Dollars)		(HK Dollars)		(US Dollars)	
September 2017	1,831.5	1,712.5	48.4	45.8	188.0	179.0	23.6	23.2
October 2017	1,893.5	1,774.5	49.9	47.1	195.0	184.0	24.0	23.8
November 2017	1,933.5	1,828.0	51.1	47.9	198.8	187.7	24.0	24.0
December 2017	1,907.0	1,782.5	51.2	48.1	197.1	188.7	25.0	24.1
January 2018	1,992.5	1,868.5	55.4	50.7	216.0	198.0	27.6	25.6

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February 2018	1,935.0	1,747.5	54.5	48.1	212.0	188.9	27.3	27.0
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Trading on the Singapore Stock Exchange was infrequent during the periods listed above.

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J.P. Morgan Chase Bank, N.A. is the depository ('ADR Depository') of Prudential's ADR program. The ADR Depository has agreed to reimburse Prudential for certain reasonable expenses related to Prudential's ADR program and incurred by Prudential in connection with the ADR program. The reimbursements shall be used by Prudential for actual expenses incurred in connection with the program during the contract year (year ending 19 May in each year), including but not limited to, expenses related to US investor relations servicing, US investor presentations, financial advertising and public relations.

No reimbursements were made in 2017.

Fees or charges payable by ADR holders

The ADR holders of Prudential are required to pay the following fees to the ADR Depository for general depository services:

Category	ADR Depository actions	Associated fee or charge
Depositing or surrendering the underlying shares	Each person to whom ADRs are delivered against deposits of shares, and each person surrendering ADRs for withdrawal of deposited securities	Up to US\$5.00 for each 100 ADRs (or portion thereof) evidenced by the ADRs delivered or surrendered
Cable fee	Cable fee for delivery of underlying shares in the home market on the back of a cancellation	US\$25 for each delivery
Currency charges	Charges incurred by the ADR Depository in the conversion of foreign currency into US Dollars	Amount paid by the ADR Depository, and such charges are reimbursable out of such foreign currency

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The following table sets forth information with respect to purchases made by or on behalf of Prudential or any 'affiliated purchasers' (as that term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Prudential's ordinary shares or American depositary shares for the year ended 31 December 2017.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total	
			Number of Shares Purchased at Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under Plans or Programs
				(£)
1 January 31 January	62,388	15.86	N/A	N/A
1 February 28 February	65,706	16.02		
1 March 31 March	70,139	16.54		
1 April 30 April	3,090,167	16.62		
1 May 31 May	55,744	17.57		
1 June 30 June	182,780	17.89		
1 July 31 July	51,984	17.84		
1 August 31 August	55,857	18.36		
1 September 30 September	51,226	17.81		
1 October 31 October	136,563	18.19		
1 November 30 November	53,951	18.39		
1 December 31 December	53,519	18.42		

Note

(1)

The shares listed in this column were acquired by employee benefit trusts during the year to satisfy future obligations to deliver shares under the Company's employee incentive plans, the savings related share option scheme and the share participation plan.

This table excludes Prudential plc shares purchased by investment funds managed by M&G in accordance with investment strategies that are established by M&G acting independently of Prudential plc.

Principal Accountant Fees and Services

Total fees payable to KPMG for the fiscal years ended 31 December are set out below:

	2017	2016 £m
	£m	£m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.1	2.0
Fees payable to the Company's auditor and its associates for other services:		

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Audit of subsidiaries pursuant to legislation	8.3	7.5
Audit-related assurance services	4.3	3.9
Tax compliance services		0.1
Other assurance services	1.5	2.1
Services relating to corporate finance transactions	0.4	
All other services	0.7	0.6
Total	17.3	16.2

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In addition, there were fees incurred by pension schemes of £0.1 million (2016: £0.1 million) for audit services and £nil million (2016: 0.1) for other assurance services.

2017

Fees of £2.1 million for the audit of Prudential's annual accounts comprised statutory audit fees of £0.9 million, US reporting audit fees of £0.5 million and EEV reporting audit fees of £0.7 million. Fees of £8.3 million for audit of subsidiaries pursuant to legislation mainly related to the audit of local and statutory accounts and to statutory audit work in connection with the submission of results to be consolidated in Prudential's annual accounts.

Fees of £4.3 million for audit related assurance services supplied comprised interim and regulatory reporting, controls reporting and other similar work.

Fees of £1.5 million for all other assurance services included £0.8 million in connection with Solvency II reporting and disclosures and £0.7 million for other services.

2016

Fees of £2.0 million for the audit of Prudential's annual accounts comprised statutory audit fees of £0.8 million, US reporting audit fees of £0.5 million and EEV reporting audit fees of £0.7 million. Fees of £7.5 million for audit of subsidiaries pursuant to legislation mainly related to the audit of local and statutory accounts and to statutory audit work in connection with the submission of results to be consolidated in Prudential's annual accounts.

Fees of £3.9 million for audit related assurance services supplied comprised interim and regulatory reporting, controls reporting and other similar work.

Fees of £2.1 million for all other assurance services included £1.5 million in connection with Solvency II reporting and disclosures and £0.6 million for other services mainly consisting of factual findings report.

Limitations on Enforcement of US Laws Against Prudential, Its Directors, Management and Others

Prudential is a public limited company incorporated and registered in England and Wales. Most of its directors and executive officers are resident outside the United States, and a substantial portion of its assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them or Prudential in US courts judgments obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there may be doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgments of US courts, of liabilities predicated solely upon the federal securities laws of the United States.

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Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Prudential plc:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial position of Prudential plc ("the Company") and its subsidiaries (collectively, "the Group") as at 31 December 2017 and 2016 and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended 31 December 2017 including the related notes and the disclosures marked "audited" within the Group Risk Framework section on pages 100 to 119 of the 2017 Form 20-F of the Group and the condensed financial statement Schedule II (collectively the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of 31 December 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and 2016 and the results of its operations and its cash flows for each of the years in the three-year period ended 31 December 2017, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 December 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by COSO.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting within the Controls and Procedures section of the 2017 Form 20-F of the Group. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, and evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

KPMG LLP

We have served as the Company's auditor since 1999.

London, United Kingdom
22 March 2018

Table of Contents**Prudential plc and subsidiaries****Consolidated income statements****Years ended 31 December**

	Note	2017	2016	2015
		£m	£m	£m
Gross premiums earned		44,005	38,981	36,663
Outward reinsurance premiums		(2,062)	(2,020)	(1,157)
Earned premiums, net of reinsurance	B1.4	41,943	36,961	35,506
Investment return	B1.4	42,189	32,511	3,304
Other income	B1.4	2,430	2,370	2,495
Total revenue, net of reinsurance	B1.4	86,562	71,842	41,305
Benefits and claims		(71,854)	(60,948)	(30,547)
Outward reinsurers' share of benefit and claims		2,193	2,412	1,389
Movement in unallocated surplus of with-profits funds		(2,871)	(830)	(498)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	B1.4	(72,532)	(59,366)	(29,656)
Acquisition costs and other expenditure	B2	(10,165)	(8,848)	(8,208)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(425)	(360)	(312)
Disposal of Korea life business:	D1			
Cumulative exchange gain recycled from other comprehensive income		61		
Remeasurement adjustments		5	(238)	
Gain on disposal of other businesses	D1	162		
Disposal of Japan life business cumulative exchange loss recycled from other comprehensive income				(46)
Total charges, net of reinsurance and gain (loss) on disposal of businesses	B1.4	(82,894)	(68,812)	(38,222)
Share of profits from joint ventures and associates, net of related tax	D6	302	182	238
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>)*		3,970	3,212	3,321
Less tax charge attributable to policyholders' returns		(674)	(937)	(173)
Profit before tax attributable to shareholders	B1.1	3,296	2,275	3,148
Total tax charge attributable to policyholders and shareholders	B4	(1,580)	(1,291)	(742)
Adjustment to remove tax charge attributable to policyholders' returns		674	937	173
Tax charge attributable to shareholders' returns	B4	(906)	(354)	(569)
Profit for the year		2,390	1,921	2,579
Attributable to:				
Equity holders of the Company		2,389	1,921	2,579

Non-controlling interests		1		
Profit for the year		2,390	1,921	2,579
		2017	2016	2015
Earnings per share (in pence)				
Based on profit attributable to the equity holders of the Company:	B5			
Basic		93.1p	75.0p	101.0p
Diluted		93.0p	75.0p	100.9p

*

This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure is not representative of pre-tax profits attributable to shareholders. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders.

The accompanying notes are an integral part of these financial statements

Table of Contents**Prudential plc and subsidiaries****Consolidated statements of comprehensive income****Years ended 31 December**

Year ended 31 December	Note	2017	2016	2015
		£m	£m	£m
Profit for the year		2,390	1,921	2,579
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the year	A1	(404)	1,148	68
Cumulative exchange gain of sold Korea life business recycled through profit or loss		(61)		
Cumulative exchange loss of sold Japan life business recycled through profit or loss				46
Related tax		(5)	13	4
		(470)	1,161	118
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Net unrealised holding gains (losses) arising during the year		591	241	(1,256)
Net gains (losses) included in the income statement on disposal and impairment		26	(269)	(49)
Total	C3.2(c)	617	(28)	(1,305)
Related change in amortisation of deferred acquisition costs	C5(b)	(76)	76	337
Related tax	C8	(55)	(17)	339
		486	31	(629)
Total		16	1,192	(511)
Items that will not be reclassified to profit or loss				
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:				
Gross		104	(107)	27
Related tax		(15)	14	(5)
		89	(93)	22
Other comprehensive income (loss) for the year, net of related tax		105	1,099	(489)
Total comprehensive income for the year		2,495	3,020	2,090
Attributable to:				

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Equity holders of the Company	2,494	3,020	2,090
Non-controlling interests	1		
Total comprehensive income for the year	2,495	3,020	2,090

The accompanying notes are an integral part of these financial statements

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Prudential plc and subsidiaries

Consolidated statement of changes in equity

Year ended 31 December 2017

	Share capital note C10	Share premium note C10	Retained earnings	Translation reserves	Available- for-sale securities reserves	Shareholder equity	Non- controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
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)
			(9)			(9)		(9)

Movement in Prudential plc
shares purchased by unit trusts
consolidated under IFRS

Net increase (decrease) in equity		21	1,384	(470)	486	1,421	6	1,427
At beginning of year	129	1,927	10,942	1,310	358	14,666	1	14,667
At end of year	129	1,948	12,326	840	844	16,087	7	16,094

*

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

The accompanying notes are an integral part of these financial statements

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Prudential plc and subsidiaries

Consolidated statement of changes in equity (Continued)

Year ended 31 December 2016

	Share capital Note C10	Share premium note C10	Retained earnings	Translation reserves	Available- for-sale securities reserves	Shareholders' equity	Non- controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Reserves								
Profit for the year			1,921				1,921	1,921
Other comprehensive income:								
Exchange movements on foreign operations and net investment hedges, net of related tax				1,161			1,161	1,161
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax					31		31	31
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of related tax			(93)				(93)	(93)
Total other comprehensive income (loss)			(93)	1,161	31		1,099	1,099
Total comprehensive income for the year			1,828	1,161	31		3,020	3,020
Dividends	B6		(1,267)				(1,267)	(1,267)
Reserve movements in respect of share-based payments			(51)				(51)	(51)
Share capital and share premium								
New share capital subscribed	C10	1	12				13	13
Treasury shares								
Movement in own shares in respect of share-based payment plans			2				2	2
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			(6)				(6)	(6)

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Net increase in equity	1	12	506	1,161	31	1,711		1,711
At beginning of year	128	1,915	10,436	149	327	12,955	1	12,956
At end of year	129	1,927	10,942	1,310	358	14,666	1	14,667

The accompanying notes are an integral part of these financial statements

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Prudential plc and subsidiaries

Consolidated statement of changes in equity (Continued)

Year ended 31 December 2015

	Share capital Note C10	Share premium B6	Retained earnings C10	Translation reserves C10	Available- for-sale reserves C10	Shareholder equity C10	Non- controlling interests C10	Total equity C10
	£m	£m	£m	£m	£m	£m	£m	£m
Reserves								
Profit for the year			2,579			2,579		2,579
Other comprehensive income:								
Exchange movements on foreign operations and net investment hedges, net of related tax				118		118		118
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax					(629)	(629)		(629)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax			22			22		22
Total other comprehensive (loss) income			22	118	(629)	(489)		(489)
Total comprehensive income for the year			2,601	118	(629)	2,090		2,090
Dividends		B6	(974)			(974)		(974)
Reserve movements in respect of share-based payments			39			39		39
Share capital and share premium								
New share capital subscribed	C10	7				7		7
Treasury shares								
Movement in own shares in respect of share-based payment plans			(38)			(38)		(38)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			20			20		20
Net increase in equity			71,648	118	(629)	1,144		1,144
At beginning of year			1281,908,788	31	956	11,811		11,812
At end of year			1281,910,436	149	327	12,955		12,956

The accompanying notes are an integral part of these financial statements

Table of Contents**Prudential plc and subsidiaries****Consolidated statements of financial position**

31 December	Note	2017	2016
		£m	£m
Assets			
Goodwill	C5(a)	1,482	1,628
Deferred acquisition costs and other intangible assets	C5(b)	11,011	10,807
Property, plant and equipment	C13	789	743
Reinsurers' share of insurance contract liabilities	C4.1(a)(iv)	9,673	10,051
Deferred tax assets	C8.1	2,627	4,315
Current tax recoverable	C8.2	613	440
Accrued investment income	C1	2,676	3,153
Other debtors	C1	2,963	3,019
Investment properties	C14	16,497	14,646
Investment in joint ventures and associates accounted for using the equity method	D6	1,416	1,273
Loans	C3.3	17,042	15,173
Equity securities and portfolio holdings in unit trusts		223,391	198,552
Debt securities	C3.2	171,374	170,458
Derivative assets	C3.4	4,801	3,936
Other investments		5,622	5,465
Deposits		11,236	12,185
Assets held for sale		38	4,589
Cash and cash equivalents		10,690	10,065
Total assets	C1	493,941	470,498
Equity			
Shareholders' equity		16,087	14,666
Non-controlling interests		7	1
Total equity		16,094	14,667
Liabilities			
Insurance contract liabilities	C4.1	328,172	316,436
Investment contract liabilities with discretionary participation features	C4.1	62,677	52,837
Investment contract liabilities without discretionary participation features	C4.1	20,394	19,723
Unallocated surplus of with-profits funds	C4.1	16,951	14,317
Core structural borrowings of shareholder-financed operations	C6.1	6,280	6,798
Operational borrowings attributable to shareholder-financed operations	C6.2	1,791	2,317
Borrowings attributable to with-profits operations	C6.2	3,716	1,349
Obligations under funding, securities lending and sale and repurchase agreements		5,662	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		8,889	8,687
Deferred tax liabilities	C8.1	4,715	5,370
Current tax liabilities	C8.2	537	649
Accruals, deferred income and other liabilities		14,185	13,825
Provisions	C11	1,123	947
Derivative liabilities	C3.4	2,755	3,252
Liabilities held for sale			4,293
Total liabilities	C1	477,847	455,831

Total equity and liabilities

493,941

470,498

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

The accompanying notes are an integral part of these financial statements

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Prudential plc and subsidiaries

Consolidated statements of cash flows

Year ended 31 December	Note	2017	2016	2015
		£m	£m	£m
Cash flows from operating activities				
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{note(i)}		3,970	3,212	3,321
Non-cash movements in operating assets and liabilities reflected in profit before tax:				
Investments		(49,771)	(37,824)	(6,814)
Other non-investment and non-cash assets		(968)	(2,490)	(1,063)
Policyholder liabilities (including unallocated surplus)		44,877	31,135	6,067
Other liabilities (including operational borrowings)		3,360	7,861	1,761
Interest income and expense and dividend income included in result before tax		(8,994)	(9,749)	(8,726)
Other non-cash items		549	834	234
Operating cash items:				
Interest receipts		6,900	7,886	7,316
Dividend receipts		2,612	2,286	1,777
Tax paid ^{note(iv)}		(915)	(950)	(1,340)
Net cash flows from operating activities		1,620	2,201	2,533
Cash flows from investing activities				
Purchases of property, plant and equipment	C13	(134)	(348)	(256)
Proceeds from disposal of property, plant and equipment			102	30
Acquisition of subsidiaries and intangibles ^{note(v)}		(351)	(303)	(286)
Sale of businesses ^{note(v)}		1,301		43
Net cash flows from investing activities		816	(549)	(469)
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations: ^{note(ii)}	C6.1			
Issue of subordinated debt, net of costs		565	1,227	590
Redemption of subordinated debt		(751)		
Interest paid		(369)	(335)	(288)
With-profits operations: ^{note(iii)}	C6.2			
Interest paid		(9)	(9)	(9)
Equity capital:				
Issues of ordinary share capital		21	13	7
Dividends paid		(1,159)	(1,267)	(974)
Net cash flows from financing activities		(1,702)	(371)	(674)
Net increase in cash and cash equivalents		734	1,281	1,390
Cash and cash equivalents at beginning of year		10,065	7,782	6,409
Effect of exchange rate changes on cash and cash equivalents		(109)	1,002	(17)
Cash and cash equivalents at end of year		10,690	10,065	7,782

Notes

- (i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.
- (ii) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

Table of Contents**Prudential plc and subsidiaries****Consolidated statements of cash flows (Continued)**

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

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

- (iii) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. There is no change in respect of the carrying value of the £100 million structural borrowings of the with-profits operations during 2017. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
- (iv) Tax paid includes £298 million (2016: £226 million; 2015: £229 million) paid on profits taxable at policyholder rather than shareholder rates.
- (v) Net cash flows for corporate transactions are for distribution rights and acquisition and disposal of businesses (including private equity and other subsidiaries acquired by with-profits funds for investment purposes).

The accompanying notes are an integral part of these financial statements

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Table of Contents**Prudential plc and subsidiaries****Notes to the consolidated financial statements****31 December 2017****A Background and critical accounting policies****A1 Basis of preparation and exchange rates**

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

Basis of preparation

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

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

Exchange rates

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

	Closing rate at 31 Dec 2017	Average rate for 2017	Closing rate at 31 Dec 2016	Average rate for 2016	Closing rate at 31 Dec 2015	Average rate for 2015	Opening rate at 1 Jan 2015
Local currency: £							
Hong Kong	10.57	10.04	9.58	10.52	11.42	11.85	12.09
Indonesia	18,353.44	17,249.38	16,647.30	18,026.11	20,317.71	20,476.93	19,311.31
Malaysia	5.47	5.54	5.54	5.61	6.33	5.97	5.45
Singapore	1.81	1.78	1.79	1.87	2.09	2.10	2.07
China	8.81	8.71	8.59	8.99	9.57	9.61	9.67
India	86.34	83.90	83.86	91.02	97.51	98.08	98.42
Vietnam	30,719.60	29,279.71	28,136.99	30,292.79	33,140.64	33,509.21	33,348.46
Thailand	44.09	43.71	44.25	47.80	53.04	52.38	51.30
US	1.35	1.29	1.24	1.35	1.47	1.53	1.56

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The exchange movement arising during 2017 recognised in other comprehensive income is:

	2017	2016	2015
	£m	£m	£m
Asia operations*	(295)	785	(5)
US operations	(477)	853	238
Unallocated to a segment (other funds)**	307	(490)	(119)
	(465)	1,148	114

*

2017 included the recycling of the cumulative exchange gain of the sold Korea life business of £61 million to the income statement.

**

The exchange rate movement unallocated to a segment mainly reflects the translation of currency borrowings, issued by group holding companies, that have been designated as a net investment hedge against the currency risk of the Group's investment in Jackson.

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

The consolidated financial statements do not represent Prudential's statutory accounts for the purposes of the UK Companies Act. These financial statements are based on the prescribed formats. The Group's external auditors have reported on the 2017, 2016 and 2015 statutory accounts. Statutory accounts for 2016 and 2015 have been delivered to the UK Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting. The auditor's reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the UK Companies Act 2006.

A2 New accounting pronouncements in 2017

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

Disclosure Initiative (Amendments to IAS 7, 'Statement of Cash Flows');

Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12, 'Income Taxes'); and

Annual improvements to IFRSs 2014 - 2016 cycle.

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

A3 Accounting policies

A3.1 Critical accounting policies, estimates and judgements

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

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

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

Classification of insurance and investment contracts

IFRS 4 requires contracts written by insurers to be classified as either 'insurance' contracts or 'investment' contracts. The classification of the contract determines its accounting. Judgement is applied in considering whether the material features of a contract gives rise to the transfer of significant insurance risk.

Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. This judgement is made at the point of contract inception and is not revisited. For the majority of the Group's contracts classification is based on a readily identifiable scenario that demonstrates a significant difference in cash flows if the covered event occurs (as opposed to does not occur) reducing the level of judgement involved. Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts. Furthermore, some contracts, both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that (a) are likely to be a significant portion of the total contract benefits; (b) have amount or timing contractually at the discretion of the insurer; and (c) are contractually based on asset or fund performance, as discussed in IFRS 4. Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4. Investment contracts without such discretionary participation features are accounted for as financial instruments under IAS 39.

Impacts £436 billion of reported liabilities, requiring classification.

Insurance business units

Insurance contracts and investment contracts with discretionary participation features

Investment contracts without discretionary participation features

Asia

With-profits contracts

Minor amounts for a number of small categories of business

Non-participating term contracts

Whole life contracts

Unit-linked policies

Accident and health policies

US

Variable annuity contracts

Guaranteed investment contracts (GICs)

Fixed annuity contracts

Minor amounts of 'annuity certain' contracts

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Life insurance contracts

UK and Europe

With-profits contracts

Certain unit-linked savings
and similar contracts

Bulk and individual
annuity business

Non-participating term
contracts

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Measurement of policyholder liabilities and unallocated surplus of with-profits

<p>Due to their significance to the Group's business, the measurement of policyholder liabilities and unallocated surplus of with-profits is a critical accounting policy.</p>	<p>IFRS 4 permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) for insurance contracts and investment contracts with discretionary participating features.</p>
<p>The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4 described above.</p>	<p>A modified statutory basis of reporting was adopted by the Group on first time adoption of IFRS in 2005. This was set out in the Statement of Recommended Practice issued by Association of British Insurers (ABI SORP). An exception was for UK regulated with-profits funds which were measured under FRS 27 as discussed below.</p>
<p>Impacts £436 billion of liabilities</p>	<p>FRS 27 and the ABI SORP were withdrawn in the UK for the accounting periods beginning in or after 2015. As used in these consolidated financial statements, the terms 'FRS 27' and the 'ABI SORP' refer to the requirements of these pronouncements prior to their withdrawal.</p>
<p>Measurement of insurance contract liabilities and investment contracts liabilities with discretionary participation features.</p>	<p>For investment contracts that do not contain discretionary participating features, IAS 39 is applied and, where the contract includes an investment management element, IAS 18, 'Revenue', applies.</p> <p>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.</p> <p>Asia insurance operations</p> <p>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.</p> <p>While the basis of valuation of liabilities in this business is in accordance with the requirements of the ABI SORP, it may differ from that determined on the modified statutory basis for UK and Europe insurance operations with the same features.</p>

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Measurement of policyholder liabilities and unallocated surplus of with-profits

US insurance operations

The policyholder liabilities for Jackson's conventional protection-type policies are determined under US GAAP principles with locked in assumptions for mortality, interest, policy lapses and expenses along with provisions for adverse deviations. For other policies, the policyholder liabilities include the policyholder account balance.

For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortised cost model to measure the liability. The US has no investment contracts with discretionary participation features.

The sensitivity of US insurance operations to variations in key estimates and assumptions, including policyholder behaviour, is discussed in note C7.3.

UK and Europe insurance operations

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

A with-profits benefits reserve; plus

Future policy-related liabilities; plus

The realistic current liabilities of the fund.

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

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

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

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

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Measurement of policyholder liabilities and unallocated surplus of with-profits

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

The sensitivity of UK and Europe insurance operations to variations in key estimates and assumptions, including annuitant mortality, is discussed in note C7.4.

Measurement of investment contracts without discretionary participation features liabilities.

Investment contracts without discretionary participation features are measured in accordance with IAS 39 to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the financial liability balance.

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

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

Other investment contracts are measured at amortised cost.

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Measurement of policyholder liabilities and unallocated surplus of with-profits

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.
Liability adequacy test.	<p>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.</p> <p>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.</p>

Table of Contents**(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.

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.

£18,533 million of US income statement investment return arises from such derivatives and debt securities.

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.

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.

Profit before tax attributable to shareholders is £3,296 million and compares to profit before tax of £3,970 million.

Table of Contents**Segmental analysis of results and earnings attributable to shareholders**

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

Total segmental operating profit is £5,577 million and is shown in note B1.2.

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

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

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

(c) Further critical estimates or judgements**Deferred acquisition costs for insurance contracts**

The Group applies judgement in determining qualifying costs that should be capitalised (ie those costs of acquiring new insurance business that meet the criteria under the Group's accounting policy for deferred acquisition costs). It makes estimates in projecting future profits/margins to assess whether adjustments to the carrying value or amortisation profile of deferred acquisition cost assets are necessary.

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

£9.2 billion of deferred acquisition costs as per note C5(b).

Asia insurance operations

For those business units applying US GAAP to insurance assets and liabilities, as permitted by the ABI SORP, principles similar to those set out in the US insurance operations paragraph below are applied to the deferral and amortisation of acquisition costs. For other territories in Asia, the general principles of the ABI SORP are applied with, as described above, deferral of acquisition costs being either explicit or implicit through the reserving basis.

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Deferred acquisition costs for insurance contracts

US insurance operations

The most material estimates and assumptions applied in the measurement and amortisation of deferred acquisition cost balances relate to the US insurance operations.

The Group's US insurance operations apply FAS ASU 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' and capitalise only those incremental costs directly relating to successfully acquiring a contract.

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

For US variable annuity business, a key assumption is the long-term investment return from the separate accounts, which is determined using a mean reversion methodology. Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period, so that in combination with the actual rates of return for the preceding three years, including the current period, the assumed long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) is realised on average over the entire eight-year period. Projected returns after the mean reversion period revert back to the long-term investment return. For further details on current balances, assumptions and sensitivity, refer to note C5(b) and C7.3(iv).

To ensure that the methodology in extreme market movements produces future expected returns that are realistic, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year.

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Deferred acquisition costs for insurance contracts

Jackson makes certain adjustments to the deferred acquisition costs which are recognised directly in other comprehensive income ('shadow accounting'). If the recognition of unrealised gains or losses on available-for-sale securities causes adjustments to the carrying value and amortisation patterns of deferred acquisition costs and deferred income, these adjustments are recognised in other comprehensive income consistent with the gains or losses on the securities. More precisely, shadow deferred acquisition costs adjustments reflect the change in deferred acquisition costs that would have arisen if the assets held in the statement of financial position had been sold, crystallising unrealised gains or losses, and the proceeds reinvested at the yields currently available in the market.

UK and Europe insurance operations

For UK regulated with-profits funds where 'grandfathered' FRS 27 is applied, these costs are expensed as incurred. The majority of the UK shareholder-backed business is individual and group annuity business where the deferral of acquisition costs is negligible.

Financial investments Valuation

Financial investments held at fair value represent £407.3 billion of the Group's total assets.

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

The Group applies valuation techniques, including the use of estimates, to determine the balance recognised for financial investments held at fair value.

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).

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Financial investments Valuation

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

If the market for a financial investment of the Group is not active, the fair value is determined by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in note C3.1(d).

Determination of impaired value

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

In estimating any required impairment for US residential mortgage-backed and other asset-backed securities held as available-for-sale, the expected value of future cash flows is determined using a model, the key assumptions of which include how much of the currently delinquent loans will eventually default and assumed loss severity. Further details of the assumptions and estimates applied in assessing impairment of US available-for-sale securities is given in note C3.2(g).

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Financial investments Determining impairment in relation to financial assets

The Group applies judgement as to whether evidence of an impairment in value exists for financial investments classified as 'available-for-sale' or 'at amortised cost'.

If evidence for impairment exists, valuation techniques, including estimates, are then applied in determining the impaired value.

Affects £47.5 billion of assets.

For financial investments classified as 'available for sale' or 'at amortised cost,' if a loss event that will have a detrimental effect on cash flows is identified, an impairment loss is recognised in the income statement. The loss recognised is determined as the difference between the book cost and the fair value of the relevant impairment assets. The loss comprises the effect of the expected loss of contractual cash flows and any additional market-price driven temporary reductions in values.

Available-for-sale securities

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

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

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

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Financial investments Determining impairment in relation to financial assets

Assets held at amortised cost

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

Reversal of impairment losses

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

Intangible assets Carrying value of distribution rights

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

Distribution rights relate to fees paid under bancassurance partnership arrangements for bank distribution of products for the term of the contractual agreement with the bank partner.

Distribution rights impairment testing is conducted when there is an indication of impairment.

Affects £1.5 billion of assets.

To ensure any required impairment is recognised in the current period the Group monitors a number of internal and external factors, including indications that the financial performance of the arrangement is likely to be worse than originally expected and changes in relevant legislation and regulatory requirements that could impact the Group's ability to continue to sell new business through the bancassurance channel, and then applies judgement to assess whether these factors indicate impairment has occurred.

If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated.

A3.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective in 2017, including those which have not yet been adopted in the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the Group's financial statements are discussed.

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**Accounting pronouncements endorsed by the EU but not yet effective
IFRS 15, 'Revenue from Contracts with Customers'**

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

Lease contracts within the scope of IAS 17 'Leases';

Insurance contracts within the scope of IFRS 4 'Insurance Contracts'; and

Financial instruments within the scope of IAS 39 'Financial Instruments'.

As a result, IFRS 15 in the context of Prudential's business, applies to the Group's asset management contracts and the measurement of the Group's investment contracts that do not contain discretionary participating features where the contracts include provision for investment management services. The IFRS 15 impact assessment performed included the review of the recognition of asset management and performance fees of these contracts. The adoption of this standard in 2018 is not expected to result in a restatement of the Group's profit for the year or shareholders' equity.

IFRS 9, 'Financial instruments: Classification and measurement'

In July 2014, the IASB published a complete version of IFRS 9 with the exception of macro hedge accounting. The standard becomes mandatorily effective for the annual periods beginning on or after 1 January 2018, with early application permitted and transitional rules apply. In October 2017, the IASB issued two amendments to IFRS 9, to permit the measurement of debt instruments with prepayment compensation features to be measured at amortised cost or fair value through other comprehensive income if certain conditions are met, and to clarify that IFRS 9 applies to long-term interests in joint ventures and associates. Both of these amendments that were issued in October 2017 are effective for the annual periods beginning on or after 1 January 2019, but are not yet endorsed by the EU.

In September 2016, the IASB published Amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17, 'Insurance Contracts'. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect in 2021. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments. The Group met the eligibility criteria and will defer the adoption of IFRS 9 to 1 January 2021.

When adopted IFRS 9 replaces the existing IAS 39, 'Financial Instruments Recognition and Measurement', and will affect the following three areas:

The classification and the measurement of financial assets and liabilities

Under IFRS 9, the classification of financial assets is redefined. Based on the business model in which the assets are held and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'), financial assets are classified into one of the following categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). An option is also available at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces accounting mismatches.

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At present a significant proportion (82 per cent) of the Group's investments are valued at FVTPL and the Group's current expectation is that a significant proportion will continue to be designated as such under IFRS 9.

The existing IAS 39 amortised cost measurement for financial liabilities is largely maintained under IFRS 9 but for financial liabilities designated at FVTPL, changes in fair value due to changes in entity's own credit risk, required by IFRS 13, are to be recognised in other comprehensive income.

The calculation of the impairment charge relevant for financial assets held at amortised cost or FVOCI

A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model, resulting in earlier recognition of credit losses compared to IAS 39. The impairment charge recognition under the new model is in three stages:

Stage 1 at initial recognition, and for each subsequent reporting period when there has been no significant increase in credit risk since initial recognition, recognise 12 month expected credit losses;

Stage 2 recognise lifetime expected credit losses if there has been a significant increase in credit risk since initial recognition; or

Stage 3 recognise incurred losses for credit-impaired assets, similar to IAS 39.

This aspect is the most complex area of IFRS 9 to implement and will involve significant judgements and estimate processes.

The hedge accounting requirements which are more closely aligned with the risk management activities of the Company. No significant change to the Group's hedge accounting is currently anticipated, but this remains under review.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with the IFRS 17. Further details on IFRS 17 are provided below. Adoption of IFRS 9 may result in reclassifying certain of the Group's financial assets and hence lead to a change in the measurement of those instruments or the reporting of their value. In addition, for any investments classified as amortised cost or FVOCI, as noted above, the impairment provisioning approach is altered from the current IAS 39 approach. The Group is currently assessing the scope of assets to which these requirements will apply. The Group does not currently apply hedge accounting for most of its derivative programmes but will reconsider its approach in light of new requirements under the standard on adoption.

IFRS 16, 'Leases'

In January 2016, the IASB published IFRS 16 'Leases' effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. For lessee accounting, this has the effect of requiring most of the existing operating leases to be accounted for in a similar manner as finance leases under the existing IAS 17, 'Leases'. The only optional exemptions are for short-term leases and leases of low-value assets. Lessor accounting however remains largely unchanged from IAS 17.

IFRS 16 applies primarily to operating leases of major properties occupied by the Group's businesses where Prudential is a lessee. Under IFRS 16, these leases will be brought onto the Group's statement of financial position with a 'right to use' asset being established and a corresponding liability representing the obligation to make lease payments. The current rental accrual charge in the income statement will be replaced with a depreciation charge for the 'right to use' asset and an interest expense on the lease

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liability leading to a more front-loaded operating lease cost profile compared to IAS 17. The Group is currently sourcing the required information to implement this new standard.

IFRS 16 permits transition to the new standard through a modified retrospective approach or a full retrospective approach. Under the modified retrospective approach, as well as affording a number of simplifications the Group's comparative information is not restated, but there is an adjustment to retained earnings at the date of initial application (ie 1 January 2019). The Group is currently assessing the impact of the modified retrospective approach before confirming the approach it intends to adopt. The ultimate impact of IFRS 16 on the Group's financial statements will be dependent on the leases that are in place and the related discount rate on the date of initial application.

Accounting pronouncements not yet endorsed by the EU
IFRS 17, 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace the existing IFRS 4 'Insurance Contracts'. The standard, which is subject to endorsement in the EU and other territories, applies to annual periods beginning on or after 1 January 2021. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date in 2021, alongside the adoption of IFRS 9 (see above).

IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. IFRS 17 replaces this with a new liability and revenue measurement model for all insurance contracts.

The new measurement model requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, and a contractual service margin (CSM) that is equal and opposite to any day-one gain arising. Losses are recognised directly into the income statement. The present value of future cash flows and the risk adjustment are updated at each reporting date in order to reflect current conditions. The CSM is released to the income statement as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. Subsequent changes in non-economic assumptions applied to the valuation of insurance liabilities are recognised as an adjustment to the CSM, prospectively affecting the amounts released to the statement of comprehensive income. For the purpose of the measurement insurance contracts are grouped together with contracts of similar risk, profitability profile and issue year, with the measurement model applied at this group level.

IFRS 17 provides an adaptation of the measurement model designed to account for certain contracts with participating features, such as UK style with-profits contracts and unit-linked or similar contracts, in which the policyholder will be paid a substantial share of the fair value returns of a specified group of items and the return to the insurer effectively reflects a variable management fee. This adaptation the Variable Fee Approach (VFA) allows the CSM to be adjusted for changes in economic experience and assumptions which reflect a change in the overall future fee the insurer expects to receive as a result of managing the participating pool of assets.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement.

Retrospective application of the standard is required for determining the CSM for the opening balance sheet. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. Choosing the appropriate approach and hence determining the opening balance sheet is one of the most

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critical activities in implementing the new standard, as the approach adopted will have a significant impact on the entity's results both on the initial impact on shareholders' funds at IFRS 17 adoption and on the future profits to be earned on the in-force business at the date of transition.

IFRS 17 Implementation Programme

The Group has commenced a Group-wide programme to implement IFRS 17 and IFRS 9 (as discussed above).

The requirements of IFRS 17 are complex and will have the effect of introducing fundamental changes to the existing IFRS 4 insurance accounting and require the application of significant judgement and new estimation techniques. As previously highlighted IFRS 9 could require reclassification of investments and the introduction of new and complex impairment models. The effect of changes required to the Group's accounting policies as a result of implementing these standards are currently uncertain, but these changes can be expected to, among other things, alter the timing of IFRS profit recognition. The implementation of this standard is also likely to involve significant enhancements to IT, actuarial and finance systems of the Group, and so will have an impact on the Group's expenses.

A Group-wide Steering Committee, chaired by the Group Chief Financial Officer and with participation from group's and business units' senior finance managers, provides oversight and strategic direction to the implementation programme. A number of sub-committees are also in place to provide governance over the technical interpretation and accounting policies selected, programme management and design and delivery of the project.

The key responsibilities of the programme include setting a framework for Group wide accounting policies, determining additional data requirements, assessing the level of IT and finance system changes as well as establishing an appropriate work plan for determining the opening balance sheet. The work is at an early stage.

Other new accounting pronouncements

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

Amendments to IFRS 2: Classification and measurement of share-based payment transactions, issued in June 2016 and effective from 1 January 2018;

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, issued in December 2016 and effective from 1 January 2018;

Amendments to IAS 40, Transfers of Investment Property, issued in December 2016 and effective from 1 January 2018;

IFRIC Interpretation 23 Uncertainty over Income Taxes, issued June 2017 and effective from 1 January 2019;

Annual Improvements to IFRSs 2015-2017 cycle; and

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, issued on 7 February 2018 and effective from 1 January 2019.

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	Note	2017	2016*	2015*
		£m	£m	£m
Asia				
Insurance operations	B3(a)	1,799	1,503	1,171
Asset management		176	141	115
Total Asia		1,975	1,644	1,286
US				
Jackson (US insurance operations)	B3(b)	2,214	2,052	1,691
Asset management		10	(4)	11
Total US		2,224	2,048	1,702
UK and Europe				
UK and Europe insurance operations:	B3(c)			
Long-term business		861	799	1,167
General insurance commissionnote (i)		17	29	28
Total UK and Europe insurance operations		878	828	1,195
UK and Europe asset managementnote (vi)		500	425	442
Total UK and Europe		1,378	1,253	1,637
Total segment profit		5,577	4,945	4,625
Restructuring costs note (iii)		(103)	(38)	(15)
Other income and expenditure:				
Investment return and other income		11	28	33
Interest payable on core structural borrowings		(425)	(360)	(312)
Corporate expenditurenote (ii)		(361)	(334)	(319)
Solvency II implementation costs			(28)	(43)
Total other income and expenditure		(775)	(694)	(641)
Interest received from tax settlement			43	
Operating profit based on longer-term investment returns		4,699	4,256	3,969
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,563)	(1,678)	(755)
Amortisation of acquisition accounting adjustmentsnote (iv)		(63)	(76)	(76)
Profit (loss) attaching to disposal of businesses	D1	162	(227)	56

Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1	61		
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income note (v)				(46)
Profit before tax		3,296	2,275	3,148
Tax charge attributable to shareholders' returns	B4	(906)	(354)	(569)
Profit for the year		2,390	1,921	2,579
Attributable to:				
Equity holders of the Company		2,389	1,921	2,579
Non-controlling interests		1		
		2017	2016	2015
Basic earnings per share (in pence)	B5			
Based on operating profit based on longer-term investment returnsnote (vii)		145.2p	131.3p	124.6p
Based on profit for the year		93.1p	75.0p	101.0p

*

The 2016 and 2015 comparative results have been re-presented from those previously published following the reassessment of the Group's operating segments as described in note B1.3.

Notes

- (i) General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.
- (ii) Corporate expenditure as shown above is primarily for Group Head Office and Asia Regional Head Office.
- (iii) Restructuring costs are incurred primarily in UK and Europe and Asia and represent business transformation and integration costs.
- (iv) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.

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(v) On 5 February 2015, the Group completed the sale of its closed book life insurance business in Japan.

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

	2017	2016	2015
	£m	£m	£m
Asset management fee income	1,027	900	934
Other income	7	23	5
Staff costs	(400)	(332)	(293)
Other costs	(202)	(212)	(240)
Underlying profit before performance-related fees	432	379	406
Share of associate results	15	13	14
Performance-related fees	53	33	22
Total UK and Europe asset management operating profit based on longer-term investment returns	500	425	442

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

B1.2 Short-term fluctuations in investment returns on shareholder-backed business

	2017	2016	2015
	£m	£m	£m
Asia	(1)	(225)	(137)
USnote(i)	(1,568)	(1,455)	(424)
UK and Europe note(ii)	(14)	206	(121)
Other operations note(iii)	20	(204)	(73)
Total	(1,563)	(1,678)	(755)

Notes

(i) *US operations*

The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £462 million as shown in note C5(b) (2016: £565 million; 2015: £93 million) and comprise amounts in respect of the following items:

	2017	2016	2015
	£m	£m	£m
Net equity hedge resultnote (a)	(1,490)	(1,587)	(504)
Other than equity-related derivativesnote (b)	(36)	(126)	29
Debt securitiesnote (c)	(73)	201	1
Equity-type investments: actual less longer-term return	12	35	19
Other items	19	22	31
Total	(1,568)	(1,455)	(424)

Notes

(a)

Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the measured value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.3(c) below.

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

The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP as described in note B1.3 (c);

The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and

Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

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

	2017	2016	2015
	£m	£m	£m
Fair value movements on equity hedge instruments ¹	(1,871)	(1,786)	(589)
Accounting value movements on the variable and fixed index annuity guarantee liabilities ²	(99)	(188)	(214)
Fee assessments net of claim payments	480	387	299
Total	(1,490)	(1,587)	(504)

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

(b)

Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

Fair value movements on free-standing, other than equity-related derivatives;

Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued as explained in note B1.3; and

Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

(c)

Short-term fluctuations related to debt securities

2017	2016	2015
-------------	-------------	-------------

	£m	£m	£m
Short-term fluctuations relating to debt securities			
(Charges) credits in the year:			
Losses on sales of impaired and deteriorating bonds	(3)	(94)	(54)
Defaults		(4)	
Bond write-downs	(2)	(35)	(37)
Recoveries/reversals	10	15	18
Total credits (charges) in the year	5	(118)	(73)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns	86	89	83
	91	(29)	10
Interest-related realised (losses) gains:			
(Losses) gains arising in the year	(43)	376	102
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(140)	(135)	(108)
	(183)	241	(6)
Related amortisation of deferred acquisition costs	19	(11)	(3)
Total short-term fluctuations related to debt securities	(73)	201	1

Note

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2017 is based on an average annual risk margin reserve of 21

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basis points (2016: 21 basis points; 2015: 23 basis points) on average book values of US\$55.3 billion (2016: US\$56.4 billion; 2015: US\$54.6 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	2017				2016				2015			
	Average book value		Annual expected loss		Average book value		Annual expected loss		Average book value		Annual expected loss	
	US\$m	% RMR	US\$m	£m	US\$m	% RMR	US\$m	£m	US\$m	% RMR	US\$m	£m
A3 or higher	27,277	0.12	(33)	(25)	29,051	0.12	(36)	(27)	28,185	0.13	(37)	(24)
Baa1, 2 or 3	26,626	0.22	(58)	(45)	25,964	0.24	(62)	(46)	24,768	0.25	(62)	(40)
Ba1, 2 or 3	1,046	1.03	(11)	(8)	1,051	1.07	(11)	(8)	1,257	1.17	(15)	(10)
B1, 2 or 3	318	2.70	(9)	(7)	312	2.95	(9)	(7)	388	3.08	(12)	(8)
Below B3	23	3.78	(1)	(1)	40	3.81	(2)	(1)	35	3.70	(1)	(1)
Total	55,290	0.21	(112)	(86)	56,418	0.21	(120)	(89)	54,633	0.23	(127)	(83)
Related amortisation of deferred acquisition costs (see below)			21	15			23	17			24	16
Risk margin reserve charge to operating profit for longer-term credit-related losses			(91)	(71)			(97)	(72)			(103)	(67)

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit of £541 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2016: credit of £48 million; 2015: charge of £(968) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(ii)

UK and Europe operations

The negative short-term fluctuations in investment returns for UK and Europe operations of £(14) million (2016: positive £206 million; 2015: negative £(121) million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

(iii)

Other operations

The positive short-term fluctuations in investment returns for other operations of £20 million (2016: negative £(204) million; 2015: negative £(73) million) include unrealised value movements on financial instruments.

B1.3 Determining operating segments and performance measure of operating segments

Operating segments

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

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

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

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

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

Performance measure

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

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

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

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

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

(a) General principles

- (i) UK style with-profits business

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

- (ii) Unit-linked business

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

- (iii) US variable annuity and fixed index annuity business

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

- (iv) Business where policyholder liabilities are sensitive to market conditions

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

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

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

(v) Other shareholder-financed business

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

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

Debt securities and loans

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

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

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

At 31 December 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £855 million (2016: £969 million; 2015: £567 million).

Equity-type securities

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

Derivative value movements

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

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(b) Asia insurance operations

- (i) Business where policyholder liabilities are sensitive to market conditions

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

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

- (ii) Other Asia shareholder-financed business

Debt securities

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

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed operations amounted to £1,759 million as at 31 December 2017 (2016: £1,405 million; 2015: £840 million). The rates of return applied in 2017 ranged from 4.3 per cent to 17.2 per cent (2016: 3.2 per cent to 13.9 per cent; 2015: 3.5 per cent to 13.0 per cent) with the rates applied varying by business unit. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(c) US insurance operations

- (i) Separate account business

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

- (ii) US variable and fixed index annuity business

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

Fair value movements for equity-based derivatives;

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

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

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

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

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

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

Embedded derivatives for variable annuity guarantee minimum income benefit

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

(iii)

Other derivative value movements

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

(iv)

Other US shareholder-financed business

Debt securities

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

Table of Contents*Equity-type securities*

As at 31 December 2017, the equity-type securities for US insurance non-separate account operations amounted to £946 million (2016: £1,323 million; 2015: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2017	2016	2015
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.1% to 6.5%	5.5% to 6.5%	5.7% to 6.4%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.1% to 8.5%	7.5% to 8.5%	7.7% to 8.4%

(d) UK and Europe insurance operations**(i)**
Shareholder-backed annuity business

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

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

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

Credit experience compared with assumptions; and

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

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

(ii)
Non-linked shareholder-financed business

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

(e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses, it is inappropriate to include returns in the operating result on the basis described

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above. Instead, it is appropriate to generally include realised gains and losses in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

B1.4 Segmental income statement

	2017					
	Asia	US	UK and Europe	Total segment operations	Unallocated to a segment (other operations) note (iii)	Group total
	£m	£m	£m	£m	£m	£m
Gross premium earned	15,688	15,164	13,126	43,978	27	44,005
Outward reinsurance	(656)	(352)	(1,050)	(2,058)	(4)	(2,062)
Earned premiums, net of reinsurance	15,032	14,812	12,076	41,920	23	41,943
Other income from external customersnote(ii)	307	669	1,406	2,382	48	2,430
Total revenue from external customersnote(v)	15,339	15,481	13,482	44,302	71	44,373
Intra-group revenue	40	64	5	109	(109)	
Interest incomenote(iv)	932	2,085	3,413	6,430	67	6,497
Other investment returnB1.5	8,063	16,448	11,171	35,682	10	35,692
Total revenue, net of reinsurance	24,374	34,078	28,071	86,523	39	86,562
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(18,291)	(31,205)	(23,025)	(72,521)	(11)	(72,532)
Acquisition costs and other operating expenditureB2	(4,052)	(2,257)	(3,379)	(9,688)	(477)	(10,165)
Interest on core structural borrowings		(16)		(16)	(409)	(425)
Disposal of Korea life businessD1						
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive incomeD1	61			61		61
Remeasurement adjustments	5			5		5
Gain on disposal of other businessesD1		162		162		162
Total charges, net of reinsurance and gain (loss) on disposal of businesses	(22,277)	(33,316)	(26,404)	(81,997)	(897)	(82,894)
Share of profit from joint ventures and associates, net of related tax	181		121	302		302
	2,278	762	1,788	4,828	(858)	3,970

Profit (loss) before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>)note(i)						
Tax charge attributable to policyholders' returns	(250)		(424)	(674)		(674)
Profit (loss) before tax	2,028	762	1,364	4,154	(858)	3,296
Analysis of operating profit						
Operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	5,577	(878)	4,699
Short-term fluctuations in investment returns on shareholder-backed business	(1)	(1,568)	(14)	(1,583)	20	(1,563)
Amortisation of acquisition accounting adjustments	(7)	(56)		(63)		(63)
Profit attaching to the disposal of businesses		162		162		162
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive incomeD1	61			61		61
Profit (loss) before tax	2,028	762	1,364	4,154	(858)	3,296

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	2016*					Group total
	Asia	US	UK and Europe	Total segment operations	Unallocated to a segment (other operations) note (iii)	
	£m	£m	£m	£m	£m	
Gross premium earned	14,006	14,685	10,290	38,981		38,981
Outward reinsurance	(648)	(367)	(1,005)	(2,020)		(2,020)
Earned premiums, net of reinsurance	13,358	14,318	9,285	36,961		36,961
Other income from external customers note(ii)	253	684	1,346	2,283	87	2,370
Total revenue from external customers note(v)	13,611	15,002	10,631	39,244	87	39,331
Intra-group revenue	27	53	4	84	(84)	
Interest income note(iv)	875	2,151	4,517	7,543	104	7,647
Other investment return B1.5	2,042	5,461	17,578	25,081	(217)	24,864
Total revenue, net of reinsurance	16,555	22,667	32,730	71,952	(110)	71,842
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(11,442)	(20,214)	(27,710)	(59,366)		(59,366)
Acquisition costs and other operating expenditure B2	(3,684)	(1,913)	(2,813)	(8,410)	(438)	(8,848)
Interest on core structural borrowings		(15)		(15)	(345)	(360)
Remeasurement of carrying value of Korea life business classified as held for sale D1	(238)			(238)		(238)
Total charges, net of reinsurance and gain (loss) on disposal of business	(15,364)	(22,142)	(30,523)	(68,029)	(783)	(68,812)
Share of profit from joint ventures and associates, net of related tax	148		34	182		182
Profit (loss) before tax (being tax attributable to shareholders' and policyholders' returns) note(i)	1,339	525	2,241	4,105	(893)	3,212
Tax charge attributable to policyholders' returns	(155)		(782)	(937)		(937)
Profit (loss) before tax attributable to shareholders	1,184	525	1,459	3,168	(893)	2,275
Analysis of operating profit						

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Operating profit (loss) based on longer-term investment returns	1,644	2,048	1,253	4,945	(689)	4,256
Short-term fluctuations in investment returns on shareholder-backed business	(225)	(1,455)	206	(1,474)	(204)	(1,678)
Amortisation of acquisition accounting adjustments	(8)	(68)		(76)		(76)
Loss attaching to the held for sale Korea life businessD1	(227)			(227)		(227)
Profit (loss) before tax	1,184	525	1,459	3,168	(893)	2,275

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	2015*					Group total
	Asia	US	UK and Europe	Total segment operations	Unallocated to a segment (other operations) note (iii)	
	£m	£m	£m	£m	£m	£m
Gross premium earned	10,814	16,887	8,962	36,663		36,663
Outward reinsurance	(364)	(320)	(473)	(1,157)		(1,157)
Earned premiums, net of reinsurance	10,450	16,567	8,489	35,506		35,506
Other income from external customersnote(ii)	235	760	1,382	2,377	118	2,495
Total revenue from external customersnote(v)	10,685	17,327	9,871	37,883	118	38,001
Intra-group revenue	27	46	3	76	(76)	
Interest incomenote(iv)	745	1,921	4,258	6,924	94	7,018
Other investment returnB1.5	(1,041)	(2,710)	149	(3,602)	(112)	(3,714)
Total revenue, net of reinsurance	10,416	16,584	14,281	41,281	24	41,305
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(6,543)	(13,029)	(10,084)	(29,656)		(29,656)
Acquisition costs and other operating expenditureB2	(2,778)	(2,332)	(2,644)	(7,754)	(454)	(8,208)
Interest on core structural borrowings		(13)		(13)	(299)	(312)
Disposal of Japan life businessD1	(46)			(46)		(46)
Total charges, net of reinsurance and gain (loss) on disposal of businesses	(9,367)	(15,374)	(12,728)	(37,469)	(753)	(38,222)
Share of profit from joint ventures and associates, net of related tax	171		67	238		238
Profit (loss) before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>)note(i)	1,220	1,210	1,620	4,050	(729)	3,321
Tax charge attributable to policyholders' returns	(69)		(104)	(173)		(173)
Profit (loss) before tax attributable to shareholders	1,151	1,210	1,516	3,877	(729)	3,148
Analysis of operating profit	1,286	1,702	1,637	4,625	(656)	3,969

Operating profit (loss) based on longer-term investment returns						
Short-term fluctuations in investment returns on shareholder-backed business	(137)	(424)	(121)	(682)	(73)	(755)
Amortisation of acquisition accounting adjustments	(8)	(68)		(76)		(76)
Profit attaching to the held for sale Korea life business	56			56		56
Cumulative exchange loss on sold Japan life business	(46)			(46)		(46)
Profit (loss) before tax	1,151	1,210	1,516	3,877	(729)	3,148

*

The 2016 and 2015 comparative results have been re-presented from those previously published following the reassessment of the Group's operating segments as described in note B1.3.

Notes

- (i) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.
- (ii) Other income from external customers includes £7 million (2016: £8 million; 2015: £19 million) relating to financial instruments that are not held at fair value through profit or loss. These fees primarily related to prepayment fees, late fees and syndication fees.
- (iii) Unallocated to a segment includes central operations (Group and Asia Regional Head Offices and Group borrowings), Prudential Capital and Africa operations. In addition, this column includes intra-group eliminations, including the elimination of the intra-group reinsurance contract between the UK with-profits and Asia with-profits operations.
- (iv) Interest income includes £3 million (2016: £3 million; 2015: £3 million) accrued in respect of impaired securities.
- (v) In Asia, revenue from external customers from no individual market exceeds 10 per cent of the Group total except for Hong Kong in 2017 (2016: no individual market exceeded 10 per cent except for Hong Kong; 2015: no individual market exceeded 10 per cent). Total revenue from external customers of Hong Kong is £7,269 million (2016: £6,313 million; 2015: £ 3,836 million).
- (vi) Due to the nature of the business of the Group, there is no reliance on any major customers.

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	2017	2016	2015
	£m	£m	£m
Realised and unrealised gains (losses) on securities at fair value through profit or loss	33,121	28,489	(4,572)
Realised and unrealised (losses) on derivatives at fair value through profit or loss	(1,624)	(7,050)	(1,701)
Realised (losses) gains on available-for-sale securities, previously recognised in other comprehensive income*	(26)	270	49
Realised gains on loans	9	91	(50)
Dividends	2,654	2,283	1,791
Other investment income	1,558	781	769
Other investment return	35,692	24,864	(3,714)

*

Including impairment.

Realised gains and losses on the Group's investments for 2017 recognised in the income statement amounted to a net gain of £5.7 billion (2016: a net loss of £1.6 billion; 2015: a net gain of £3.0 billion).

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	2017			2016*	2015*	
	Insurance	Asset Management	Eliminations	Total	Total	
	£m	£m	£m	£m	£m	
Earned premiums, net of reinsurance	15,032			15,032	13,358	10,450
Other income from external customers	95	212		307	253	235
Total revenue from external customers	15,127	212		15,339	13,611	10,685
Intra-group revenue		148	(108)	40	27	27
Interest income	930	2		932	875	745
Other investment return	8,060	3		8,063	2,042	(1,041)
Total revenue, net of reinsurance	24,117	365	(108)	24,374	16,555	10,416
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(18,291)			(18,291)	(11,442)	(6,543)
Acquisition costs and other operating expenditureB2	(3,911)	(249)	108	(4,052)	(3,684)	(2,778)
Disposal of Korea life business:D1						
Cumulative exchange gain recycled from other comprehensive income	61			61		
Remeasurement adjustments	5			5	(238)	
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income						