PRUDENTIAL PLC
Form 20-F
March 22, 2019

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As filed with the Securities and Exchange Commission on 22 March 2019

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 2018

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
Director of Group Financial Accounting & Reporting
Prudential plc
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Securities registered or to be registered pursuant to Section 12(b) of the Act:

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

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

None

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

None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of 31 December 2018 was:

2,593,044,409 Ordinary Shares, 5 pence par value each

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

Yes X No __

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

Yes __ No X

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

past 90 days.

Yes X No __

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 X No __

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

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

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

Yes __ No __

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

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

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

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

Item 17 __ Item 18 __

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

Yes __ No X

*

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

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CROSS REFERENCES TO FORM 20-F REQUIREMENTS

Note D5 to the Consolidated Financial Statements

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'.

This 2018 Annual Report may include references to our website. Information on our website or any other website referenced in the Prudential 2018 Annual Report 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 of the M&GPrudential business; the future trading value of the shares of Prudential plc and the trading value and liquidity of the shares of the to-be-listed M&GPrudential business following such demerger; future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's decision to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions failing to meet their objectives; disruption to the availability, confidentiality or integrity of Prudential's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' 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.

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 UK Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, periodic financial reports 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 filing Prudential makes with the US Securities and Exchange Commission, including any subsequent Half Year Financial Report 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

Group at A Glance

Prudential is an international financial services group serving over 26 million customers and with £657 billion of assets under management (as at 31 December 2018). Prudential plc is incorporated in England and Wales and its ordinary shares are listed on the stock exchanges in London, Hong Kong and Singapore, and its American Depository Receipts (ADRs) are listed on the New York Stock Exchange. 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.

We meet the long-term savings and protection needs of a growing middle-class and ageing population. We focus on markets where the need for our products is strong and growing and we use our capabilities, footprint and scale to meet that need. In 2018, the Group announced its intention to demerge its UK and Europe business, M&GPrudential, from Prudential plc, which will result in two separately listed companies, with different investment characteristics and opportunities. We have always been clear about the importance of creating optionality in our corporate structure, and decided to exercise one of those options in the interest of both the businesses and all of our stakeholders.

Our purpose

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

Our strategy

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

We aim to do this by:

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

We aim to generate attractive returns enabling us to provide financial security to our customers and deliver sustainable growth for our shareholders. Following rigorous review, we believe that this long-term strategy is best served through the intended demerger of M&GPrudential. The demerger will enable both businesses to continue to deliver on our customer and stakeholder commitments, but without the requirement to compete for resources and capital internally.

Prudential plc	Structural growth over the last two decades has allowed our non-European business to reach the scale where it has the ability to self-fund its own long-term goals through disciplined capital allocation. Prudential plc has a diversified, but highly complementary, portfolio of businesses with access to the world's largest and fastest-growing markets.
Asia Prudential Corporation Asia	Prudential Corporation Asia has leading insurance and asset management operations across 14 markets which serve the families of the region's high potential economies. We have been operating in Asia for over 90 years and have built high-performing businesses with multichannel distribution, a product portfolio centred on regular savings and protection, award-winning customer service and a widely recognised brand.

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

United States Jackson

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

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.

UK and Europe M&GPrudential

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

With over 6 million clients across 29 markets and £321 billion1 in assets under management, M&GPrudential's vision is a business built for the customer which is simple, efficient, digitally enabled, capital-light, fast-growing and, above all, focused on delivery.

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

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

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Demerger update

Creating two leading companies

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

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

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

Frequently asked questions

What is the rationale for the demerger?

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

Will the businesses stay in the UK?

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

How are we progressing?

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

- We announced that the Hong Kong Insurance Authority would be the Group-wide supervisor after the demerger of M&GPrudential;

We raised £1.6 billion of debt in September 2018. This debt issuance contained a substitution clause, allowing us to substitute M&GPrudential for Prudential plc as the issuer;

We established a new holding company for M&GPrudential and completed the transfer of the legal ownership of The Prudential Assurance Company Limited and M&G Group Limited to this company;

We announced the independent Chair of M&GPrudential in October 2018; and

We completed the transfer of the legal ownership of our Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&GPrudential's UK-regulated insurance entity) to Prudential Corporation Asia Limited.

When will it happen?

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

What will happen to your shares?

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

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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 2018, there were no unendorsed standards effective for the years presented below which impact 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.

Income statement data

	2018 $m(1)	**2018 £m**	**2017 £m**	**2016 £m**	**2015 £m**	**2014 £m**
Gross premiums earned	**60,272**	**47,224**	44,005	38,981	36,663	32,832
Outward reinsurance premiums	**(17,898)**	**(14,023)**	(2,062)	(2,020)	(1,157)	(799)
Earned premiums, net of reinsurance	**42,374**	**33,201**	41,943	36,961	35,506	32,033
Investment return	**(13,099)**	**(10,263)**	42,189	32,511	3,304	25,787
Other income(8)	**2,544**	**1,993**	2,258	2,246	2,356	2,137
Total revenue, net of reinsurance	**31,819**	**24,931**	86,390	71,718	41,166	59,957
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(16,041)**	**(12,568)**	(72,532)	(59,366)	(29,656)	(50,169)
Acquisition costs and other expenditure(8)	**(11,302)**	**(8,855)**	(9,993)	(8,724)	(8,069)	(6,583)
Finance costs: interest on core structural borrowings of shareholder-financed businesses	**(523)**	**(410)**	(425)	(360)	(312)	(341)
(Loss) gain on disposal of businesses and corporate transactions	**(102)**	**(80)**	223	-	(46)	(13)
Re-measurement of the sold Korea life business	**-**	**-**	5	(238)	-	-
Total charges, net of reinsurance and (loss) gain on disposal of businesses	**(27,968)**	**(21,913)**	(82,722)	(68,688)	(38,083)	(57,106)
Share of profits from joint ventures and associates, net of related tax	**371**	**291**	302	182	238	303
Profit before tax (*being tax attributable to shareholders' and policyholders' returns*)(2)	**4,222**	**3,309**	3,970	3,212	3,321	3,154
Tax credit (charges) attributable to policyholders' returns	**416**	**326**	(674)	(937)	(173)	(540)
Profit before tax attributable to shareholders	**4,638**	**3,635**	3,296	2,275	3,148	2,614
Tax (charges) attributable to shareholders' returns	**(794)**	**(622)**	(906)	(354)	(569)	(398)

Profit for the year	**3,844**	**3,013**	2,390	1,921	2,579	2,216

Statement of financial position data	**2018 $m(1)**	**2018 £m**	**2017 £m**	**2016 £m**	**2015 £m**	**2014 £m**
Total assets	**649,184**	**508,645**	493,941	470,498	386,985	369,204
Total policyholder liabilities and unallocated surplus of with-profits funds	**542,614**	**425,146**	428,194	403,313	335,614	321,989
Core structural borrowings of shareholder-financed businesses	**9,782**	**7,664**	6,280	6,798	5,011	4,304
Total liabilities	**627,148**	**491,378**	477,847	455,831	374,029	357,392
Total equity	**22,038**	**17,267**	16,094	14,667	12,956	11,812

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Other data	2018	2018	2017	2016	2015	2014
Based on profit for the year attributable to the equity holders of the Company:						
Basic earnings per share	**149.2¢**	**116.9p**	93.1p	75.0p	101.0p	86.9p
Diluted earnings per share	**149.1¢**	**116.8p**	93.0p	75.0p	100.9p	86.8p
Dividend per share declared and paid in reporting period(5)						
Interim ordinary dividend/final ordinary dividend	**61.5¢**	**48.17p**	45.07p	39.40p	38.05p	35.03p
Equivalent cents per share(6)		**64.33¢**	59.28¢	55.21¢	59.11¢	58.44¢
Special dividend				10.00p		
Equivalent cents per share(6)				14.51¢		
Market price per share at end of period(7)	**1,789.4 ¢**	**1,402.0p**	1,905.5p	1,627.5p	1,531.0p	1,492.0p
Weighted average number of shares (in millions)		**2,575**	2,567	2,560	2,553	2,549
New business:						
Single premium sales(3)	**39,720**	**31,121**	31,965	27,841	27,687	24,296
New regular premium sales(3)(4)	**4,710**	**3,690**	3,762	3,536	2,697	2,107
Funds under management	**838,912**	**657,300**	669,300	602,300	508,600	496,000

Notes

(1)

Amounts stated in US dollars in the 2018 US dollar column have been translated from pounds sterling at the rate of $1.2763 per £1.00 (the noon buying rate in New York City on 31 December 2018).

(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 the 'EEV Basis, New Business Results and Free Surplus Generation' section of this document). 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 15.67p per share in 2018 (2017: 14.50p, 2016: 12.93p), a second interim ordinary dividend of 33.68p per share in 2018 (2017: 32.50p, 2016: 30.57p).

(6)

The dividend per share has 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.

(8)

The 2014 to 2017 comparative results have been re-presented from those previously published for deduction of certain expenses against revenue following the adoption of IFRS 15. See note A2 to the consolidated financial statements for further details.

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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 for the year ended 31 December 2018 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.

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

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

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

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

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

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

Currency volatility

As in previous years, we comment on our performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in periods of currency movement. 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 2018.

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Our approach to evaluating the financial performance of the Group is to present 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 (alternative performance measure) of adjusted IFRS operating profit based on longer-term investment returns. Further explanation on the determination of adjusted IFRS 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 2017 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.

IFRS Profit

	AER			**CER**		**AER**
	2018 £m	**2017 £m**	**Change %**	**2017 £m**	**Change %**	**2016 £m**
Profit after tax for the year attributable to shareholders	**3,013**	2,390	26%	2,317	30%	1,921
Tax charge attributable to shareholders' returns	**622**	906	(31)%	876	(29)%	354
Profit before tax attributable to shareholders	**3,635**	3,296	10%	3,193	14%	2,275
Non-operating items:						
Losses from short-term fluctuations in investment returns on shareholder-backed businesses	**558**	1,563	(64)%	1,514	(63)%	1,678
Amortisation of acquisition accounting adjustments	**46**	63	(27)%	61	(25)%	76
Loss (gain) on disposal of businesses and corporate transactions	**588**	(223)	(364)%	(218)	(370)%	227
	1,192	1,403	(15)%	1,357	(12)%	1,981
Adjusted IFRS operating profit based on longer-term investment returns	**4,827**	4,699	3%	4,550	6%	4,256
Analysed into:						
Asia	**2,164**	1,975	10%	1,898	14%	1,644
US	**1,919**	2,224	(14)%	2,146	(11)%	2,048

UK and Europe	**1,634**	1,378	19%	1,378	19%	1,253
Other income and expenditure	**(890)**	(878)	1%	(872)	2%	(689)
Adjusted IFRS operating profit based on longer-term investment returns	**4,827**	4,699	3%	4,550	6%	4,256

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 on a CER basis) unless otherwise stated. In each such case, the performance of our businesses in AER terms is explained by the same factors discussed in the comments below and the impact of currency movements implicit in the CER data.

Our financial performance

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

Profit for the year after tax for 2018 is £3,013 million compared with £2,390 million for 2017 on an AER basis. The increase primarily reflects the movement in profit before tax attributable to shareholders, which has increased from a profit of £3,296 million in 2017 (on an AER basis) to a profit of £3,635 million in 2018 and a decrease in the tax charge attributable to shareholders from £906 million in 2017 to £622 million in 2018.

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On an AER basis, the increase in the total profit before tax attributable to shareholders from £3,296 million in 2017 to £3,635 million in 2018 reflects an improvement in adjusted IFRS operating profit based on longer-term investment returns of £128 million or 3 per cent, and a £211 million reduction in non-operating losses, from a loss of £1,403 million to a loss of £1,192 million. The £211 million reduction in non-operating losses primarily comprises a £1,005 million favourable change in short-term fluctuations in investment returns (from negative £1,563 million in 2017 to negative £558 million in 2018) partially offset by a £811 million increase in gains and losses on disposal of businesses and corporate transactions (from a gain of £223 million in 2017 to a loss of £588 million in 2018). The improvement of £128 million in total adjusted IFRS operating profit based on longer term investment returns on an AER basis reflects an increase in Asia (from £1,975 million to £2,164 million) and the UK and Europe (from £1,378 million to £1,634 million), partially offset by a decrease in the US (from £2,224 million to £1,919 million) and other income and expenditure (from a loss of £878 million to a loss of £890 million). The increase of £128 million or 3 per cent in the Group adjusted IFRS operating profit based on longer-term investment returns includes a positive exchange translation impact of £149 million. Excluding the effect of currency volatility, on a CER basis, Group adjusted IFRS operating profit based on longer-term investment returns increased from £4,550 million to £4,827 million, 6 per cent higher than the equivalent amount in 2017.

Group adjusted IFRS operating profit based on longer-term investment returns[3] was 6 per cent[2] higher at £4,827 million (up 3 per cent on an actual exchange rate basis). Adjusted IFRS operating profit based on longer-term investment returns from our Asia life insurance and asset management businesses grew by 14 per cent[2], reflecting continued broad-based business momentum across the region and high-quality sales, with over 85 per cent of operating income from our preferred sources of insurance income, fee income and with-profits. In the US, Jackson's total adjusted IFRS operating profit based on longer-term investment returns was 11 per cent[2] lower, with higher fee income outweighed by an increase in market-related deferred acquisition costs (DAC) amortisation expense and the anticipated reduction in spread earnings. In the UK and Europe, M&GPrudential's total adjusted IFRS operating profit based on longer-term investment returns was 19 per cent higher than the prior year, which principally reflects the benefit from updated longevity assumptions and an 11 per cent[4] increase in the shareholder transfer from the with-profits business, which includes a 30 per cent[4] increase from PruFund.

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

The Group remains robustly capitalised, with a 2018 year-end shareholder Solvency II cover ratio[5,6] of 232 per cent. Over the period, IFRS shareholders' funds increased by 7 per cent to £17.2 billion, reflecting profit after tax of £3,013 million (2017: £2,390 million on an actual exchange rate basis) and other movements that included dividend payments to shareholders of £1,244 million and favourable foreign exchange movements of £348 million.

In Asia, we have maintained our focus on value, whilst continuing to develop our capabilities and reach, which build scale and enhance quality. Our asset management business, Eastspring Investments, has continued to grow, with adjusted IFRS operating profit based on longer-term investment returns up 6 per cent[2] to £182 million.

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

In the UK and Europe, both our life and asset management businesses performed well in 2018, with adjusted IFRS operating profit based on longer-term investment returns 19 per cent higher driven by a number of items that are not expected to recur at the same level including the effect from updated longevity assumptions. Our core PruFund proposition continues to perform well, with net inflows of £8.5 billion and the PruFund contribution to shareholder adjusted IFRS operating profit based on longer-term investment returns increasing 30 per cent to £55 million. M&GPrudential asset management saw net outflows of £9.9 billion from external clients, including the expected redemption of a single £6.5 billion low margin institutional mandate. Overall

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M&GPrudential assets under management[7] were £321 billion (2017: £351 billion), reflecting net outflows at M&GPrudential asset management and the impact of the £12 billion annuity reinsurance agreement announced in March 2018.

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

A clear and proven strategy

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

In Asia, a large and increasingly wealthy population with low levels of insurance and asset management coverage is creating a huge and fast-growing market for our health, protection and savings products. Asia is driving global growth, with average annual GDP growth in our Asia life markets of 10.4 per cent in the decade to 2017[8], compared with just 1.9 per cent for the rest of the world[8]. Furthermore, despite potential headwinds, between 2017 and 2023 Asia is expected to deliver 39 per cent of the world's GDP growth[8]. This is creating a rapidly growing middle class in the Asia region, which is expected to double by 2030 to reach 3.5 billion people[9]. At the same time, insurance penetration in Asia is just 2.7 per cent of GDP[10], compared with 7.2 per cent in the UK[10], leaving the region vastly under-insured with an estimated mortality protection gap of US$40 trillion[11] and a health and protection gap of US$1.8 trillion[12]. Similarly, mutual fund penetration in Asia is only 12 per cent[13], compared with 96 per cent in the US[13], whilst 65 per cent of wealth in Asia is held in cash[14]. With private financial wealth in the region growing by US$5 trillion per year[14], there is considerable latent demand for our savings solutions. These structural drivers of growth are expected to persist for many years to come and create a historic opportunity for us.

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

We have a strong and growing opportunity in the US. About 40 million Americans are expected to reach retirement age over the next decade alone. At the same time, 72 per cent of American workers do not have access to a defined benefit retirement plan[15]. A study conducted by the Insured Retirement Institute and Jackson showed that 80 per cent of Americans think that social security will not provide enough income for retirement[16], and the same percentage are willing to pay more for guaranteed lifetime income[16]. This aligns with our retirement income products, which are designed to help customers avoid running out of money and provide them with a reliable cushion against volatile markets.

In the UK and Europe, notwithstanding the uncertainty related to the UK's intended exit from the European Union, a combination of global trends and competitive advantages is creating a powerful opportunity for M&GPrudential. Those approaching retirement have been looking for new ways to ensure a comfortable future, and since pensions freedoms were introduced in the UK in 2015 that demand has been increasing. At the same time, the total value of household cash deposits in the EU is estimated at €10 trillion[17], indicating the scale of the opportunity for asset management in the region. Private assets under management are expected nearly to double between 2017 and 2023[18]. M&GPrudential, which already has established international distribution, a clear focus on customer solutions and a broad-ranging investment capability, is transforming itself to meet this opportunity.

New and better ways to serve customers

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

In Asia, we are continuing to develop and expand our products, distribution capabilities and footprint and to meet the evolving needs of our customers. During 2018, we broadened our product suite to include tailored propositions for the high-net-worth and corporate segments and developed new products for customers with specific needs, such as pre-existing medical conditions. Our distribution capabilities were enhanced by new digital technology and provide a seamless and differentiated customer experience from point of sale through to making a claim. At Eastspring, we also continued to roll out BlackRock's Aladdin system across our markets to

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improve efficiency. We broadened our reach through new partnerships with leading banks in several markets, including Thailand and the Philippines. Meanwhile, Eastspring consolidated its position as the leading retail asset manager in Asia (excluding Japan) by establishing an on-the-ground presence in China and Thailand. Early in 2019, we also renewed our successful regional strategic alliance with United Overseas Bank (UOB), one of our most successful distribution relationships in South-east Asia, until 2034 and added Vietnam and UOB's digital bank to an existing partnership presence in Singapore, Malaysia, Thailand and Indonesia.

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

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

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

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

Our leadership

In July 2018, we announced that Anne Richards was resigning as Chief Executive of M&G and from the Group's Board. In October 2018, we announced that Barry Stowe had decided to retire as Chairman and Chief Executive Officer of Jackson and as an Executive Director of the Group. Barry has been succeeded at Jackson by Michael Falcon. Formerly CEO of Asia Pacific for JP Morgan Asset Management, Michael has deep expertise and an impressive track record in the industry and is well placed to lead the next phase of our development in North America. We continue to invest in the right people at all levels across the Group.

Delivering value into the future

Our clear strategy, discipline and improving capabilities have enabled us to deliver a broad-based financial performance in 2018, based on a close focus on our core purpose of helping people to de-risk their lives and deal with their biggest financial concerns. In Asia we continue to see a strong runway for the insurance and asset management industries, and our presence, scale and distribution reach position us well to participate strongly in this growth. In the US, we continue to provide Americans with the retirement strategies they need, and we are confident that this will enable us to capture additional growth into the future. In the UK and

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Europe, we will continue to improve service levels and launch new offerings, and we are making good progress towards the intended demerger of M&GPrudential from the Group, which will result in two distinct businesses that are able to focus more clearly on the opportunities open to us. We have an established track record of delivering important benefits to our customers and profitable growth to our shareholders. We are confident that, post demerger as independent companies, both Prudential plc and M&GPrudential will be positioned to continue to do well in the future.

Notes

1. United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision. American population reaching retirement age over the next decade is based on 2019 population, aged 55 to 64.
2. Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated.
3. Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the consolidated financial statements.
4. Growth rate on an actual exchange rate basis.
5. The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced with-profit funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.
6. Estimated before allowing for second interim ordinary dividend.
7. Represents M&GPrudential asset management external funds under management and internal funds included on the M&GPrudential long-term insurance business balance sheet.
8. IMF. 2017 GDP at January 2019 current prices. Asia represents Prudential Corporation Asia's life business footprint.
9. Brookings Institution. Global Economy & Development Working Paper 100. February 2017. 'Asia' represents Asia Pacific.
10. Insurance penetration Swiss Re Sigma No 3/2018. Insurance penetration calculated as premiums as a percentage of GDP. Asia penetration calculated on a weighted population basis.
11. Swiss Re Mortality Protection Gap Asia Pacific 2018. Represents Prudential Corporation Asia's life business footprint, and use per capita income of working population as the base unit to calculate the size of the gap.
12. Swiss Re Asia's health protection gap: insights for building greater resilience. October 2018. Represents China, India, Japan, Korea, Indonesia, Malaysia, Taiwan, Vietnam, the Philippines, Singapore, Hong Kong and Thailand.
13. Investment Company Institute, industry associations and Lipper.
14.

BCG Global Wealth 2017. Navigating the New Client Landscape.

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

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

17. Eurostat: Household deposit data.

18. Preqin Future of Alternatives Report, October 2018.

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OUR BUSINESS SEGMENTS

The Prudential Group is structured around three main business units: Prudential Corporation Asia, the North American Business Unit and M&GPrudential in UK and Europe. In addition, in recent years, the Group has expanded into Africa. These business units derive revenue from both long-term insurance and asset management activities. 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.

In 2018, the Group announced its intention to demerge its UK and Europe businesses from Prudential plc, to form two separately listed companies. Please refer to the 'UK and Europe' section for further details.

Asia

Introduction

Prudential Corporation Asia's (PCA's) core business is health and 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).

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 11 major markets and distribution offices in US and Europe. 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.

As at 31 December 2018, Prudential Corporation Asia had:

- 15 million life insurance customers with life and fund management operations in 14 markets;
- Access to more than 14,000 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, with multiple awards received for its customer service; and
- Top three positions in eight out of our 12 insurance markets.

Our business

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

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

We are also able to translate these hallmarks of our business into financial success, with our strong performance in 2018 building upon our existing excellent track record. Our gross premium earned grew[4] by

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9 per cent[1] to £16.5 billion, and renewal premiums[5] grew by 16 per cent[1]. This helped deliver a 14 per cent[1] increase in adjusted IFRS operating profit based on longer-term investment returns[6] to £2.2 billion and grow our total assets by 11 per cent[7] to £94.2 billion. At Eastspring, we managed funds totalling £151 billion at the end of 2018, invested in over 1,600 funds.

Market opportunity

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

Today, consumers in Asia are both under-insured and under-saved during their working lives, which leaves them inadequately prepared for retirement. This is evident from the significant gap in life insurance penetration rates compared with developed markets. Furthermore, the limited welfare social safety net in many of our markets means that out-of-pocket healthcare spend by people in Asia is three to four times the proportion seen in the US and UK. Collectively, these dynamics resulted in an estimated health protection gap of US$1.8 trillion in 2017 across the Asia region[8].

The economic growth potential of the region is widely recognised and is expected to translate into rising levels of affluence, with 88 per cent of the next billion entrants into the middle class predicted to be based in Asia[9]. Entering the middle class is typically the trigger for individuals to protect their health and that of their families, while also seeking to manage and grow their wealth. Indeed, total annual expenditure by Asia's middle class is forecast to reach US$37 trillion in 2030[9], more than double the current amount.

Asia's economies are also benefiting from a demographic dividend with moderating fertility rates and improving life expectancy. In youthful markets, such as Indonesia, this is creating a surge in the working age population and with that a continued source of demand for our products. Across Asia the working age population is forecast to grow by almost one million people per month between now and 2030 to 2.5 billion people[10]. Meanwhile, the number of those aged over 65 is projected to almost treble by 2050 to 700 million[10]. This is expected to create demand for new solutions in markets with ageing populations, such as Hong Kong and China, as individuals look to maintain their standard of living during retirement.

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

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

Strategic priorities

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

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

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

We also use digital technology in servicing policies, both to improve the efficiency of our business and to enhance customer satisfaction. In Hong Kong we developed the 'Hospital to Prudential' portal to redefine the way our customers and medical professionals manage hospital claims, reducing the time required to submit a claim to just three minutes. Meanwhile, in China we have extended our award-winning WeChat self-service platform to include 90 per cent of all policy administration actions. Similarly, in Thailand we created a new customer services touchpoint through PruConnect, which enables customers to quickly access key information such as policy information, premium certificates and nearby network hospitals.

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

Thirdly, we plan to *accelerate Eastspring* by expanding its existing investment offering and enhancing its distribution capabilities. We have continued to strengthen our in-house investment teams, which helped us launch 51 new products in 2018. In September, we also entered Thailand, the largest mutual fund market in the Association of Southeast Asian Nations (ASEAN)[12], with the acquisition of TMB Asset Management. Our on-the-ground team recently launched an Asia Pacific Property Flexible Fund that obtained inflows totalling US$91 million during the week-long initial public offering period.

Finally, we intend to expand our *presence in China* across both the insurance and asset management sectors. We recently established a new branch in Hunan and received regulatory approval to undertake preparatory work to establish a new branch in Shaanxi, our nineteenth and twentieth provinces, respectively, offering access to over 100 million new people. This geographic expansion is supported by the diligent growth in our agency force, which grew by 7 per cent in 2018 to 48,000 agents. We also formed a two-year research partnership with the Development Research Centre of the State Council focused on the development of a sustainable pension system, which is testament to our aspirations in this market and our differentiated capabilities. Another major milestone in China was the opening of Eastspring's wholly foreign-owned enterprise in Shanghai. This enables us to manage onshore investments for high-net-worth individuals and institutional investors in China, complementing our existing asset management joint venture with CITIC. Our first private fund has a Chinese equities mandate and is expected to launch in April 2019, with further investment strategies planned to follow in due course.

Customers

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

We maintain this advantage by constantly striving to improve the experience of our customers, with whom we have over two million interactions every month, including over 300,000 calls. Our customers typically need us most when they want to submit a claim as this can signify the death or illness of a family member. Consequently, we strive to provide a frictionless claims process at this sensitive time. To facilitate this, our new

Jet claims tool, which is currently being used in Hong Kong and Indonesia, can automatically review, assess and pay a claim on the same day. We now have e-claims capability in six of our businesses and have already attained submission rates of almost 40 per cent. We also leverage technology in our more regular dealings with customers. For example, our new Virtual Assistant in Hong Kong, which builds upon the success of our askPRU chatbot that was launched in Singapore in 2017 and reduced call centre volumes by 40 per cent, already has answers to many frequently asked questions from agents and policyholders.

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

Products

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

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

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

New Business Premiums

In 2018, total sales of insurance products are down by 3 per cent from 2017 to £5,829 million (2017: £6,006 million; 2016: £5,948 million, both including Korea). Of this amount, regular premium insurance sales decreased by 4 per cent to £3,513 million (2017: £3,650 million; 2016: £3,453 million) and single premium insurance sales fell by 2 per cent from 2017 to £2,316 million (2017: £2,356 million; 2016: £2,495 million).

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

	Year ended 31 December £m (AER)		
	2018	**2017**	**2016**
Single premiums			
Hong Kong	**343**	582	1,140
Indonesia	**205**	288	236
Malaysia	**84**	73	110
Philippines	**43**	62	91
Singapore	**930**	859	523
Thailand	**217**	139	80
Vietnam	**20**	8	6
South East Asia operations including Hong Kong	**1,842**	2,011	2,186
China (Prudential's 50% proportionate share in joint venture)	**103**	179	124
Taiwan	**292**	46	36
India (Prudential's 26% proportionate share in associate)	**79**	63	51
Total excluding Korea	**2,316**	2,299	2,397
Korea*	**-**	57	98
Total including Korea	**2,316**	2,356	2,495
Regular premiums			
Cambodia	**20**	16	14
Hong Kong	**1,663**	1,667	1,798
Indonesia	**215**	268	255
Malaysia	**243**	271	233
Philippines	**83**	71	61
Singapore	**369**	361	299
Thailand	**95**	70	81
Vietnam	**144**	133	115
South East Asia operations including Hong Kong	**2,832**	2,857	2,856
China (Prudential's 50% proportionate share in joint venture)	**292**	276	187
Taiwan	**182**	208	146
India (Prudential's 26% proportionate share in associate)	**207**	234	170
Total excluding Korea	**3,513**	3,575	3,359
Korea*	**-**	75	94
Total including Korea	**3,513**	3,650	3,453
Total new business premiums			

Total excluding Korea	**5,829**	5,874	5,756
Korea*	**-**	132	192
Total including Korea	**5,829**	6,006	5,948

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

	At 31 December £bn	
	2018	**2017**
Internal funds under management	**90.2**	83.0
External funds under management	**61.1**	55.9
Total	**151.3**	138.9

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

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Distribution

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

Prudential has over 600,000 licenced tied agents across our 12 life markets in Asia. This proprietary distribution channel is a core component of our success. The value provided by our tied agents makes it paramount for us to continue expanding their reach and enhancing their capabilities. We place great emphasis on the professionalism and productivity of our agency force, and facilitate this by continually providing new and upgraded tools. This creates a culture whereby our agents aspire to attain membership of the 'Million Dollar Round Table', an industry-recognised indicator of quality. We currently have over 7,000 such qualifiers, which would represent annual growth in members of approximately 20 per cent[13] and reflects our focus on the recruitment, training and productivity of our agents, the emphasis on which varies by market. In our younger markets we are typically still accelerating recruitment. For example, we added over 1,100 new agents per month in the Philippines on average during 2018, which was more than 40 per cent higher than in 2017, and helped expand our agency force to around 28,000 agents. As markets mature the emphasis starts to shift towards the other factors. We have designed an entrepreneur development programme to fast-track our successful professional agents into leaders, which in turn supports our activation of new recruits. This programme has already been launched in China, where the number of active agents grew by 12 per cent in 2018.

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

Business outlook

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

The review demonstrated that we are well positioned in the traditional life insurance segment, with a market share of approximately 25 per cent[14]. We forecast that this market has the potential to continue growing at a double-digit rate over the coming five years, due to the underlying structural drivers of demand in the region. Our presence, scale and broad product and distribution reach position us well to participate strongly in this expected growth.

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

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

Notes

1. Growth rate on a constant exchange rate basis.
2. Excluding India.
3. Based on full year 2018 or the latest information available. Sources include formal (eg competitors results release, local regulators and insurance association) and informal (industry exchange) market share data. Ranking based on new business (APE sales, weighted full year premium or full year premium depending on availability of data). APE is defined under the section 'EEV Basis, New Business Results and Free Surplus

Generation' in this document.

4. IFRS gross premiums earned for Asia segment.

5. Includes renewal premiums from joint ventures. See note III of the additional unaudited financial information for reconciliation to IFRS balances.

6. Adjusted IFRS operating profit based on longer-term investment returns. See note B1 of the IFRS financial statements for reconciliation to IFRS profit.

7. Growth rate on an actual exchange rate basis.

8. Swiss Re Institute: The health protection gap in Asia, October 2018. Average gap per household is calculated as 'total health protection gap divided by the estimated number of households hospitalised under the mentioned gap range'. Report excludes Cambodia and Laos.
9. Brookings Institution. Global Economy & Development Working Paper 100. February 2017. 'Asia' represents Asia Pacific.
10. United Nations, Department of Economics and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision.
11. Working age population: 15 to 64 years.
12. ©Copyright 2018 Strategic Insight, an Asset International Company and when referenced or sourced Morningstar Inc., Standard & Poor's Inc., and Lipper Inc. All rights reserved. The information, data, analyses and opinions contained herein (a) include confidential and proprietary information of the aforementioned companies, (b) may not be copied or redistributed for any purpose, (c) are provided solely for information purposes, and (d) are not warranted or represented to be correct, complete, accurate, or timely.
13. Based on 100 per cent conversion of qualifiers into members.
14. Proprietary research/Bain Analysis (2018) covering the following markets: Hong Kong; Singapore; Indonesia; Malaysia; China; and India, using sales data provided by insurance regulators, insurance associations and industry expert surveys in these markets.

United States

Introduction

In the United States (US), 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 (VA) 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 2018, in the US, Jackson:

- Was the 15th largest life insurance company in terms of general account assets[5];
- Had 18 per cent market share of US variable annuities[1] and had £129 billion (US$ 163 billion) of separate account assets; and
- Has been recognised for customer service performance with the "Contact Center World Class CX Certification' and 'Highest Customer Service for the Financial Industry' awards by The Service Quality Measurement Group, Inc.

The US operations also include PPM Holdings, Inc. (PPM), Prudential's US internal and institutional investment management operation. As at 31 December 2018, Prudential's US operations had more than 4 million policies and contracts in force and PPM managed approximately £92.2 billion of assets. In 2018, new business premiums totalled £15,423 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. This transition will trigger the need for an unprecedented shift of trillions of dollars from savings accumulation to retirement income generation.

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

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

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

Customers and products

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

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

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

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

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

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

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

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

Additional information on products

The following table shows total new business premiums in the US 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.

	Year Ended 31 December £m (AER)		
By Product	**2018**	**2017**	**2016**
Annuities			
Fixed annuities			
Fixed interest rate	**316**	434	533
Fixed index	**251**	295	508
Immediate	**24**	20	22
Variable annuities	**10,810**	11,536	10,653
Elite Access (Variable annuities)	**1,681**	2,013	2,056
Total	**13,082**	14,298	13,772
Institutional products			
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) funding agreements	**2,341**	2,324	1,836
Total	**15,423**	16,622	15,608

By Distribution Channel

Independent broker dealer	**8,988**	9,637	8,809
Bank	**1,705**	1,948	2,137
Regional broker dealer	**1,986**	2,228	2,199
Independent insurance agents	**403**	485	627
Institutional products	**2,341**	2,324	1,836
Total	**15,423**	16,622	15,608

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Of the total new business premiums of £15,423 million in 2018 (2017: £16,622 million; 2016: £15,608 million), £13,082 million (2017: £14,298 million; 2016: £13,772 million) were annuity premiums, and £2,341 million (2017: £2,324 million; 2016: £1,836 million) were institutional product premiums. All of these premiums were single premiums.

Annuities

Fixed annuities

Fixed interest rate annuities

In 2018, fixed interest rate annuities account for 2 per cent (2017: 3 per cent) of total new business premiums and 7 per cent (2017: 7 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 their 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 account at that date. On more than 94 per cent (2017: 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 account value or a series of payments in the form of an immediate annuity product.

At 31 December 2018, Jackson had fixed interest rate annuities with account values totalling £12.6 billion (US$16.1 billion) (2017: £12.6 billion (US$17.0 billion)) with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent for which the average guaranteed rate was 2.91 per cent (2017: 1.0 per cent to 5.5 per cent and a 2.93 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 64 per cent (2017: 60 per cent) of the fixed interest rate annuities Jackson wrote in 2018 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 (2017: 2 per cent) of total new business premiums in 2018 and 5 per cent (2017: 5 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 2018, Jackson had fixed index annuities allocated to index funds with account values totalling £6.0 billion (US$7.7 billion) (31 December 2017: £6.3 billion (US$8.6 billion)) with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent for which the average guaranteed rate is 1.77 per cent (2017: 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 2018, fixed interest accounts on fixed index annuities totalled £2.7 billion (US$3.5 billion) (2017: £2.5 billion (US$3.4 billion)) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 2.57 per cent average guaranteed rate (2017: 1.0 per cent to 3.0 per cent and a 2.58 per cent average guaranteed rate).

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 return credited to the

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contract account balance. Fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

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

Group pay-out annuities

Group pay-out annuities consist of a block of defined benefit annuity plans assumed from John Hancock Life Insurance Company (John Hancock USA) in 2018 through a reinsurance agreement. A single premium payment from an employer (contract holder) funds the pension benefits for its employees (participants). The contracts are tailored to meet the requirements of the specific pension plan being covered. This is a closed block of business from two standpoints: (1) John Hancock USA is no longer selling new contracts and (2) contract holders (companies) are no longer adding additional participants to these defined benefit pension plans. The majority of participants are in the pay-out phase, but there are some participants in the deferral phase.

The contracts provide annuity payments that meet the requirements of the specific pension plan being covered. In some cases, the contracts have pre-retirement death and/or withdrawal benefits, pre-retirement surviving spouse benefits, and/or subsidised early retirement benefits. Given that this reinsurance agreement is a one-off transaction, the premium received has not been included in the new business premiums table above.

Variable annuities

In 2018, variable annuities accounted for 81 per cent (2017: 81 per cent) of total new business premiums and 75 per cent (2017: 77 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 2018, Jackson had variable annuity funds in fixed accounts totalling £6.4 billion (US$8.1 billion) (2017: £5.9 billion (US$8.0 billion)) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and an average guaranteed rate of 1.70 per cent (2017: 1.0 per cent to 3.0 per cent and a 1.68 per cent average guaranteed rate).

Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which 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 defined guaranteed withdrawal amount. One version of the GMWBs provides for an 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.

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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 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 2018, Jackson had fixed annuities (fixed interest rate and fixed index) and variable annuities fixed options with account values totalling £27.7 billion (2017: £27.3 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 at the dates indicated.

	Account value at 31 December £m	
Minimum guaranteed interest rates - annuities	**2018**	**2017**
1.0%	**7,584**	6,887
> 1.0% - 2.0%	**6,789**	7,385
> 2.0% - 3.0%	**10,075**	9,799
> 3.0% - 4.0%	**1,274**	1,272
> 4.0% - 5.0%	**1,794**	1,744
> 5.0% - 5.5%	**225**	220
Total	**27,741**	27,307

Life insurance

Background

Jackson discontinued new sales of life insurance products in 2012. The discontinued life insurance products accounted for 9 per cent (2017: 9 per cent) of Jackson's policy and contract liabilities in 2018. 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 2018, Jackson had interest-sensitive life business in force with total account values of £6.4 billion (US$8.2 billion) (2017: £6.3 billion (US$8.5 billion)), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.67 per cent average guaranteed rate (2017: 2.5 per cent to 6.0 per cent with a 4.67 per cent average guaranteed rate). The table below shows the distribution of the

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interest-sensitive life business' account values within this range of minimum guaranteed interest rates at the dates indicated.

	Account value at 31 December £m	
Minimum guaranteed interest rates - life insurance	**2018**	**2017**
> 2.0% - 3.0%	**229**	221
> 3.0% - 4.0%	**2,394**	2,341
> 4.0% - 5.0%	**2,106**	2,059
> 5.0% - 6.0%	**1,703**	1,651
Total	**6,432**	6,272

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 2018, institutional products accounted for 15 per cent (2017: 14 per cent) of total new business premiums and 1 per cent (2017: 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 generally paid monthly or 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.

The funding agreements may permit termination by the contract holder on seven to 90 days' notice. In 2018 and 2017, there were no funding agreements terminable by the contract holder with less than 90 days' notice.

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

Medium Term Note funding agreements

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

Distribution

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

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

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

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

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 40,000 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 2018 had access to more than 29,000 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.

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, collateralised loan obligations 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.

Regulatory landscape

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

As a result of an improved regulatory outlook, rising interest rates and more aggressive product feature changes (ie withdrawal percentages) implemented by competitors, the annuity industry saw increased sales in

2018 (albeit still well below levels prior to the DoL Rules proposal). Sales in the variable annuity industry as of the third quarter of 2018 at US$75.4 billion[4] were up 4 per cent compared with the same period last year.

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

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

Investment for growth

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

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

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

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

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

Disciplined risk management

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

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a unified view of our risk positions, and actively manage net risks through an economically-based hedging programme. A key element of our core strategy is to protect the company from severe economic scenarios while maintaining adequate regulatory capital. We benefit from the fact that the competitive environment continues to favour companies with robust financial strength and a demonstrated track record of financial discipline, both key elements of our long-term strategy.

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

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

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

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

Recent periods have been characterised by persistent low interest rates. A prolonged low interest rate environment may result in a lengthening of maturities of the fixed annuity and interest-sensitive life contract holder liabilities from initial estimates, primarily due to lower policy lapses. As interest rates remain at low levels, Jackson may also have to reinvest the cash it receives as interest or proceeds from investments that have matured or that have been sold at lower yields, reducing its investment margins. Moreover, borrowers may prepay or redeem the securities in their investment portfolios 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 2018, 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 (2017: 87 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 (2017: 72 per cent) of Jackson's combined fixed annuities, variable annuity fixed account options and interest sensitive life business account values of £25 billion (2017: £24 billion) have contractual minimum rates of 3 per cent or less.

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

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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 including those on variable annuity products, 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 adapted and continues to adapt proactively its asset-liability management, hedging programme, product design and pricing and crediting rate strategies to mitigate the downward pressures created by the prolonged low interest rate environment.

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

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

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

Factors affecting pricing of products and asset liability management

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

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

Jackson segregates its investment portfolio for certain investment management purposes, and as part of its overall investment strategy, into four portfolios: life and fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing life and fixed annuities with and without market value adjustments and the fixed index annuities have similar characteristics and differ primarily in duration. The portfolio backing the institutional liabilities has its own mix of investments that meet more limited duration tolerances. Consequently, the institutional portfolio is managed to permit less interest rate sensitivity and has limited exposure to mortgage backed securities. At 31 December 2018, less than one per cent of the institutional portfolio was invested in residential mortgage backed securities.

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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 2018, 49 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

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

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

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

5
Source: Third Quarter 2018 SNL Financial.

United Kingdom and Europe

Introduction

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

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

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

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

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

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

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

- To continue to serve our customers well, by improving outcomes and service levels, and widening product choice;
- To advance our merger and transformation programme, to modernise the business so that we become a simpler, lower-cost, digital organisation; and
- To prepare M&GPrudential for demerger and its future as an independent company with its own listing on the stock market.

Market overview

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

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

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

Customers

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

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

Our customers fall into five broad categories:

- UK retail advised customers who are saving for retirement or who want to draw down on their accumulated savings. They typically invest in our market-leading PruFund, which offers smoothed, long-term returns adjusted for different risk tolerances;
- UK retail advised and direct customers who invest for the long term through our range of M&G-branded mutual funds. This group includes about 160,000 customers who invest directly with our fund management business;
- Customers of our traditional insurance business in the UK. Numbering six million, these customers typically hold a Prudential annuity, which pays an income for life, or an insurance-wrapped savings bond;

Wholesale clients in Europe and Asia. These include retail banks, private banks, wealth managers, independent advisers and fund platforms. We manage £38 billion on behalf of these clients' own customers; and

Pension funds and other institutional clients, who invest on behalf of their scheme members. We have nearly 900 such relationships, including 70 per cent of the UK's largest pension schemes[4].

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

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

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

Our investment solutions

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

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

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

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

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

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

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

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

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

Distribution

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

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

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

Update on business transformation and demerger

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

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

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

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

Additional information on the long-term products of M&GPrudential

Long-term products

M&GPrudential's long-term products in the UK consist of life insurance, pension products and pensions annuities. The following table shows M&GPrudential'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&GPrudential 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 £m		
	2018	**2017**	**2016**
Individual annuities	**203**	223	546
Bonds	**3,539**	3,509	3,834
Corporate Pensions	**186**	233	231

Individual Pensions	**5,716**	5,779	2,567
Income drawdown	**2,555**	2,218	1,649
Other products	**1,360**	1,269	1,186
Total new business premiums	**13,559**	13,231	10,013

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Of the total new business premiums of £13,559 million (2017: £13,231 million; 2016: £10,013million), £13,382 million (2017: £13,044 million; 2016: £9,836 million) were for single premiums and £177 million (2017: £187 million; 2016: £177 million) were for regular premiums.

Pension annuities

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

M&GPrudential offers conventional annuities which include level (non-increasing), fixed increase and RPI annuities. In 2018, new business premiums for these conventional annuities were £203 million (2017: £223 million).

Bonds

Onshore Bonds

M&GPrudential offers customers a range of investment funds to meet different risk and reward objectives. M&GPrudential'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 addition M&GPrudential offers an open architecture onshore bond, the Prudential Onshore Portfolio Bond (POPB), which allows customers to access a wide range of quoted UK investments. New business premiums from this product were £49 million in 2018 (2017: £80 million). In total in 2018, new business premiums from the unit-linked option within on-shore bond wrappers, including PIP and POPB, were £152 million (2017: £186 million).

M&GPrudential offers a unitised and smoothed with-profits investment fund called PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer with a choice of Cautious, Growth or Risk-Managed funds. PruFund also offers clients an optional guarantee on the initial investment in either the Cautious or Growth funds with terms between ten and fifteen years. PruFund is available across M&GPrudential's range of tax wrappers including individual pensions, income drawdown, ISA, onshore and offshore bonds. In 2018, total bonds new business premiums attributable to PruFund, including new business through PIP, was £2,397 million (2017: £2,342 million). The new business premiums for other onshore bonds were £53 million in 2018 (2017: £132 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 The Prudential Assurance Company Limited's (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&GPrudential'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&GPrudential 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.

Offshore Bonds

M&GPrudential'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&GPrudential's offshore bond sales rose by 10 per cent to £937 million in 2018 (2017: £849 million).

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Pension and income drawdown products

M&GPrudential provides both corporate, individual pension and income drawdown products. Pension products are tax advantaged long-term savings products that comply with rules established by the HM Revenue & 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 drawdown product rather than to take cash. Many of the pension products M&GPrudential 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&GPrudential 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&GPrudential'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&GPrudential 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, in 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. To meet customers' needs for secure income whilst still retaining some flexibility, a minimum income guarantee is offered as an additional option. The overall proposition, both with and without the minimum income guarantee option, has been well received in the market, securing significant sales since launch and accounting for 88 per cent of total individual pension and income drawdown sales in 2018.

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.

PruFund is available across M&GPrudential's range of individual pensions and income drawdown tax wrappers and accounts for the majority of the new business premiums of these two categories.

Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. M&GPrudential has an established defined benefit plan client base covering the small to medium sized employer market. M&GPrudential's defined contribution client base ranges from small unlisted companies to some of the largest companies in the UK as well as a number of clients in the public sector (in particular where M&GPrudential offers the Additional Voluntary Contribution ('AVC') facility). Additional Voluntary Contribution plans enable employees to make additional pension contributions to supplement their occupational pension plans. M&GPrudential 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&GPrudential provides AVCs to 74 of the 99 Local Government Authorities in the UK.

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Other products

PruFund ISA

The PruFund range of investment funds was added to the Prudential ISA in February 2015, to offer clients a level of smoothing within a tax efficient wrapper. New business premiums in 2018 were £1,330 million (2017: £1,246 million).

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

In common with other UK long-term insurance companies, M&GPrudential's products are structured as either with-profits products or non-participating (including unit-linked) products. With-profits policies are supported by a with-profits fund. M&GPrudential's 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&GPrudential's with-profits sub-fund is part of PAC. The return to shareholders on M&GPrudential'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&GPrudential'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: 'regular' and 'final'. Regular 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 PruFund range of with-profits contracts, which offer policyholders a choice of investment profiles. Unlike the more traditional with-profits contracts, no regular or final bonuses are declared. Policyholder return is determined by an Expected Growth Rate (EGR) which is declared quarterly. A different EGR is applied for each of the PruFund funds within the range, each relating to the individual asset mix of that fund. The relevant EGR is applied to increase the unit value of policyholder funds, calculated daily. In normal investment conditions the EGR is expected to reflect PAC's view of how the funds will perform over the longer term. An adjustment is made to the smoothed unit value if it moves outside of a specified range relative to the value of the underlying assets.

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

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

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

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

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

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

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

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

In 2018, PAC declared a total surplus of £2,669 million (2017: £2,385 million) from PAC's primary with-profits sub-fund, of which £2,410 million (2017: £2,152 million) was added to with-profits policies and £259 million net of tax (2017: £233 million) was distributed to shareholders of which 17 per cent was from PruFund business (2017:15 per cent). These amounts included annual bonus rates of 1.5 per cent for the whole year for Prudence Bond and 1.5 per cent for the whole year for personal pensions.

The closed Scottish Amicable Insurance Fund (SAIF) declared total bonuses in 2018 of £328 million compared with £354 million in 2017. 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&GPrudential 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.

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 final bonuses and related shareholder transfers (the excess assets) in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

Matters relating to with-profits sub-funds:

- Pension mis-selling review the UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Offers of redress to all cases were made by 30 June 2002. Whilst Prudential believed it met the regulator's requirements to issue offers of redress to all customers by 30 June 2002 there is a population of customers who, whilst an attempt was made at the time, to invite them to participate in the review, may not have received their invitation. These customers are being re-engaged to ensure that they have the opportunity to take part in the review. Costs arising from this review are met by the excess assets of the UK with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. Prudential has given an assurance that these deductions from excess assets will not impact its bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, Prudential has stated it would make available support to the sub-fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged;

Scottish Amicable Insurance sub-fund policies within this sub-fund (a with-profits sub-fund closed to new business) contain minimum levels of guaranteed benefit to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the UK with-profits sub-fund would be liable to cover any such deficiency in the first instance;
In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £361 million was held within the sub-fund (31 December 2017: £503 million); and

Guaranteed annuities a provision for guaranteed annuity products of £49 million was held (31 December 2017: £53 million) in the UK with-profits sub-fund.

Intra-group capital support arrangements

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

Non-participating business

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

Notes

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

2 Household deposit data, Eurostat 2017.

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

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

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

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

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

Asia

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

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

US

Prudential's insurance operations in the US 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 US 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 US 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 US and, consequently, competes for distributors such as banks, broker-dealers and independent agents.

UK and Europe

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

Sources

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

FINANCIAL REVIEW

Overview

Prudential's financial performance in 2018 reflects our strategic focus on driving growth in high-quality, recurring health and protection and fee business across our geographies, products and distribution channels. Prudential's financial performance has been accomplished at the same time as the Group has made good progress in the complex preparations for the intended demerger of M&GPrudential from Prudential plc, which we announced in March 2018.

Our financial performance was led by our Asia business which delivered double digit growth in adjusted IFRS operating profit based on longer-term investment returns. Our Asia asset manager, Eastspring, has grown adjusted IFRS operating profit based on longer-term investment returns amidst a challenging external environment. In the US, we saw growth in fee income driven by higher average account balances offset by an increase in market-related deferred acquisition costs (DAC) amortisation and an expected reduction in spread-based revenues, leading to a fall in adjusted IFRS operating profit based on longer-term investment returns. M&GPrudential delivered adjusted IFRS operating profit based on longer-term investment returns of £1,634 million, up 19 per cent (2017: £1,378 million). This included £519 million (2017: £597 million) from our core[1] with-profits and annuity business, with the with-profits contribution up 11 per cent to £320 million, offset by lower annuities earnings following the reinsurance of £12 billion[2] of liabilities in March 2018.

We provide a discussion of our financial performance in 2018 in this section, which is organised as follows:

- IFRS Critical Accounting Policies
- Summary Consolidated Results and Basis of Preparation of Analysis
- Explanation of Movements in Profit after Tax and Profit before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure
- Basis of Performance Measures
  - Determination of adjusted IFRS operating profit based on longer-term investment returns for investment and liability movements
  - Analysis of adjusted IFRS operating profit based on longer-term investment returns
- Explanation of performance and other financial measures
  - Earnings per share
  - Adjusted IFRS operating profit based on longer-term investment returns
  - Short-term fluctuation in investment returns on shareholder-backed business
  - Group and Holding Company Cash Flows
  - Capital Position, Financing and Liquidity
- Explanation of Movements in Profit before Shareholder Tax by Nature of Revenue and Charges
- EEV Basis, New Business Results and Free Surplus Generation
- Additional Information on Liquidity and Capital Resources

Notes

1

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

2

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

IFRS Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU (EU-endorsed IFRS). 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 2018, there were no unendorsed standards effective for the three years ended 31 December 2018 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. 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, revenues and expenses, which are both recognised and unrecognised (eg contingent liabilities) in the primary financial statements. Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and that can 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 funds	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 accounting estimates and 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 funds	A3.1(a); and C4.2
Deferred acquisition costs for insurance contracts	A3.1(c); and C4.2
Financial investments Valuation	A3.1(c)

Financial investments	Determining impairment in relation to financial assets	A3.1(c)
	Additional quantitative information on the impairment and realised gains/losses recognised on the available-for-sale debt securities of US insurance operations	B1.2
	Additional quantitative information on the movement in the statement of financial position value of the available-for-sale debt securities of US insurance operations and those which are in a gross unrealised loss position.	C3.2(b), C3.2(c)
Intangible assets	Carrying value of distribution rights	A3.1(c)

Summary Consolidated Results and Basis of Preparation of Analysis

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

	Year Ended 31 December £m (AER)		
	2018	2017	2016
Total revenue, net of reinsurance	**24,931**	86,390	71,718
Total charges, net of reinsurance and (loss) profit attaching to disposal of businesses	**(21,913)**	(82,722)	(68,688)
Share of profits from joint ventures and associates, net of related tax	**291**	302	182
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* *	**3,309**	3,970	3,212
Tax attributable to policyholders' returns	**326**	(674)	(937)
Profit before tax attributable to shareholders	**3,635**	3,296	2,275
Tax charge (credit)	**(296)**	(1,580)	(1,291)
Less: tax attributable to policyholders' returns	**(326)**	674	937
Tax charge attributable to shareholders' returns	**(622)**	(906)	(354)
Profit for the year	**3,013**	2,390	1,921

*
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 deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds after adjusting for taxes borne by policyholders) is not representative of profit before tax attributable to shareholders.

Under IFRS, the pre-tax GAAP measure of profit 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 tax 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 London, Hong Kong and Singapore exchanges and to those financial markets. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

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

(a)
Group overview

2018 compared with 2017

Profit for the year after tax for 2018 was £3,013 million compared with £2,390 million for 2017 on an AER basis. The increase primarily reflects the movement in profit before tax attributable to shareholders, which increased from a profit of £3,296 million in 2017 (on an AER basis) to a profit of £3,635 million in 2018 and a decrease in the tax charge attributable to shareholders from £906 million in 2017 to £622 million in 2018.

On an AER basis, the increase in the total profit before tax attributable to shareholders from £3,296 million in 2017 to £3,635 million in 2018 reflects an increase in adjusted IFRS operating profit based on longer-term investment returns of £128 million or 3 per cent, which was further improved by a decrease in non-operating losses of £211 million, from a loss of £1,403 million to a loss of £1,192 million. The reduction in non-operating losses of £211 million is primarily attributable to a favourable change in short-term fluctuations in investment returns of £1,005 million from negative £1,563 million in 2017 to negative £558 million in 2018 partially offset by an increase in the loss on disposal of businesses and corporate transactions from a gain of £223 million in 2017 to a loss of £588 million in 2018. The loss on disposal of businesses and corporate transactions in 2018 relates primarily to the £508 million pre-tax loss following the reinsurance of UK annuities to Rothesay Life in March 2018.

The increase of £128 million or 3 per cent in the Group adjusted IFRS operating profit based on longer-term investment returns includes a positive exchange translation impact of £149 million. Excluding the effect of currency volatility, on a CER basis, Group adjusted IFRS operating profit based on longer-term investment returns increased from £4,550 million to £4,827 million, 6 per cent higher than the equivalent amount in 2017 reflecting increases from continued business momentum in Asia and a number of beneficial impacts that are not expected to recur at the same level in M&GPrudential partially offset by a decrease in the US as a result of higher market-related DAC amortisation charges.

The effective rate of tax on the total profit attributable to shareholders is 17 per cent in 2018 (2017: 14 per cent after excluding the one-off impact of the remeasurement of US deferred tax balances following the enactment in December 2017 of tax reform in the US). The increase in the 2018 effective tax rate is due to non-tax deductible investment losses in Asia. Further details are provided in note B4 of the consolidated financial statements.

2017 compared with 2016

Profit for the year after tax for 2017 was £2,390 million compared with £1,921 million for 2016. The increase primarily reflected 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, 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 reflected an improvement in adjusted IFRS 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 decrease in non-operating losses of £578 million, from negative £1,981 million to negative £1,403 million. The decreased charge for non-operating items of £578 million was primarily attributable to the profit attaching to disposal of businesses of £162 million in 2017 compared with a 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 adjusted IFRS operating profit based on longer-term investment returns included a positive exchange translation impact of £173 million. Excluding the effect of currency volatility, on a CER basis, the Group adjusted IFRS 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 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 reflected the inclusion of a £445 million one-off charge on the remeasurement of US deferred tax balances following the enactment of a tax reform in December 2017. 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.

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(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.

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

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include Group Head Office and Asia Regional Head Office costs. Prudential Capital and Africa operations do not form part of any operating segment under the structure, and their assets and liabilities and profit or loss before tax are not material to the overall financial position of the Group. Prudential Capital and Africa operations are therefore reported as 'Unallocated to a segment'.

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

	Year Ended 31 December £m		
	2018	**2017**	**2016**
Asia	**1,360**	1,775	928
US	**1,484**	254	591
UK and Europe	**944**	1,097	1,184
Total profit attributable to the segment	**3,788**	3,126	2,703
Unallocated to a segment*	**(775)**	(736)	(782)
Total profit for the year	**3,013**	2,390	1,921

* 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.

Asia

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

	Year Ended 31 December £m		
	2018	**2017**	**2016**
Insurance operations	**1,455**	1,852	1,043
Asset management	**182**	176	141
Profit before shareholder tax	**1,637**	2,028	1,184
Shareholder tax charge	**(277)**	(253)	(256)

Profit after tax	**1,360**	1,775	928

2018 compared with 2017

The decrease of £415 million in the profit after tax from £1,775 million in 2017 to £1,360 million in 2018 primarily reflects a decrease in the profit before shareholder tax of £391 million from £2,028 million to £1,637 million and an increase in shareholder tax charge by £24 million to £277 million in 2018 from £253 million in 2017.

The decrease in profit before shareholder tax includes a decrease of £397 million in insurance operations from £1,852 million to £1,455 million marginally offset by an increase of £6 million in asset management operations from £176 million to £182 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 operations ie Taiwan and India, US GAAP principles are applied. For with-profits business in Hong Kong, Singapore and Malaysia, the basis of profit recognition is bonus driven as described under 'UK and Europe Basis of Profits' below.

The decrease of £397 million in the profit before shareholder tax of insurance operations primarily reflects an unfavourable movement in non-operating items of £580 million from a gain of £53 million in 2017 to a loss of £527 million in 2018. This is partially offset by an increase of adjusted IFRS operating profit based on longer-term investment returns of £183 million from a profit of £1,799 million in 2017 to £1,982 million in 2018. The unfavourable change in non-operating items were primarily due to an increase in short-term fluctuations in investment returns from negative £1 million to negative £512 million, following falls in equity markets and unrealised bond losses in the period due to rising interest rates in many markets in Asia. The increase of £183 million in adjusted IFRS operating profit based on longer-term investment returns includes a negative exchange translation impact of £72 million. Excluding the currency volatility, adjusted IFRS operating profit based on longer-term investment returns is up 15 per cent or £255 million on a CER basis reflecting the continued growth of the in-force book of recurring premium business.

The increase of £6 million in the profit before shareholder tax of asset management operations from £176 million in 2017 to £182 million in 2018 includes an unfavourable exchange translation impact of £5 million. Excluding the currency volatility, profit from Asia asset management operations was up 6 per cent or £11 million on a CER basis, mainly reflecting growth in assets under management, combined with positive operating leverage, offsetting a marginal reduction in revenue margins.

The effective shareholder tax rate on profits from Asia operations increased to 17 per cent in 2018 compared with 12 per cent in 2017, principally due to unrealised investment losses that were not tax deductible.

2017 compared with 2016

The increase of £809 million in insurance operations primarily reflected 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 adjusted IFRS operating profit based on longer-term investment returns 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 sold Korea life business and a one-off cumulative exchange gain of £61 million in 2017 recycled from other comprehensive income upon the completion of its disposal, together with the positive change of £224 million in short-term fluctuations in investment returns from a loss of £225 million in 2016 to a loss of £1 million in 2017. The increase of £296 million in adjusted IFRS operating profit based on longer-term investment returns included a positive exchange translation impact of £68 million. Excluding the currency volatility, Asia insurance operations adjusted IFRS operating profit based on longer-term investment returns was up 15 per cent or £228 million, on a CER basis, reflecting the continued growth of the in-force recurring premium business.

The increase of £35 million in asset management operations from £141 million in 2016 to £176 million in 2017 was primarily attributable to an increase in the asset management operation's total assets under management as a result of positive net inflows of assets and favourable market movements, driving higher fee revenues. The increase of £35 million included 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 CER basis.

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

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US

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

	Year Ended 31 December £m		
	2018	**2017**	**2016**
Insurance operations	**1,769**	590	529
Asset management	**(30)**	172	(4)
Profit before shareholder tax	**1,739**	762	525
Shareholder tax charge	**(255)**	(508)	66
Profit after tax	**1,484**	254	591

2018 compared with 2017

The increase of £1,230 million in profit after tax from £254 million in 2017 to £1,484 million in 2018 primarily reflects an increase in profit before shareholder tax of £977 million from £762 million to £1,739 million and a decrease in the shareholder tax charge from £508 million to £255 million.

The increase of £977 million in profit before shareholder tax includes an increase of £1,179 million in insurance operations from £590 million to £1,769 million partially offset by a decrease of £202 million in asset management operations from positive £172 million to negative £30 million.

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 increase in the profit before shareholder tax of insurance operations in 2018 compared with 2017 is primarily due to a favourable movement in non-operating items of £1,482 million from negative £1,624 million to negative £142 million. This was partially offset by the decrease of £303 million in adjusted IFRS operating profit based on longer-term investment returns from £2,214 million to £1,911 million. The favourable movement in non-operating items is primarily due to a positive change in short-term fluctuations. In the US, lower equity market levels, alongside higher interest rate levels, resulted in gains on equity hedge instruments which are designed to protect Jackson's capital position, balanced by higher technical reserve requirements.

The decrease of £303 million in adjusted IFRS operating profit based on longer-term investment returns includes a positive translation impact of £77 million. Excluding the currency volatility, adjusted IFRS operating profit based on longer-term investment returns has decreased by £226 million or 11 per cent in 2018 compared with 2017, due to higher fee income that was more than offset by higher market-related DAC amortisation and lower spread-based income. The higher market-related DAC amortisation arises mainly from £194 million acceleration of amortisation compared with £83 million favourable deceleration in 2017 (on a constant exchange rate basis) leading to an adverse year-on-year movement of £277 million. Excluding the acceleration and deceleration in 2018 and 2017, the adjusted IFRS operating profit based on longer-term investment returns would have been 2 per cent higher than 2017 on a constant exchange rate basis. This is further discussed in note C5(b) to the consolidated financial statements.

The £202 million decrease in the loss before shareholder tax of the asset management in 2018 compared with 2017 is reflective of the non-recurrence of a gain recognised in 2017 arising from the disposal of the broker-dealer network and the additional costs incurred in 2018 in exiting from the business.

The effective shareholder tax rate on profits from US operations is 15 per cent in 2018 compared with 67 per cent in 2017, principally due to the inclusion in 2017 of a £445 million one-off charge on the remeasurement of US deferred tax balances following the enactment of a tax reform in December 2017.

2017 compared with 2016

The decrease of £337 million in profit after tax from £591 million in 2016 to £254 million in 2017 primarily reflected 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 primarily driven by this one-off impact.

The increase of £237 million in profit before tax attributable to shareholders included 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 £61 million increase in insurance operations in 2017 compared with 2016 was primarily due to an increase of £162 million in adjusted IFRS 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 adjusted IFRS operating profit based on longer-term investment returns included a positive translation impact of £104 million. Excluding the currency volatility, the increase in adjusted IFRS operating profit based on longer-term investment returns in 2017 on a CER basis compared with 2016 was £58 million or 3 per cent, mainly reflecting 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 loss of £1,523 million 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 included a positive translation impact of £78 million. Excluding the currency volatility, the increase in non-operating loss in 2017 on a CER basis compared with 2016 was £23 million. The negative movement in short-term fluctuations in investment returns was attributable mainly to the net value movement in the period of the hedge instruments held to manage market exposures and reflected the positive equity market performance in the US during the period.

The £176 million increase in asset management operations in 2017 compared with 2016 was primarily due to the gain of £162 million arising from the disposal of the broker-dealer network in August 2017.

UK and Europe

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

	Year Ended 31 December £m		
	2018	**2017**	**2016**
Insurance operations	**698**	858	1,026
Asset management	**462**	506	433
Profit before shareholder tax	**1,160**	1,364	1,459
Shareholder tax charge	**(216)**	(267)	(275)
Profit after tax	**944**	1,097	1,184

2018 compared with 2017

The decrease of £153 million in the profit after tax from £1,097 million in 2017 to £944 million in 2018 primarily reflects a decrease in the profit before shareholder tax of £204 million from £1,364 million to £1,160 million, partly offset by a decrease of £51 million in the shareholder tax charge from £267 million in 2017 to £216 million in 2018.

The decrease of £204 million in profit before shareholder tax includes a decrease of £160 million in insurance operations from £858 million to £698 million and a decrease of £44 million in asset management operations from £506 million to £462 million.

The UK and Europe's insurance results comprise an annual profit distribution to shareholders from its long-term with-profits funds as well as profit 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.

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For with-profits business (including non-participating business owned by the UK 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 profit for the with-profits business, which is determined on the same basis as on grandfathered UK GAAP, solely reflects 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 the profit before shareholder tax of the insurance operations of £160 million is mainly driven by an adverse change in non-operating items of £439 million from a loss of a £20 million in 2017 to a loss of £459 million in 2018, primarily reflecting the loss related to the £508 million anticipated pre-tax loss following the reinsurance of UK annuities to Rothesay Life in March 2018. Further details are provided in note D1.1 to the consolidated financial statements. This is partially offset by a £69 million favourable movement in short-term fluctuations in investment returns. Adjusted IFRS operating profit based on longer-term investment returns has increased by £277 million from £861 million in 2017 to £1,138 million in 2018 and principally reflects the benefit from updated longevity assumptions of £441 million together with an 11 per cent increase in shareholder transfer from the with-profits business, which includes a 30 per cent increase in the contribution from PruFund business.

The movement in profit before shareholder tax of the asset management operation from £506 million to £462 million is primarily driven by a decrease in adjusted IFRS operating profit based on longer-term investment returns of £44 million or 9 per cent, largely reflecting a normalisation of performance fees of £15 million, compared with a particularly high contribution of £53 million in the prior year. Excluding the contribution of performance fees, adjusted IFRS operating profit based on longer-term investment returns is 3 per cent higher reflecting both the higher average level of funds managed by M&G (up from £275.9 billion in 2017 to £276.6 billion in 2018) and a higher revenue margin of 40 basis points (2017: 37 basis points) partially offset by charges of £27 million incurred in preparing the business for the UK's proposed exit from the European Union, including the migration of fund assets to our Luxembourg-domiciled SICAV platform.

The effective shareholder tax rate on profits from UK and Europe operations of 19 per cent in 2018 is broadly in line with the effective shareholder tax rate of 20 per cent in 2017.

2017 compared with 2016

The decrease of £87 million in the profit after tax from £1,184 million in 2016 to £1,097 million in 2017 primarily reflected a decrease in the profit before shareholder tax of £95 million from £1,459 million to £1,364 million, partly offset by a 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 included a decrease of £168 million in the result for insurance operations from £1,026 million to £858 million, partially offset by an increase of £73 million for asset management operations from £433 million to £506 million.

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 businesses from a profit of £198 million in 2016 to a loss of £20 million in 2017. This was partially offset by an increase in adjusted IFRS operating profit based on longer-term investment returns of £50 million. The £218 million decrease in short-term fluctuations in investment returns included unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business that varied differently depending on interest rate and other movements in the profit. Adjusted IFRS operating profit based on longer-term investment returns increased by £50 million from £828 million in 2016 to £878 million in 2017, with contributions from the core[1] with-profits and in-force annuity business stable at £597 million (2016: £601 million). Adjusted IFRS operating profit based on longer-term investment returns included general insurance commission of £17 million in 2017 compared with £29 million in 2016.

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

The effective shareholder tax rate on profits from UK and Europe operations of 20 per cent in 2017 was broadly in line with the effective shareholder tax rate of 19 per cent in 2016.

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 £m		
	2018	**2017**	**2016**
Loss before shareholder tax	**(901)**	(858)	(893)
Shareholder tax credit	**126**	122	111
Loss after tax	**(775)**	(736)	(782)

2018 compared with 2017

Total net charges for activity unallocated to a segment have increased by £39 million from £736 million 2017 to £775 million in 2018. The loss before shareholder tax increased by £43 million from £858 million in 2017 to £901 million in 2018. The increase primarily reflects higher restructuring costs and costs related to preparation for the previously announced intention to demerge M&GPrudential from Prudential plc, partially offset by a lower interest expense. Restructuring costs includes investment spend in relation to M&GPrudential merger and transformation and efficiency and change programmes across the Group for example the rationalisation of US locations in 2018.

The effective shareholder tax rate on losses unallocated to a segment of 14 per cent in 2018 is in line with the effective shareholder tax rate of 14 per cent in 2017.

2017 compared with 2016

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 debts issued in 2016 and 2017, and higher restructuring costs as the business invested 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 held outside of the main life operations.

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.

Basis of Performance Measures

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

The Group's operating segments for financial reporting are defined and presented in accordance with IFRS 8, 'Operating Segments', on the basis of the management reporting structure and its financial management information.

Under the Group's management and reporting structure its chief operating decision maker is the Group Executive Committee (GEC). In the management structure, responsibility is delegated to the Chief Executive Officers of Prudential Corporation Asia, the North American Business

Unit and M&GPrudential for the day-to-day management of their business units (within the framework set out in the Group Governance

Manual). Financial management information used by the GEC aligns with these three business segments. These operating segments derive revenue from both long-term insurance and asset management activities.

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include Group Head Office and Asia Regional Head Office costs. Prudential Capital and Africa operations do not form part of any operating segment under the structure, and their assets and liabilities and profit or loss before tax are not material to the overall financial position of the Group. Prudential Capital and Africa operations are therefore reported as 'Unallocated to a segment'.

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

- Short-term fluctuations in investment returns on shareholder-backed business. This includes the impact of short-term market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Gain or loss on corporate transactions, such as disposals undertaken in the year.

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

(a) General principles

(i) UK-style with-profits business

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

(ii) Unit-linked business

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

(iii) US variable annuity and fixed index annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other US GAAP derived principles. These liabilities are subject to an extensive derivative programme to manage equity and interest rate exposures whose fair value movements pass through the income statement each period. The principles for determination of the adjusted IFRS operating profit based on longer-term investment returns and short-term fluctuations are as discussed in section (c) below.

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

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

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

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

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(v)

Other shareholder-financed business

For long-term insurance business, where assets and liabilities are held for the long term, the accounting basis for insurance liabilities under current IFRS can lead to profits that include the effects of short-term fluctuations in market conditions, which may not be representative of trends in underlying performance. Therefore, the following key elements are applied to the results of the Group's shareholder-financed businesses to determine adjusted IFRS operating profit based on longer-term investment returns.

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

Debt securities and loans

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

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

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

At 31 December 2018, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £629 million (2017: £855 million; 2016: £969 million).

Equity-type securities

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

Derivative value movements

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

(b)

Asia insurance operations

(i)

Business where policyholder liabilities are sensitive to market conditions

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

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

(ii)

Other Asia shareholder-financed business

Debt securities

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

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Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed business amounted to £2,146 million as at 31 December 2018 (31 December 2017: £1,759 million; 31 December 2016: £1,405 million). The rates of return applied in 2018 ranged from 5.3 per cent to 17.6 per cent (2017: 4.3 per cent to 17.2 per cent; 2016: 3.2 per cent to 13.9 per cent) with the rates applied varying by business unit. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(c) **US insurance operations**

(i) Separate account business

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

(ii) US variable and fixed index annuity business

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

- Fair value movements for equity-based derivatives;
- Fair value movements for guaranteed benefit options for the 'not for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance (see below);
- Movements in the accounts carrying value of Guaranteed Minimum Death Benefit (GMDB), GMIB and the 'for life' portion of GMWB liabilities, (see below) for which, under the 'grandfathered' US GAAP applied under IFRS for Jackson's insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements (ie they are relatively insensitive to the effect of current period equity market and interest rate changes);
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

Guaranteed benefit options for the 'not for life' portion of GMWB and equity index options for the fixed index annuity business

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

Guaranteed benefit option for variable annuity guarantee minimum income benefit

The GMIB liability, which is substantially reinsured, subject to a deductible and annual claim limits, is accounted for using 'grandfathered' US GAAP. This accounting basis substantially does not recognise the effects of market movements. The corresponding reinsurance asset is measured under the 'grandfathered' US GAAP basis applied for IFRS in a manner consistent with IAS 39, 'Financial Instruments: Recognition and Measurement', and the asset is therefore recognised at fair value. As the GMIB is economically reinsured, the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii)

Other derivative value movements

The principal example of non-equity based derivatives (for example, interest rate swaps and swaptions) whose value movements are excluded from adjusted IFRS operating profit based on longer-term investment returns, arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of other comprehensive income rather than the income statement), product liabilities (for which

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US GAAP accounting as 'grandfathered' under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based product options.

(iv)

Other US shareholder-financed business

Debt securities

The distinction between impairment losses and interest-related realised gains and losses is of particular relevance to Jackson. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2 note (ii)(c) to the consolidated financial statements.

Equity-type securities

As at 31 December 2018, the equity-type securities for US insurance non-separate account operations amounted to £1,359 million (31 December 2017: £946 million; 31 December 2016: £1,323 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2018	**2017**	**2016**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**6.7% to 7.2%**	6.1% to 6.5%	5.5% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	**8.7% to 9.2%**	8.1% to 8.5%	7.5% to 8.5%

(d)

UK and Europe insurance operations

(i)

Shareholder-backed annuity business

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

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

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;
- Credit experience compared with assumptions; and
- Short-term value movements on assets backing the capital of the business.

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

(ii)

Non-linked shareholder-financed business

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

(e)

Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply and therefore the adjusted IFRS operating profit based on longer-term investment returns is not determined on the basis described above. Instead, realised gains and losses are generally included in adjusted IFRS operating profit based on longer-term investment returns with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, realised gains and losses on derivatives and other financial instruments are amortised to adjusted IFRS operating profit based on longer-term investment returns over a time period that reflects the underlying economic substance of the arrangements.

Analysis of adjusted IFRS operating profit based on longer-term investment returns

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

	2018 £m					
	Asia	**US**	**UK and Europe**	**Total segment**	**Unallocated to a segment (other operations)**	**Group total**
Analysis of profit (loss) before tax						
Adjusted IFRS operating profit (loss) based on longer-term investment returns	**2,164**	**1,919**	**1,634**	**5,717**	**(890)**	**4,827**
Short-term fluctuations in investment returns on shareholder-backed business	**(512)**	**(100)**	**34**	**(578)**	**20**	**(558)**
Amortisation of acquisition accounting adjustments	**(4)**	**(42)**	**-**	**(46)**	**-**	**(46)**
Loss on disposal of businesses and corporate transactions	**(11)**	**(38)**	**(508)**	**(557)**	**(31)**	**(588)**
Profit (loss) before tax	**1,637**	**1,739**	**1,160**	**4,536**	**(901)**	**3,635**
Tax attributable to shareholders						**(622)**
Profit for the year						**3,013**

	2017 £m (AER)					
	Asia	**US**	**UK and Europe**	**Total segment**	**Unallocated to a segment (other operations)**	**Group total**
Analysis of profit (loss) before tax						
Adjusted IFRS operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	5,577	(878)	4,699
Short-term fluctuations in investment returns on shareholder-backed business	(1)	(1,568)	(14)	(1,583)	20	(1,563)
Amortisation of acquisition accounting	(7)	(56)	-	(63)	-	(63)

adjustments						
Gain on disposal of businesses and corporate transactions	61	162	-	223	-	223
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

	2017* £m (CER)					
	Asia	**US**	**UK and Europe**	**Total segment**	**Unallocated to a segment (other operations)**	**Group total**
Analysis of profit (loss) before tax						
Adjusted IFRS operating profit (loss) based on longer-term investment returns	1,898	2,146	1,378	5,422	(872)	4,550
Short-term fluctuations in investment returns on shareholder-backed business	(7)	(1,513)	(14)	(1,534)	20	(1,514)
Amortisation of acquisition accounting adjustments	(7)	(54)	-	(61)	-	(61)
Gain on disposal of businesses and corporate transactions	61	157	-	218	-	218
Profit (loss) before tax	1,945	736	1,364	4,045	(852)	3,193
Tax attributable to shareholders						(876)
Profit for the year						2,317

	2016 £m (AER)					
	Asia	**US**	**UK and Europe**	**Total segment**	**Unallocated to a segment (other operations)**	**Group total**
Analysis of profit (loss) before tax						
Adjusted IFRS 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 on disposal of businesses and corporate transactionsnote D1	(227)	-	-	(227)	-	(227)
Profit (loss) before tax	1,184	525	1,459	3,168	(893)	2,275
Tax attributable to shareholders						(354)

Profit for the year						1,921

	2016 £m (CER)					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	Group total
Analysis of profit (loss) before tax						
Adjusted IFRS operating profit (loss) based on longer-term investment returns	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

*For 2017, the CER results were calculated using the 2018 average exchange rates.

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

Explanation of Performance and Other Financial Measures

		AER		**CER***		**AER**	**CER**
	2018 £m	2017 £m	Change %	2017 £m	Change %	2016 £m	2016 £m
Asia							
Insurance operationsnote(ii)	**1,982**	1,799	10%	1,727	15%	1,503	1,571
Asset management	**182**	176	3%	171	6%	141	149
Total Asia	**2,164**	1,975	10%	1,898	14%	1,644	1,720
US							
Jackson (US insurance operations)note(ii)	**1,911**	2,214	(14)%	2,137	(11)%	2,052	2,156
Asset management	**8**	10	(20)%	9	(11)%	(4)	(4)
Total US	**1,919**	2,224	(14)%	2,146	(11)%	2,048	2,152
UK and Europe							
UK and Europe insurance operations:							
Long-term businessnote(ii)	**1,138**	861	32%	861	32%	799	799
General insurance commission	**19**	17	12%	17	12%	29	29
Total UK and Europe insurance operations	**1,157**	878	32%	878	32%	828	828
UK and Europe asset management	**477**	500	(5)%	500	(5)%	425	425
Total UK and Europe	**1,634**	1,378	19%	1,378	19%	1,253	1,253
Total segment profit	**5,717**	5,577	3%	5,422	5%	4,945	5,125
Other income and expenditure	**(725)**	(775)	6%	(769)	6%	(651)	(657)
Total adjusted IFRS operating profit based on longer-term investment returns before tax and restructuring costs	**4,992**	4,802	4%	4,653	7%	4,294	4,468
Restructuring costs	**(165)**	(103)	(60)%	(103)	(60)%	(38)	(39)
Adjusted IFRS operating profit based on longer-term investment returns before taxnote(i)	**4,827**	4,699	3%	4,550	6%	4,256	4,429
Non-operating items:							
Short-term fluctuations in investment returns on shareholder-backed businessnote(iii)	**(558)**	(1,563)	64%	(1,514)	63%	(1,678)	(1,764)
Amortisation of acquisition accounting adjustments	**(46)**	(63)	27%	(61)	25%	(76)	(79)
	(588)	223	n/a	218	n/a	(227)	(244)

(Loss) gain attaching to disposal of businesses							
Profit before tax attributable to shareholders	**3,635**	3,296	10%	3,193	14%	2,275	2,342
Tax charge attributable to shareholders' returns	**(622)**	(906)	31%	(876)	29%	(354)	(360)
Profit for the year attributable to shareholders	**3,013**	2,390	26%	2,317	30%	1,921	1,982

*

For 2017, the CER results were calculated using the 2018 average exchange rates.

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

Notes

(i)

The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish adjusted IFRS operating profit based on longer-term investment returns from other elements of total profit. Adjusted IFRS 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 adjusted IFRS 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.

(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.

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(iii)

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

	Year ended 31 Dec AER £m		
	2018	**2017**	**2016**
Asia operations	**(512)**	(1)	(225)
US operations	**(100)**	(1,568)	(1,455)
UK and Europe operations	**34**	(14)	206
Other operations	**20**	20	(204)
Total	**(558)**	(1,563)	(1,678)

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

		AER		CER		AER
	2018 pence	**2017 pence**	**Change %**	**2017 pence**	**Change %**	**2016 pence**
Basic earnings per share based on adjusted IFRS operating profit based on longer-term investment returns after tax	**156.6**	**145.2**	**8%**	140.4	12%	131.3
Basic earnings per share based on total profit after tax	**116.9**	**93.1**	**26%**	90.0	30%	75

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

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

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

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

M&GPrudential delivered adjusted IFRS operating profit based on longer-term investment returns of £1,634 million, up 19 per cent (2017: £1,378 million). This included £519 million (2017: £597 million) from our core[2] with-profits and annuity business, with the with-profits contribution up 11 per cent to £320 million, offset by lower annuities earnings following the reinsurance of £12 billion[3] of liabilities in March 2018. Other adjusted IFRS operating profits based on longer-term investment returns included the benefit of updated longevity assumptions and an insurance recovery on the costs of reviewing internally vesting annuity sales. M&GPrudential remains on track to deliver the announced annual shareholder cost savings of circa £145 million by 2022 for a shareholder investment of circa £250 million.

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

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

Consistent with the explanations made in the currency volatility section in the 'Summary Overview of Operating and Financial Review and Prospects' comparison of the 2018 and 2017 performance is partially affected by the movements in average exchange rates used to translate into sterling the results of our overseas operations. Therefore, to facilitate explanations of changes in underlying performance, in the commentary on 2018 with 2017 discussions below, every time we comment on the performance of our businesses, we focus on their performance measured on the constant exchange rates basis unless otherwise stated. In each such case, the performance of our businesses in actual exchange rate terms was explained by the same factors discussed in the comments below and the impact of currency movements implicit in the constant exchange rate data.

The key financial highlights in 2018 were as follows:

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

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

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

Group shareholders' Solvency II capital surplus[4] was estimated at £17.2 billion at 31 December 2018, equivalent to a cover ratio of 232 per cent[5] (31 December 2017: £13.3 billion, 202 per cent). The improvement in the period reflects the continuing strength of the Group's operating capital generation and a net £1.2 billion increase in qualifying debt.

Full year ordinary dividends increased by 5 per cent to 49.35 pence per share, reflecting our 2018 performance and our confidence in the future prospects of our businesses.

Adjusted IFRS operating profit based on longer-term investment returns

2018 total adjusted IFRS operating profit based on longer-term investment returns increased by 6 per cent (3 per cent on an actual exchange rate basis) to £4,827 million.

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2018 compared with 2017 (CER)

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

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

UK and Europe total adjusted IFRS operating profit based on longer-term investment returns was 19 per cent higher at £1,634 million. Life insurance adjusted IFRS operating profit based on longer-term investment returns increased by 32 per cent to £1,138 million (2017: £861 million). Within this total, the contribution from our core[2] with-profits and in-force annuity business was £519 million (2017: £597 million), including an increased transfer to shareholders from the with-profits funds of £320 million (2017: £288 million) and within this, a 30 per cent increase in the contribution from PruFund business of £55 million. Earnings from our core[2] annuities business were lower, reflecting the reinsurance of £12 billion of annuity liabilities to Rothesay Life in March 2018. The balance of the life insurance result reflects the contribution from other elements which are not expected to recur at the same level. This includes the favourable impact of longevity assumption changes, contributing £441 million (2017: £204 million) relating to changes to annuitant mortality assumptions reflecting recent mortality trends, which have shown a slowdown in life expectancy improvements in recent periods, and the adoption of the Continuous Mortality Investigation (CMI) 2016 model (2017: adoption of 2015 model). The result also includes a £166 million insurance recovery, related to the costs of reviewing internally vesting annuities sold without advice after July 2008. Profits from management actions of £58 million were broadly offset by a provision of £55 million for the cost of equalising guaranteed minimum pension benefits on products sold by the UK insurance business, following a High Court ruling in October which applied across the UK life insurance industry.

Asset management adjusted IFRS operating profit based on longer-term investment returns decreased 5 per cent to £477 million, largely reflecting a normalisation of performance fees to £15 million, compared with a particularly high contribution of £53 million in the prior year. Excluding the contribution of performance fees, adjusted IFRS operating profit based on longer-term investment returns was 3 per cent higher. This reflects both the higher average level of funds managed by M&G (up from £275.9 billion in 2017 to £276.6 billion in 2018) and a higher revenue margin[8] of 40 basis points (2017: 37 basis points). Adjusted IFRS operating profit based on longer-term investment returns is after charges of £27 million incurred in preparing the business for the UK's proposed exit from the European Union, including the migration of fund assets to our Luxembourg-domiciled SICAV platform. The cost-income ratio[6] of 59 per cent remains broadly in line with the prior year (2017: 58 per cent).

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2017 compared with 2016 (CER)

Asia total adjusted IFRS operating profit based on longer-term investment returns of £1,975 million was 15 per cent higher than the previous year (20 per cent on an actual exchange rate basis). Adjusted IFRS operating profit based on longer-term investment returns 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 reaching £11.6 billion (2016: £9.5 billion on a constant exchange rate basis). Insurance margin was up 21 per cent, reflecting our continued focus on health and protection business. At a country level, we have seen improvement in all of our markets, with double-digit growth in adjusted IFRS operating profit based on longer-term investment returns 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 adjusted IFRS operating profit based on longer-term investment returns to £176 million (2016: £149 million).

US total adjusted IFRS operating profit based on longer-term investment returns 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 adjusted IFRS operating profit based on longer-term investment returns was 10 per cent higher at £1,378 million. Life insurance adjusted IFRS operating profit based on longer-term investment returns increased by 8 per cent to £861 million (2016: £799 million). Within this total, the contribution from our core 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 adjusted IFRS operating profit based on longer-term investment returns from the sale of annuities of £9 million (2016: £41 million) and a number of other items discussed below. Asset management adjusted IFRS operating profit based on longer-term investment returns increased 18 per cent to £500 million, driven by higher average assets under management and improved performance fees, together with a lower cost-income ratio of 58 per cent (2016: 59 per cent).

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

Life insurance profit drivers

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

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Shareholder-backed policyholder liabilities and net liability flows[9]

	2018 £m Actual exchange rate				2017 £m Actual exchange rate			
	At 1 January	Net liability Flows[10]	Market and other movements[3]	At 31 December	At 1 January	Net liability Flows[10]	Market and other movements[3]	At 31 December
Asia	**37,402**	**3,251**	**(56)**	**40,597**	32,851	2,301	2,250	37,402
US	**180,724**	**(213)**	**5,089**	**185,600**	177,626	3,137	(39)	180,724
UK and Europe	**56,367**	**(2,774)**	**(12,833)**	**40,760**	56,158	(2,721)	2,930	56,367
Total Group	**274,493**	**264**	**(7,800)**	**266,957**	266,635	2,717	5,141	274,493

Focusing on business supported by shareholder capital, which generates the majority of the life profit, in 2018 net flows into our businesses were overall positive at £0.3 billion driven by our Asian operations. In the US, net outflows were £0.2 billion with positive separate account net inflows of £1.1 billion being more than offset by general account net outflows of £1.3 billion, as a result of higher surrenders as the portfolio develops. In the UK and Europe, the net outflows principally reflect the run-off of the in-force annuity portfolio following our effective withdrawal from selling new annuity business. Market and other movements have reduced shareholder-back liabilities by £7.8 billion. This includes the removal of £10.9 billion[3] of UK annuity liabilities, representing the portion of the £12 billion[3] reinsured liabilities that will be subject to a Part VII transfer to Rothesay Life, following their reclassification as held for sale, offset by additions of £4.1 billion in Jackson as a result of the agreement in November 2018 to reinsure a portfolio of business from John Hancock. The remaining £1.0 billion primarily reflects the effects of negative investment markets offset by currency effects as sterling weakened over the period. In total, business flows and market movements have decreased shareholder-backed policyholder liabilities from £274.5 billion to £267.0 billion.

Policyholder liabilities and net liability flows in with-profits business[9,11]

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

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

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

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

*

The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. The acquisition costs include only those relating to shareholder-backed business. APE is defined under the section 'EEV Basis, New Business Results and Free Surplus Generation' in this document.

**

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

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

Asset management profit drivers

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

Asset management external funds under management**12,13**

	2018 £m Actual exchange rate				**2017 £m Actual exchange rate**			
	At 1 January	**Net flows**	**Market and other movements**	**At 31 December**	**At 1 January**	**Net flows**	**Market and other movements**	**At 31 December**
UK and Europe	**163,855**	**(9,915)**	**(6,994)**	**146,946**	136,763	17,337	9,755	163,855
Asia14	**46,568**	**(1,586)**	**4,473**	**49,455**	38,042	3,141	5,385	46,568
Total asset management	**210,423**	**(11,501)**	**(2,521)**	**196,401**	174,805	20,478	15,140	210,423
Total asset management (including MMF)	**219,740**	**(10,001)**	**(1,736)**	**208,003**	182,519	21,973	15,248	219,740

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2018 compared with 2017 (CER)

M&GPrudential's external asset management net outflows were £9.9 billion (2017: net inflows of £17.3 billion) driven by the expected redemption of a single £6.5 billion low-margin institutional mandate, and net outflows from wholesale and direct clients from bond and equity classes in volatile financial markets. This was partially offset by inflows into multi-asset wholesale offerings and other institutional business products, including public debt and illiquid credit strategies. Internal life insurance assets under management were £174.3 billion (2017: £186.8 billion) benefiting from PruFund net flows of £8.5 billion, offset by the effect of the £12 billion[3] annuities reinsurance and lower equity market levels. As a result, total M&GPrudential assets under management[15] reduced to £321.2 billion (2017: £350.7 billion).

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

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, adjusted IFRS operating profit based on longer-term investment returns derived from asset management activities in M&GPrudential 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&GPrudential'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&GPrudential assets under management to £350.7 billion (2016: £310.8 billion).

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

Other income and expenditure and restructuring costs

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

Non-operating items

2018 compared with 2017 (CER)

Non-operating items consist of short-term fluctuations in investment returns on shareholder-backed business of negative £558 million (2017: negative £1,514 million), the results attaching to disposal of businesses of negative £588 million (2017: positive £218 million), and the amortisation of acquisition accounting adjustments of negative £46 million (2017: negative £61 million) arising mainly from the REALIC business acquired by Jackson in 2012. The loss related to the disposal of businesses relates primarily to the £508 million pre-tax loss following the reinsurance of £12 billion[3] UK annuities to Rothesay Life in March 2018.

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.

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

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

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

2018

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

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

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 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 70 basis points 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.

IFRS basis effective tax rates

In 2018, the effective tax rate on adjusted IFRS operating profit based on longer-term investment returns was 16 per cent (2017: 21 per cent, 2016: 21 per cent), reflecting the reduction in the US federal tax rate from 35 per cent in 2017 to 21 per cent in 2018.

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The 2018 effective tax rate on the total IFRS profit was 17 per cent (2017: 14 per cent after excluding the one-off impact of the re-measurement of US deferred tax balances, following the enactment in December 2017 of tax reform in the US, 2016: 16 per cent). The increase in the 2018 effective tax rate reflects non-tax deductible investment losses in Asia operations.

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

Total tax contribution

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with £2,839 million remitted to tax authorities in 2018. This was similar to the equivalent amount of £2,903 million remitted in 2017 and the equivalent amount of £2,887 million remitted in 2016.

Tax strategy

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

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

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

Capital position, financing and liquidity

Capital position

*Analysis of movement in Group shareholder Solvency II surplus*16

	2018 £bn	2017 £bn
Solvency II surplus at 1 January	**13.3**	12.5
Operating experience	**4.2**	3.6
Non-operating experience (including market movements)	**(1.2)**	(0.6)
M&GPrudential transactions (see below)	**0.4**	
Other capital movements:		

Net subordinated debt issuance (redemption)	**1.2**	(0.2)
Foreign currency translation impacts	**0.5**	(0.7)
Dividends paid	**(1.2)**	(1.2)
Model changes		(0.1)
Estimated Solvency II surplus at 31 December	**17.2**	13.3

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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[4] which is estimated at £17.2 billion at 31 December 2018 (equivalent to a solvency ratio of 232 per cent[5]), compared with £13.3 billion (202 per cent) at 31 December 2017. The increase in surplus was driven by operating capital formation of £4.2 billion and a £1.2 billion net increase in subordinated debt, offset by dividends to shareholders of £1.2 billion.

Local statutory capital

All of our subsidiaries continue to hold appropriate capital levels on a local regulatory basis. In the UK and Europe, at 31 December 2018 The Prudential Assurance Company Limited and its subsidiaries had an estimated Solvency II shareholder surplus[17] of £3.7 billion (equivalent to a cover ratio of 172 per cent), reflecting the impact from the reinsurance of £12 billion of annuity liabilities and the transfer of the Group's Hong Kong insurance subsidiaries. The UK with-profits surplus[18] is estimated at £5.5 billion (equivalent to a cover ratio of 231 per cent). In the US, operational capital formation and the strong performance of our hedging programme as equity markets weakened during the fourth quarter of 2018 more than offset remittances to Group and a 35 percentage point ratio impact from the incorporation of tax reform into the statutory capital requirement, resulting in a risk-based capital ratio of 458 per cent (2017: 409 per cent).

Debt portfolio

The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK and Europe annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified and 98 per cent of our UK and Europe portfolio and 96 per cent of our US portfolio are investment grade[19]. During 2018, default losses were minimal and reported impairments across the UK and US portfolios were £4 million (2017: £2 million).

Financing and liquidity

Shareholders' net core structural borrowings and ratings

	31 December	
	2018 £m	**2017 £m**
Total borrowings of shareholder-financed businesses	**7,664**	6,280
Less: Holding company cash and short-term investments	**(3,236)**	(2,264)
Net core structural borrowings of shareholder-financed businesses	**4,428**	4,016
Gearing ratio*	**20%**	20%

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

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

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

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

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Movement in Shareholders' Funds

The following table sets forth a summary of the movement in Prudential's IFRS shareholders' funds for 2018 and 2017:

Shareholders' funds

	2018 £m	2017 £m
Profit after tax for the year20	**3,010**	2,389
Exchange movements, net of related tax	**348**	(409)
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 sale21	**(1,083)**	486
Dividends	**(1,244)**	(1,159)
Other	**131**	175
Net increase in shareholders' funds	**1,162**	1,421
Shareholders' funds at 1 January	**16,087**	14,666
Shareholders' funds at 31 December	**17,249**	16,087
Shareholders' value per share6	**665p**	622p
Return on shareholders' funds6	**25%**	25%

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

Corporate transactions

2018

Intention to demerge the Group's UK and Europe businesses and reinsurance of £12.0 billion[3] UK annuity portfolio

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

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

The above transactions increased the Group's shareholder Solvency II capital position by £0.4 billion.

Prior to the demerger, the Group expects to rebalance its debt capital across Prudential and M&GPrudential. This will include the ultimate holding company of M&GPrudential becoming an issuer of new debt, including debt substituted from Prudential, and Prudential redeeming some of its existing debt. Following these actions, the overall absolute quantum of debt across Prudential and M&GPrudential is currently expected to increase, by an amount which is not considered to be material in the context of the Group's total outstanding debt as at 30 June 2018, before any substitutable debt had been issued, of £7.6 billion (comprising the Group's core structural borrowings of £6.4 billion and shareholder borrowings from short-term fixed income securities programme of £1.2 billion). At the time of the demerger, Prudential expects M&GPrudential to be holding around £3.5 billion of subordinated debt. This expectation is subject to the M&GPrudential capital risk appetite being approved by the Board of the ultimate holding company of M&GPrudential, once fully constituted to include independent non-executive directors, and reflects the current operating environment and economic conditions, material changes in which may lead to a different outcome.

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Entrance into Thailand mutual fund market

In July 2018, Eastspring reached an agreement to acquire initially 65 per cent of TMB Asset Management Co., Ltd. (TMBAM), a leading asset management company in Thailand, from the TMB Bank Public Company Limited (TMB). Thailand is the largest fund management market within the Association of Southeast Asian Nations (ASEAN) with total assets under management of £115 billion at 31 December 2018[22]. Eastspring has an option to increase its ownership to 100 per cent in the future. As part of this acquisition, Eastspring has also entered into a distribution agreement with TMB to provide best-in-class investment solutions to their customers. The acquisition of TMBAM, with £9 billion of assets under management as at 31 December 2018, reinforces Prudential's commitment to the Thai market.

Acquisition of John Hancock's group payout annuity business

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

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

Renewal and expansion of regional strategic bancassurance alliance with UOB

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

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

Acquisition of majority stake in Group Beneficial

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

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).

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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.

Dividend

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

The Group's dividend policy remains unchanged. The Board will maintain focus on delivering a growing ordinary dividend. In line with this policy, Prudential aims to grow the ordinary dividend by 5 per cent per annum. The potential for additional distributions will continue to be determined after taking into account the Group's financial flexibility across a broad range of financial metrics and an assessment of opportunities to generate attractive returns by investing in specific areas of the business[23].

Notes

1 Increase stated on a constant exchange rate basis.

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

3 Relates to IFRS shareholder annuity liabilities, valued as at 31 December 2017.

4 The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced with-profit funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

5 Estimated before allowing for second interim ordinary dividend.

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

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

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

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

10 Defined as movements in policyholder liabilities arising from premiums (net of charges),

surrenders/withdrawals, maturities and deaths.

11

Includes unallocated surplus of with-profits business.

12

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

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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.

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

15

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

16

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

17

The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profit funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which for both 2018 and 2017 reflects the approved regulatory position.

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

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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.

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Net of related charges to deferred acquisition costs and tax.

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

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Explanation of Movements in Profit 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		
	2018 £m	**2017 £m**	**2016 £m**
Gross premiums earned(a)	**47,224**	44,005	38,981
Outward reinsurance premiumsnote(i)	**(14,023)**	(2,062)	(2,020)
Earned premiums, net of reinsurance	**33,201**	41,943	36,961
Investment return(b)	**(10,263)**	42,189	32,511
Other incomenote(ii)	**1,993**	2,258	2,246
Total revenue, net of reinsurance	**24,931**	86,390	71,718
Benefits and claimsnote(i)	**(27,411)**	(71,854)	(60,948)
Outward reinsurers' share of benefit and claimsnote(i)	**13,554**	2,193	2,412
Movement in unallocated surplus of with-profits funds	**1,289**	(2,871)	(830)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance(c)	**(12,568)**	(72,532)	(59,366)
Acquisition costs and other expenditure(d)	**(8,855)**	(9,993)	(8,724)
Finance costs: interest on core structural borrowings of shareholder-financed businesses	**(410)**	(425)	(360)
(Loss) gain on disposal of businesses and corporate transactions	**(80)**	223	-
Remeasurement of the sold Korea life business	**-**	5	(238)
Total charges, net of reinsurance and (loss) gain on disposal of businesses	**(21,913)**	(82,722)	(68,688)
Share of profits from joint ventures and associates, net of related tax	**291**	302	182
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	**3,309**	3,970	3,212
Tax credit (charge) attributable to policyholders' returns	**326**	(674)	(937)
Profit before tax attributable to shareholders	**3,635**	3,296	2,275
Total tax charge attributable to policyholders and shareholders	**(296)**	(1,580)	(1,291)
Adjustment to remove tax (credit) charge attributable to policyholders' returns	**(326)**	674	937
Tax charge attributable to shareholders' returns	**(622)**	(906)	(354)
Profit for the year	**3,013**	2,390	1,921

Notes

(i)
Outward reinsurance premiums include the £(12,149) million paid during the year in respect of the reinsurance of the UK annuity portfolio. The associated increase in reinsurance assets is included in outward reinsurers' share of benefits and claims and the consequential change to policyholder liabilities is included in benefits and claims. See note D1.1 for further details.

(ii)
The 2017 and 2016 comparative results have been re-presented from those previously published for the deduction of certain expenses against revenue following the adoption of IFRS 15. See note A2.

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

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(a)

Gross premiums earned

	Year ended 31 December £m		
	2018	**2017**	**2016**
Asia	**16,469**	15,688	14,006
US	**17,656**	15,164	14,685
UK and Europe	**13,061**	13,126	10,290
Unallocated to a segment	**38**	27	-
Total	**47,224**	44,005	38,981

Gross premiums earned for insurance operations total £47,224 million in 2018, up 7 per cent from £44,005 million in 2017. The increase of £3,219 million is primarily driven by growth of £2,492 million in the US operations and £781 million in the Asia operations, marginally offset by a decline of £65 million in the UK and Europe operations.

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.

Asia

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

Gross premiums for Asia have increased by £781 million or 5 per cent from £15,688 million in 2017 to £16,469 million in 2018 on an actual exchange rate basis. Excluding the impact of exchange translation, gross earned premiums in Asia have increased by 9 per cent from 2017 to 2018, from £15,168 million on a constant exchange rate in 2017 to £16,469 million in 2018.

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 in 2016 to £15,688 million in 2017.

The growth in earned premiums from 2016 to 2017 and from 2017 to 2018 reflected the continued growth of our in-force recurring premium business. In 2018, total new business premiums from Asia were £4,809 million, down by £177 million from 2017 (£4,986 million) on an actual exchange rate basis.

The Group's focus on quality is undiminished with regular premium contracts accounting for majority of sales as well as the mix of health and protection products. This favourable mix provides a high level of recurring income and an earnings profile that is significantly less correlated to investment markets.

In 2018, Hong Kong sales have increased during the year, with higher sales levels from Mainland China visitors to Hong Kong driving positive momentum over the course of the year. In China, sales grew in the fourth quarter, In Singapore, sales were higher driven by agency and bancassurance channels, pricing actions and favourable product mix shifts. Indonesia continues to experience a challenging market environment, which was compounded by the adverse impact of higher yields and hence sales were lower. Despite these headwinds, the Group is investing in business to strengthen its distribution capabilities, upgrading its systems and refreshing its product propositions to meet customer needs.

US

Gross premiums have increased by 16 per cent from £15,164 million in 2017 to £17,656 million in 2018 on an actual exchange rate basis. Excluding the impact of exchange translation, gross premiums in the US have increased by 21 per cent from £14,638 million in 2017 to £17,656 million in 2018. In October 2018, Jackson entered into an agreement with John Hancock Life to assume the risk on 100 per cent of their group pay-out annuity business, increasing gross premiums earned by £3.7 billion. Excluding the premiums from this transaction, gross premiums decreased slightly from the prior year on a constant exchange rate basis.

Gross premiums increased by 3 per cent from £14,685 million in 2016 to £15,164 million in 2017 on an AER basis. Excluding the impact of exchange translation, gross premiums in the US decreased by 2 per cent from £15,434 million on a CER basis in 2016 to £15,164 million in 2017. Uncertainty regarding the application and implementation of the US Department of Labor Fiduciary Duty Rule led to continued pressure on industry sales

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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 attractive given high internal rates of return and short payback periods. Net inflows into Jackson's separate account asset balances, which drove 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 products.

UK and Europe

Gross premiums for UK and Europe life business of £13,061 million are in line with 2017. New sales continue to be driven by the popular PruFund ISA proposition. Reflecting this performance, total PruFund assets under management of £43 billion as at 31 December 2018 were 20 per cent higher than at the start of the year, driven by positive net flows of £8.5 billion.

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 continue to drive growth. We saw 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 2017.

(b)

Investment return

	Year ended 31 December £m		
	2018	**2017**	**2016**
Asia	**(2,154)**	8,995	2,917
US	**(4,788)**	18,533	7,612
UK and Europe	**(3,437)**	14,584	22,095
Unallocated to a segment and intra-segment elimination	**116**	77	(113)
Total	**(10,263)**	42,189	32,511

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 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 impact on shareholders' profit.

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The table below provides a breakdown of the investment return for each regional operation attributable to each type of business.

	2018 £m	2017 £m	2016 £m
Asia			
Policyholder returns			
Assets backing unit-linked liabilities	**(870)**	2,720	822
With-profits business	**(1,372)**	4,689	1,454
	(2,242)	7,409	2,276
Shareholder returns	**88**	1,586	641
Total	**(2,154)**	8,995	2,917
US			
Policyholder returns - Assets held to back separate account (unit-linked) liabilities	**(7,320)**	19,198	7,917
Shareholder returns	**2,532**	(665)	(305)
Total	**(4,788)**	18,533	7,612
UK and Europe			
Policyholder returns			
Scottish Amicable Insurance Fund (SAIF)	**(203)**	368	874
Assets held to back unit-linked liabilities	**(1,133)**	2,111	3,134
With-profits fund (excluding SAIF)	**(2,211)**	10,108	13,224
	(3,547)	12,587	17,232
Shareholder returns	**110**	1,997	4,863
Total	**(3,437)**	14,584	22,095
Unallocated to a segment			
Shareholder returns	**116**	77	(113)
Group Total			
Policyholder returns	**(13,109)**	39,194	27,425
Shareholder returns	**2,846**	2,995	5,086
Total	**(10,263)**	42,189	32,511

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:

- 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 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.

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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; and

(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 £m		
	2018	**2017**	**2016**
Interest/dividend income (including foreign exchange gains and losses)	**1,669**	1,685	1,513
Investment (depreciation) appreciation*	**(3,823)**	7,310	1,404
Total	**(2,154)**	8,995	2,917

*Investment appreciation/depreciation comprises net realised or unrealised gains or losses on the investments.

In Prudential's Asia operations, debt securities account for 55 per cent, 54 per cent and 55 per cent of the total investment portfolio as at 31 December 2018, 2017 and 2016, respectively, with equities comprising 38 per cent, 39 per cent and 36 per cent, respectively. The remaining portion of the total investment portfolio were primarily loans and deposits with credit institutions. Investment return has decreased from a gain of £8,995 million in 2017

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to a loss of £2,154 million in 2018. This decrease primarily reflects the year on year adverse change in investment appreciation of £10,507 million driven by unfavourable debt and equity market performance. Rising interest rates across a number of Asia markets and in the US led to unrealised bond losses in the period, as well as unrealised loss on US treasuries held by certain business units. In addition, equity market movements were unfavourable during the year with the MSCI Asia excluding Japan index down 14 per cent and the S&P 500 index down 6 per cent. The adverse movements in the returns on equities have a more significant impact on the with-profits funds and unit-linked business in Asia.

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.

US

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

	Year ended 31 December £m		
	2018	**2017**	**2016**
Investment return of investments backing US separate account liabilities	**(6,792)**	19,198	7,917
Other investment return	**2,004**	(665)	(305)
Total	**(4,788)**	18,533	7,612

In the US, investment return has decreased from a gain of £18,533 million in 2017 to a loss of £4,788 million in 2018. This £23,321 million unfavourable change arises from the decrease of £25,990 million in the investment return of investments backing variable annuity separate account liabilities from a gain of £19,198 million in 2017 to a loss of £6,792 million in 2018, partially offset by an increase in other investment returns from a loss of £665 million 2017 to a gain of £2,004 million in 2018. The lower separate account return is primarily driven by the fall in equity markets over the year. The S&P 500 index is 6 per cent lower than 2017. The increase of £2,669 million in other investment returns primarily arises as a result of realised gains from derivatives held to manage interest rate and equity risk exposures in 2018 compared to losses in 2017 as discussed in note B1.2 to the consolidated financial statements.

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 charge 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 charge of £360 million in other investment returns primarily reflected 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.

UK and Europe

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

	Year ended 31 December £m		
	2018	**2017**	**2016**
Interest/dividend income	**5,951**	6,183	6,019
Investment (depreciation)appreciation and other investment return	**(9,388)**	8,401	16,076
Total	**(3,437)**	14,584	22,095

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In Prudential's UK and Europe operations, equities account for 29 per cent, 31 per cent and 29 per cent of the total investment portfolio as at 31 December 2018, 2017 and 2016, respectively. Debt securities comprise 46 per cent, 46 per cent and 50 per cent and investment properties account for 10 per cent, 8 per cent and 8 per cent as at 31 December 2018, 2017 and 2016. The remaining 15 per cent, 15 per cent and 13 per cent of the total investment portfolio as at 31 December 2018, 2017 and 2016, respectively, relate to loans, deposits with credit institutions, investments in partnerships in investment pools and derivative assets. Within debt securities of £86 billion as at 31 December 2018 (31 December 2017: £95 billion; 31 December 2016: £93 billion), 70 per cent (31 December 2017: 64 per cent; 31 December 2016: 66 per cent) consist of corporate debt securities.

Interest and dividend income has decreased by £232 million from £6,183 million in 2017 to £5,951 million in 2018, and increased by £164 million from £6,019 million in 2016 to £6,183 million in 2017. The lower income in 2018 mainly arises from the decrease in interest income following the reinsurance of £12.0 billion of the UK shareholder-backed annuity portfolio to Rothesay Life. See note D1.1 of the consolidated financial statements for further details.

The decrease in investment appreciation (depreciation) and other investment return of £17,789 million from a gain of £8,401 million in 2017 to a loss of £9,388 million in 2018 principally reflects higher unrealised losses in debt and equity securities in 2018 compared to 2017. Increase in interest rates and credit spreads in 2018 led to losses on fixed income assets. The FTSE index was down 12 per cent in 2018 compared to an 8 per cent increase in 2017.

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 reflected 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

The investment returns for unallocated to a segment and intra-segment elimination was positive £116 million in 2018 compared with positive £77 million in 2017 and negative £113 million in 2016. The returns in the periods presented include the unrealised value movements on financial instruments.

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

	Year ended 31 December £m		
	2018	**2017**	**2016**
Asia*	**(8,775)**	(18,269)	(11,311)
US	**(8,790)**	(31,205)	(20,214)
UK and Europe*	**5,016**	(23,047)	(27,841)
Unallocated to a segment	**(19)**	(11)	-
Total	**(12,568)**	(72,532)	(59,366)

* The Asia and UK and Europe benefits and claims exclude intra-group transactions.

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) net of any associated reinsurance. Benefits and claims are amounts attributable to policyholders (net of any recoveries due from reinsurers). 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.

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The charge for total benefit and claims and movement in unallocated surplus, net of reinsurance, of with-profits funds decreased by £59,964 million in 2018 to a charge of £12,568 million compared with a charge of £72,532 million in 2017 and a charge of £59,366 million in 2016, as shown below:

	Year ended 31 December £m		
	2018	**2017***	**2016***
Claims incurred, net of reinsurance	**(30,519)**	(27,811)	(23,893)
Decrease (increase) in policyholder liabilities, net of reinsurance	**16,662**	(41,850)	(34,643)
Movement in unallocated surplus of with-profits funds	**1,289**	(2,871)	(830)
Benefits and claims and movement in unallocated surplus, net of reinsurance	**(12,568)**	(72,532)	(59,366)

* The comparative results have been re-presented from previously published for a reclassification between Claims incurred, net of reinsurance and Increase in policyholder liabilities, net of reinsurance.

The charge for benefits and claims and movements in unallocated surplus, net of reinsurance of £12,568 million (2017: £72,532 million; 2016: £59,366 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 acquisitions and disposals of subsidiaries in the year, together with other items that do not pass through the income statement as described in note C4.1(a)(iii) of the consolidated financial statements.

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 such as those relating to UK and Europe's annuity business, where the IFRS 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 the movements in policyholder liabilities and unallocated surplus of with-profits funds balances 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.

Asia

In 2018, the charge for benefits and claims and movement in unallocated surplus of with-profits funds totalled £8,775 million, representing a decrease of £9,494 million compared with the charge of £18,269 million in 2017 and a charge of £11,311 million in 2016.

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

	Year ended 31 December £m		
	2018	**2017**	**2016**
Claims incurred, net of reinsurance	**(4,925)**	(5,118)	(4,530)
Increase in policyholder liabilities, net of reinsurance	**(4,969)**	(12,049)	(7,120)
Movement in unallocated surplus of with-profits funds	**1,119**	(1,102)	339
Benefits and claims and movement in unallocated surplus, net of reinsurance	**(8,775)**	(18,269)	(11,311)

In general, the growth in policyholder liabilities in Asia over the three-year period shown above reflects 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.

Accordingly, the decrease in investment return in 2018, mainly driven by unfavourable equity market performances across the region as compared with strong growth in 2017 and unrealised bond losses as a result of higher interest rates, resulted in a related decrease in the charge for benefits and claims in the year.

US

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

In 2018, the charge for benefits and claims has decreased by £22,415 million to £8,790 million compared with £31,205 million in 2017. In 2017, the charge for benefits and claims increased by £10,991 million to £31,205 million compared with £20,214 million in 2016.

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

	Year ended 31 December £m		
	2018	**2017***	**2016***
Claims incurred, net of reinsurance	**(14,667)**	(11,583)	(9,189)
(Increase) decrease in policyholder liabilities, net of reinsurance	**5,877**	(19,622)	(11,025)
Benefits and claims, net of reinsurance	**(8,790)**	(31,205)	(20,214)

* The comparative results have been re-presented from previously published for a reclassification between Claims incurred, net of reinsurance and Increase in policyholder liabilities, net of reinsurance.

The year-on-year movement in claims incurred for US operations as shown in the table above also includes the effect of translating the US dollar results into pound sterling at the average exchange rates for the relevant years.

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. This has decreased in 2018 compared to 2017 and 2016 due to relatively less favourable US equity markets in the current year as discussed above under 'Investment Return'. The decrease in policyholder liabilities in 2018 as a result of equity market movements is partially offset by an increase in the liability for variable guarantees in the year and an increase from the reinsurance agreement entered into by Jackson in November 2018 to acquire a closed block of group pay-out annuity business from John Hancock Life Insurance Company. The transaction resulted in an increase to policyholder liabilities of £4.1 billion at the inception of the contract.

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UK and Europe

The overall result for benefits, claims and the transfer to unallocated surplus has decreased to a credit of £5,016 million in 2018 compared with a £23,047 million charge in 2017 and a £27,841 million charge in 2016. The year-on-year changes attributable to each of the underlying reasons are shown below, together with a further analysis of the change in policyholder liabilities by type of business:

	Year ended 31 December £m		
	2018	**2017**	**2016**
Claims incurred, net of reinsurance	**(10,903)**	(11,101)	(10,174)
Decrease/(increase) in policyholder liabilities, net of reinsurance:			
SAIF	**852**	349	39
Shareholder-backed annuity business	**13,938**	897	(2,591)
Unit-linked and other non-participating business	**1,388**	(1,479)	(2,080)
With-profits (excluding SAIF)	**(429)**	(9,944)	(11,865)
	15,749	(10,177)	(16,498)
Movement in unallocated surplus of with-profits funds	**170**	(1,769)	(1,169)
Benefits and claims and movement in unallocated surplus, net of reinsurance	**5,016**	(23,047)	(27,841)

Claims incurred in the UK and Europe operations of £10,903 million in 2018 are in line with £11,101 million incurred in 2017 and £10,174 million in 2016.

As has been explained above, the principal driver for variations in amounts allocated to the policyholders is changes to investment return. In 2018, the result for benefits and claims is also significantly impacted by the reinsurance of £12.0 billion of the shareholder annuity liabilities to Rothesay Life as described in note D1.1 to the consolidated financial statements.

In aggregate, as a result of lower market returns in 2018 compared with 2017 and the aforementioned reinsurance transaction, 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 £23,047 million in 2017 to a net credit of £5,016 million in 2018. Similarly, the market returns in 2017 were lower compared with 2016, resulting in a movement from a net charge of £27,841 million in 2016 to a net charge of £23,047 million in 2017.

SAIF is a ring-fenced fund with no new business written. Policyholder liabilities in SAIF reflect 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, the decrease in policyholder liabilities, net of reinsurance in the income statement of £13,041 million during 2018 is principally due to the reinsurance of the £12.0 billion annuity liabilities to Rothesay Life as referred to above and also negative net flows reflecting the run-off of the remaining annuity portfolio. In addition, the decreases/(increases) in policyholder liabilities in any given period include the effect of altered investment yield reflected in the discount rate applied in the measurement of the liabilities and other altered assumptions, including mortality where relevant, together with net flows into this line of business.

For unit-linked business, the primary driver of the variations in the movement in the policyholder liabilities is 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

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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 UK 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 £m		
	2018	2017	2016
Earned premiums, net of reinsurance*	**12,505**	12,508	9,261
Investment return	**(2,261)**	9,985	13,185
Other income	**36**	35	177
Acquisition costs and other expenditure	**(1,170)**	(1,732)	(1,288)
Share of profit from joint ventures	**36**	106	22
Tax charge	**273**	(440)	(739)
Total net income before benefit and claims and movement in unallocated surplus, net of reinsurance	**9,419**	20,462	20,618
Charges of:			
Claims incurred	**(8,776)**	(8,449)	(7,410)
Increase in policyholder liabilities*	**(554)**	(10,011)	(11,824)
Movement in unallocated surplus of with-profits funds	**170**	(1,769)	(1,169)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	**(9,160)**	(20,229)	(20,403)
Shareholders' profit after tax	**259**	233	215

* 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.

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 2018, the income statement of the UK component of the UK with-profits funds is credited with a transfer of £170 million from unallocated surplus. This transfer, together with a corresponding transfer from the unallocated surplus of the Asia with-profits funds and the effect of exchange rate and other movements, has resulted in a decrease in Prudential's unallocated surplus from £17.0 billion in 2017 to £15.8 billion in 2018. This movement reflects 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 2018.

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.

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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 £m		
	2018	**2017***	**2016***
Asia	**(3,866)**	(4,053)	(3,684)
US	**(2,077)**	(2,257)	(1,913)
UK and Europe	**(2,360)**	(3,206)	(2,689)
Unallocated to a segment and intra-segment elimination	**(552)**	(477)	(438)
Total	**(8,855)**	(9,993)	(8,724)

* The 2017 and 2016 comparative results have been re-presented following the adoption of IFRS 15 as described in note A2 of the consolidated financial statements.

Total acquisition costs and other expenditure of £8,855 million in 2018 is 11 per cent lower than the £9,993 million incurred in 2017. In general, acquisition costs and other expenditure comprise acquisition costs incurred for insurance policies, change in deferred acquisition costs, operating expenses and movements in amounts attributable to external unit holders. Movements in amounts attributable to external unit holders of consolidated investment funds reflect the change in the overall returns in these funds in the period that is attributable to third parties.

Asia

Total acquisition costs and other expenditure for Asia in 2018 are £3,866 million compared with £4,053 million in 2017 and £3,684 million in 2016. The decrease of £187 million from 2017 to 2018 includes a favourable exchange translation impact of £147 million. Excluding the effect of currency volatility, total acquisition costs and other expenditure have decreased by £40 million from 2017 to 2018.

US

Total acquisition costs and other expenditure for US in 2018 are £2,077 million representing a decrease of £180 million compared with £2,257 million in 2017. The decrease of £180 million includes a favourable exchange translation impact of £78 million. Excluding the currency volatility, the total acquisitions and other expenditure have decreased by £102 million from 2017 to 2018.

The decrease in acquisition costs and other expenditure for US in 2018 compared to 2017 on an actual exchange basis is primarily due to the inclusion in 2018 of a credit of £416 million of negative ceding commissions arising from the group payout annuity business reinsurance agreement entered into by Jackson with John Hancock Life during the year and a reduction of £542 million of charges for broker-dealer fees in 2018, compared to 2017 following the exit of the US broker-dealer business announced in 2017. These decreases are partially offset by higher amortisation charge of deferred acquisition costs in 2018, which was £856 million higher than 2017.

UK and Europe

Total acquisition costs and other expenditure for UK and Europe have decreased by 26 per cent from £3,206 million in 2017 to £2,360 million in 2018. Total acquisition costs and other expenditure for UK and Europe increased by 19 per cent from £2,689 million in 2016 to £3,206 million in 2017.

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The decrease in 2018 arises primarily from the decrease 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 have decreased by £920 million from a charge of £719 million in 2017 to a credit of £201 million in 2018 (increase of £234 million in 2017 from £485 million in 2016 to £719 million in 2017). In addition, the 2018 other expenditure includes a credit of £166 million for the insurance recovery related to the costs of reviewing internally vesting annuities sold without advice after July 2008, compared to a charge of £225 million in 2017 (and a charge of £175 million in 2016) to increase the provision held for the costs of this review.

Unallocated to a segment and intra-segment elimination

Other net expenditure represents a charge of £552 million in 2018, a charge of £477 million in 2017 and a charge of £438 million in 2016. The reflects mainly higher restructuring costs of £165 million (2017: £103 million) which include investment spend of £99 million in relation to M&GPrudential merger and transformation bringing the cumulative cost to £143 million since the project began. Other restructuring costs relate to efficiency and change programmes across the Group, for example the rationalisation of US locations in 2018.

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 CFO Forum of European Insurance Companies dated April 2016, New Business and Free Surplus Generation measures, which are alternative performance 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 profit 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 adjusted IFRS operating profit based on longer-term investment returns for the period.

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 £3,236 million, £2,264 million and £2,626 million as at 31 December 2018, 2017 and 2016, respectively. The sources of cash in 2018 included dividends, loans and net cash amounts received from operating subsidiaries. Prudential received £1,732 million in net cash remittances from business units in 2018 (2017: £1,788 million; 2016: £1,718 million). These remittances primarily comprise dividends from business units and the shareholders' statutory transfer from the UK long-term with-profits fund relating to earlier bonus declarations.

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Dividends, loans and net cash amounts received from subsidiaries

The table below shows the dividends, loans and other net cash amounts received by Prudential from the principal operating subsidiaries for 2018 and 2017:

	Year ended 31 December £m		
Dividends, loan and net cash amounts received in:	**2018**	**2017**	**2016**
Asia	**699**	645	516
US	**342**	475	420
UK and Europe	**654**	643	590
Other UK (including Prudential Capital)	**37**	25	192
Total	**1,732**	1,788	1,718

The amount of dividends paid by Prudential's main operations is determined after considering the development, growth and investment requirements of the operating businesses.

Liquidity resources and requirements by operating business

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.

US life insurance (Jackson)

The liquidity sources for Jackson are its cash, short-term investments, 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, funding of expenses including payment of commissions, operating expenses and taxes. As at 31 December 2018, Jackson's outstanding surplus notes and bank debt included:

- £65 million (US$82 million) of bank loans from the Federal Home Loan Bank of Indianapolis, collateralised by mortgage-related securities and mortgage loans; and

- £197 million (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 2018, over half of Jackson's fixed annuity reserves included policy restrictions such as surrender charges and market value adjustments to discourage early withdrawal of policy and contract funds.

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 2018, the portfolio of cash, short-term investments and publicly traded securities and equities amounted to US$45.6 billion. Operating net cash inflows for Jackson in 2018 are US$4.7 billion.

As at 31 December 2018, the statutory capital and surplus of Jackson was US$4.8 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 2018, Jackson's total risk based capital ratio under the National Association of Insurance Commissioners' definition exceeded the Michigan standards.

M&GPrudential Life Insurance

The liquidity sources for M&GPrudential'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.

The liquidity requirements of M&GPrudential'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&GPrudential's insurance operations is affected by the payment of guaranteed benefits and final 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. Pension annuity policies cannot be surrendered by the policyholder.

Further information on the Solvency II capital position of the M&GPrudential's insurance operations as at 31 December 2018 is provided in section II(c) of the Additional Unaudited Financial Information Section.

The principal liquidity source for M&GPrudential'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 2018, M&G's capital requirements were driven by fixed operating expenses and met the relevant regulatory requirements.

Contractual obligations

Contractual obligations of the Group with specified payment dates as at 31 December 2018 were as follows:

£m	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Policyholder liabilities(i)	561,469	26,527	53,544	53,743	427,655
Long-term debt(ii)	7,664	-	-	587	7,077
Other borrowings(ii)	4,938	1,413	251	107	3,167
Capital lease obligations	42	2	4	3	33
Operating lease obligations	932	120	221	183	408
Purchase obligations(iii)	5,776	5,650	126	-	-
Obligations under funding, securities lending and sale and repurchase agreements	6,989	6,989	-	-	-
Other long-term liabilities(iv)	12,815	12,363	181	65	206

Total	600,625	53,064	54,327	54,688	438,546

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Reconciliation to consolidated statement of financial position:	**£m**	**£m**
Total contractual obligations per above		600,625
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	425,146	
Policyholder liabilities (undiscounted) in the table above	(561,469)	(136,323)
Other short-term/non-contractual obligations:		
Current tax liabilities	568	
Deferred tax liabilities	4,022	
Accruals, deferred income and other creditors (excluding those included as contractual obligations in the table above)	14,188	
Derivative liabilities	3,506	22,284
Purchase obligations not on the balance sheet		(5,776)
Liabilities held for sale		10,568
Total liabilities per consolidated statement of financial position		491,378

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 2018, on the IFRS basis of reporting, the unallocated surplus was £15,845 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 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 exclude future interest payments) as shown in note C6 to the consolidated financial statements. Long-term debt comprises the core structural borrowings of shareholder-financed businesses. Other borrowings comprise operational borrowings attributable to shareholder-financed businesses and borrowings attributable to with-profits businesses.

(iii) Purchase obligations comprise unfunded commitments for investments in limited partnerships of £664 million, commercial mortgage loans and other fixed maturities of £345 million, private equity and infrastructure funds held by the UK and Europe's insurance operations of £3,997 million, bridging loans held by Prudential Capital of £155 million and contractual obligations to purchase or develop investment properties of £615 million.

(iv)

Amounts due in less than one year include net asset value attributable to unit holders of consolidated unit trusts and similar funds of £11,651 million.

Group consolidated cash flows

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

Net cash inflows in 2018 are £1,131 million. This amount comprised inflows of £2,464 million from operating activities less outflows of £789 million from investing activities and outflows of £544 million from financing activities.

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.

The Group held cash and cash equivalents of £12,125 million at 31 December 2018 compared with £10,690 million at 31 December 2017 and £10,065 million at 31 December 2016, respectively.

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GROUP RISK FRAMEWORK

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

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

1. Introduction

Group structure

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

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

Societal developments

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

The world economy

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

Financial markets

Financial markets faced a number of headwinds in 2018 and asset valuations suffered broadly amid the re-emergence of market volatility. Global markets, and emerging markets in particular, faced broad pressure throughout the year. US markets, however, proved resilient until the fourth quarter when fears of an economic slowdown triggered a sharp sell-off in equities. In parallel, credit spreads also widened as the position of the

credit cycle became a key concern for market participants. Across the world, interest rates movements were mixed over the year, although there has been a notable broad flattening of the yield curve in the US, impacted by changes in growth and inflation data, risk sentiment and increased concerns of a possible recession. Financial markets remain particularly vulnerable to further abrupt changes in sentiment, and in particular if the risks to the global economy noted above were to materialise.

Political landscape

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

Regulations

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

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

Q1 2018

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

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

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

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

Q2 2018

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

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

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

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

Q3 2018

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

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

In September, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) request from major banks and insurers, details of preparations and actions being undertaken to manage

Q4 2018

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

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

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

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

Democrats win control of the House of Representatives in the November US midterm elections, while the Republicans retain control of the Senate. As bipartisan

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

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

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

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

transition from London Inter-Bank Offered Rate (LIBOR) to alternative interest rate benchmarks.

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

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

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

disputes increase, the US government partially shuts down between late December 2018 and January 2019.

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

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

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

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

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3. Managing the risks in implementing our strategy

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

Our strategy	Significant risks arising from the delivery of the strategy
Asia *Serving the protection and investment needs of the growing middle class in Asia*	Persistency risk Morbidity risk Regulatory risk, including foreign ownership
United States *Providing asset accumulation and retirement income products to US baby boomers*	Financial risks Policyholder behaviour risk
Africa	The Group will continue to increase its risk management focus on Prudential Africa as the business there grows in materiality.
UK and Europe *Meeting the savings and retirement needs of an ageing UK and continental European population*	M&GPrudential merger and transformation risk Longevity risk Customer risk
Group-wide *We aim to generate attractive returns enabling*	Transformation risks around key change programmes Group-wide regulatory risks

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

Information security and data privacy risks

4. Risk governance

a. System of governance

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

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

How 'risk' is defined

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

How risk is managed

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

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

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

b. Group Risk Framework

i. Risk governance and culture

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

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

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

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

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

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

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

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

ii. The risk management cycle

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

Risk identification

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

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

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

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

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

Risk measurement and assessment

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

Risk management and control

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

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

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

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

Risk monitoring and reporting

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

iii. Risk appetite, limits and triggers

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

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

Capital requirements:

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

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

Liquidity:

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

Earnings volatility:

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

5. Summary risks

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

'Macro' risks

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

Global economic conditions

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

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Geopolitical risk

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

Regulatory risk

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

Technological change

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

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ESG risks

As a Group, responding effectively to those material risks with ESG implications is crucial in maintaining Prudential's brand and reputation, and in turn its financial performance and its long-term strategy.

Risks from our investments

Market risk

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

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

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

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

Credit risk

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

The Group's asset portfolio also

Risks from our products

Insurance risks

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

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

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

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

Risks from our business operations

Strategic and transformation risks

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

Operational risks

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

Operational risk is the risk of loss or unintended gain from inadequate or failed processes, personnel, systems and external events, and can arise through business transformation; introducing new products; new technologies; and entering into new markets and geographies. Implementing the business strategy and processes for ensuring regulatory compliance (including those relating to the conduct of its business) requires interconnected change initiatives across the Group, the pace of which introduces further complexity. The Group's gives rise to invested credit risk. The assets backing the UK and Jackson annuity businesses means credit risk is considered a material risk for these business units in particular.

Liquidity risk

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

products in the region.

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

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

Conduct risk

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

outsourcing and third party relationships introduce their own distinct risks. Such operational risks, if they materialise, could result in financial loss and/or reputational damage. Operational risk is considered to be material at the level of the Group.

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

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

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6. Further risk information

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

6.1 'Macro' risks

a. Global regulatory and political risks

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

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

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

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

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

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

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

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

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

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

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

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

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

On 27 July 2017, the UK FCA announced that it will no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR after 2021. The discontinuation of LIBOR in its current form and its replacement with the Sterling Overnight Index Average benchmark (SONIA) in the UK (and other alternative benchmark rates in other countries) could, among other things, impact the Group through an

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adverse effect on the value of Prudential's assets and liabilities which are linked to, or which reference LIBOR, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

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

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

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

b. ESG risks including climate change

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

Climate change is a key ESG theme which continues to move up the agenda of many regulators, governments, non-governmental organisations and investors. There has been increased regulatory and supervisory focus on sustainable finance and responsible investment. The Group recognises this and the ESG Executive Committee seeks, as one of its aims, to ensure a consistent approach in managing ESG considerations in its business activities, including investment activities.

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

6.2 Risks from our investments

a. Market risk

The main drivers of market risk in the Group are:

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

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

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

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

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

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

Equity and property investment risk

(Audited)

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

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

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

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

Interest rate risk

(Audited)

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

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

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

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

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

Foreign exchange risk

(Audited)

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

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

b. Credit risk

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

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

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

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

- A credit risk policy and dealing and controls policy;
- Risk appetite statements and limits that have been defined on issuers, and counterparties;
- Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions;
- The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews;
- Regular assessments; and
- Close monitoring or restrictions on investments that may be of concern.

Debt and loan portfolio

(Audited)

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

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

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

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

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

Group sovereign debt

(Audited)

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

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

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

Bank debt exposure and counterparty credit risk

(Audited)

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

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

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

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

95 per cent of the shareholder portfolio is investment grade rated. In particular, 66 per cent of the portfolio is rated A- and above (or equivalent); and

The Group's shareholder portfolio is well diversified: no individual sector makes up more than 15 per cent of the total portfolio (excluding the financial and sovereign sectors).

c. **Liquidity risk**

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

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

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

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

- The Group's liquidity risk policy;
- Risk appetite statements, limits and triggers;
- Regular assessment at Group and business units of LCRs which are calculated under both base case and stressed scenarios and are reported to committees and the Board;
- The Group's Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of liquidity risks and the adequacy of available liquidity resources under normal and stressed conditions;
- Regular stress testing;
- Our contingency plans and identified sources of liquidity;
- The Group's ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The Group's access to external committed credit facilities.

6.3 Risks from our products

a. Insurance risk

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

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

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

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

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

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

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

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

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

6.4 Risks from our business operations

a. Strategic and transformation risks

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

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

- Complex dependencies between multiple programmes spanning different businesses;
- The organisational ability to absorb change being exceeded while maintaining a stable and robust control environment ;
- Unrealised business objectives/benefits; and

Failures in programme and/or project design, execution or transition into business as usual.

b.

Non-financial risks

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

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Operational risks

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

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

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

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

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

Group-wide framework and risk management for operational risk

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

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

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

Outputs from these processes and activities performed by individual business units are monitored by the Group Risk function, which provides an aggregated view of the risk profile across the business to the Group Risk Committee and Board. These core framework components are embedded across the Group via the Group Operational Risk Policy and Standards documents, which set out the key principles and minimum standards for the management of operational risk across the Group.

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

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

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

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

Business resilience

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

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

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

Information security risk and data privacy

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

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

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

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

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

Notes

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

SUPERVISION AND REGULATION OF PRUDENTIAL

Prudential's principal insurance and investment operations are in Asia, the United States (US), the United Kingdom (UK) and Europe, with recent expansion into Africa. Accordingly, it is subject to applicable UK, Asia, US and Africa insurance and other financial services regulations which are discussed below.

In March 2018, Prudential announced its intention to demerge M&GPrudential, the UK and Europe business, from Prudential plc to establish two separate listed companies, with different investment characteristics and opportunities. As a standalone entity, M&GPrudential will continue to serve the retirement and savings business in the UK and Europe. Prudential plc will continue to focus its insurance and investment operations in Asia, the US and Africa.

Group supervision

The UK's Prudential Regulation Authority (PRA) will remain as the Prudential Group's 'lead supervisor', up to the point of demerger. From the point of the proposed demerger, the Hong Kong Insurance Authority (HKIA) will be Prudential's lead supervisor. The Group will remain subject to effective on-going supervision in line with international standards set by the International Association of Insurance Supervisors (IAIS). Supervision of the Group will continue to be on a cross-border basis through a regulatory college. The Group is proactively engaging with the HKIA on the supervisory framework that will apply to the Group after the intended demerger.

Currently, with the PRA as the lead supervisor, the college, meets at an annual event hosted by the PRA that 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. Following the intended demerger, the membership of the college will change such that the PRA, FCA and EIOPA are no longer members.

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 policies include the development of ComFrame, or the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), includes the development of a risk-based global insurance capital standard (ICS). On 14 November 2018, the IAIS announced a proposed holistic framework for the assessment and mitigation of systemic risk in the insurance sector, which will have implications for the identification of Global Systemically Important Insurers (G-SIIs). Concurrently, 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) released a statement confirming that in light of the progress with the IAIS' new holistic framework no new G-SII list would be issued for 2018 and it will consider the IAIS' proposal to suspend G-SII identification from 2020 once the framework is finalised. In the meantime group-wide supervisors have committed to continue applying existing G-SII supervisory policy measures which include Systemic Risk Management Plans (SRMP), Liquidity Risk Management Plans (LRMP) and Recovery and Resolution planning. 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.

In many jurisdictions where the Group operates, it is required to comply with anti-money laundering (AML) and "know your customer" (KYC) rules. Regulators around the world continue to take a keen interest in compliance with AML and KYC rules.

UK and European 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.

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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.

Capital requirements for insurers

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 set out the capital requirements applicable to UK 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 Technical Standards (which aim to ensure the uniform application of the Solvency II Directive) and Guidelines that are intended to ensure convergence in the implementation of Solvency II.

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 at an earlier stage the firms that are heading for financial difficulty.

Further details on the Group Solvency II capital position at 31 December 2018 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.

Thematic Review of Non-Advised Annuity Sales Practices

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 is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. A gross provision of £400 million, before costs incurred, was established at 31 December 2017 to cover the costs of undertaking the review and any related redress and following a reassessment, no change has been made in 2018. The majority of the provision will be utilised in 2019. The ultimate amount that will be expended by the Group on the review will remain uncertain until the project is completed. If the population subject to redress increased or decreased by 10 per cent, then the provision would be expected to increase or decrease by circa 7 per cent accordingly. Additionally, in 2018, the Group agreed with its professional indemnity insurers that they will meet £166 million of the Group's claims costs, which will be paid as the Group incurs costs/redress. This has been recognised on the Group's balance sheet within 'Other debtors' at 31 December 2018.

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 FCA can take enforcement action against firms that fail to manage their financial crime risks effectively.

General Data Protection Regulation

The General Data Protection Regulation (GDPR) came in to effect in May 2018. The GDPR is aimed at strengthening and unifying data protection for all individuals within the European Union. In order to prepare for the new law, working groups were mobilised across key areas including training and awareness, data subject rights, third parties and data protection by design. The focus is now on maintaining awareness as well as enhancing and embedding activities that were implemented as part of the GDPR programme, in order to strengthen and sustain ongoing compliance.

A Data Protection Officer has been appointed to monitor compliance with the GDPR, provide advice on the firm's privacy obligations and to act as a point of contact for European data subjects and supervisory authorities. A Group Privacy Office has also been established which owns the Group Privacy Policy and maintains oversight of privacy compliance.

The security measures that the Group takes to protect its data and systems are commensurate with local regulatory requirements and risk appetite. In practice, this means that the Group's businesses must identify and classify data and operate a risk-based information security approach which leverages people, processes, and technology solutions. This is in the context of a Group-wide Cyber Security Policy and operating standards.

Pensions

The Pensions Regulator (TPR) is the statutory regulator for all work-based pension schemes in the UK, a sector in which M&GPrudential operates.

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;
- protect the benefits of members of personal pension schemes where direct payment arrangements are in place;
- 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, minimise any adverse impact on the sustainable growth of an employer;
- maximise employer compliance with employer duties and the employment and pre-employment safeguards; and
- promote, and to improve understanding of, the good administration of work-based pension schemes.

A memorandum of understanding between TPR and the 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 Financial Ombudsman Service (FOS) in cases where their remit overlaps.

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Regulation of investment business in UK and Europe

Markets in Financial Instruments Directive (MiFID II)

MiFID II, which took effect on 3 January 2018, sets out detailed authorisation and operating conditions for investment firms and market operators. 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) is designed to increase consumer protection by updating its predecessor, the Insurance Mediation Directive. Both MiFID II and the 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 came into force on 1 October 2018.

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. The FCA staged the initiation of final rules the first set was published on 1 April 2018 and the second set on 4 October 2018.

The changes brought in new rules and guidance to ensure:

- A suitability report is produced in all instances where advice is given, including where the advice would be not to transfer;
- The nominated Pension Transfer Specialist takes into account where transfer funds will be invested before confirming advice to transfer is suitable;
- A new basis for comparing ceding scheme benefits is used; and
- Advisers accurately assess a customer's attitude to transfer risk.

From 2019, if firms provide an initial triage service, they must ensure this is restricted to providing factual information only.

From 2020, qualification standards for a Pension Transfer Specialist will be enhanced.

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 HM Revenue & Customs (HMRC). This is due to the introduction and domestic implementation of various international reporting and transparency regimes, including the US Foreign Account Tax Compliance Act (FATCA) provision, the OECD's Common Reporting Standard (CRS) and the EU Directive on administrative cooperation in the field of taxation. The information obtained by HMRC may be exchanged with tax authorities in other countries. The obligations of Prudential to report information to HMRC for the purposes of FATCA, the CRS and DAC will continue post the demerger of M&GPrudential from Prudential plc.

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. Increasing regulatory developments in the region will continue to affect Prudential's Asian businesses.

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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.

Significant additional details of the regulatory regimes to which Prudential Corporation Asia's (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, in April 2018, the Government issued new regulations regarding foreign ownership in insurance companies, capping it at 80 per cent Insurance companies that have had foreign ownership exceeding 80 per cent prior to the regulation have been grandfathered, but they are prohibited to increase the percentage of foreign ownership.

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. A balanced scorecard remuneration framework that rewards the provision of quality advice in order to align the interests of representatives with that of customers is in effect. A direct channel is 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. Further regulatory changes in 2018 have enhanced regulations relating to product advertisement, its approval and maintaining the records of approval.

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.

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On 26 April 2018, MAS proposed new guidelines to strengthen the accountability of senior managers and raise conduct of financial institutions (FIs). The guidelines reinforce FI's responsibilities in three key areas: Promote individual accountability of senior managers, strengthen oversight of employees in material risk functions and embed standards of proper conduct among all employees.

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 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' that 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 per cent of insurance premium began 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 is to be around twice the size of OCI and has 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 2019.

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.

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.

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. 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.

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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 was implemented by BNM in phases between 1 December 2015 to 1 January 2019, to consider the state of readiness of the life insurers, family Takaful operators and intermediaries, and the level of consumer awareness and literacy. BNM has issued numerous policy documents to regulate operating cost controls for Life and Family Takaful Business and disclosure requirements of pure protection products offered through direct distribution channel.

Market liberalisation measures were introduced by BNM in April 2009, which increases the limit from 49 per cent to 70 per cent on foreign equity ownership for insurance companies and Takaful operators in Malaysia. A higher foreign equity limit beyond 70 per cent for insurance companies will be considered by BNM on a case by case basis for companies who support expansion of insurance provision to the most vulnerable in Malaysian society.

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 a 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.

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.

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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 insurance intermediaries. These legislative amendments are yet to be passed.

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.

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 , with branches in Guangdong, Beijing, Jiangsu, Shanghai, Hubei, Shandong, Zhejiang, Tianjin, Guangxi, Shenzhen, Fujian, Hebei, Liaoning, Shanxi, Henan, Anhui, Sichuan, Suzhou, Hunan and, in January 2019, received regulatory approval to establish a branch in Shaanxi.

The body responsible for regulation of the insurance sector is the China Banking and Insurance Regulatory Commission (CBIRC). CBIRC reports directly to the State Council. CBIRC 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. CBIRC 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 CBIRC.

CBIRC 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) oversees 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.

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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.

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 (AMLD) 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.

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Key regulators and licences for the Eastspring businesses are as follows:

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 US SEC 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 (HKSFC) 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.

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.

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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.

A new investment management wholly-foreign owned enterprise (IM WFOE), Eastspring Investment Management (Shanghai) Company Limited was been established in China in March 2018 and completed its registration with Asset Management Association of China (AMAC) as a Private Fund Manager in October 2018. The Company will manage and distribute private funds to qualified clients in China.

A subsidiary of the IM WFOE, Eastspring Overseas Investment Fund Management (Shanghai) Company Limited[1], to operate under the Qualified Domestic Limited Partnership (QDLP) regime was established on 25 October 2018. This subsidiary will invest in offshore securities under a quota regime, subject to the approval of a QDLP quota from the Shanghai Financial Office and registration with AMAC and SAFE.

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 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 de Surveillance 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.

Thailand

On 27 September 2018, the Group acquired 65 per cent of TMB Asset Management Co., Ltd. (TMBAM), an asset management company in Thailand, from TMB Bank Public Company Limited. TMBAM's main supervising regulator is the Securities and Exchange Commission of Thailand. TMBAM holds the following licenses which allow TMBAM to undertake mutual, private, and derivatives fund management:

- Mutual fund management license issued on 15 November 1996;
- Private fund management license (provident fund) issued on 20 January 2002;
- Private fund management license (private fund) issued on 20 January 2002; and
- Derivatives fund manager license issued on 7 March 2005.

US supervision and regulation

Overview

Prudential conducts its US insurance activities through Jackson, a life insurance company organised in Michigan and licensed to transact its insurance business in, and subjected 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 all 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 and New York, in the case of Jackson and Jackson National) 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 organised in their states 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 regards 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.

Jackson's capital and surplus

Michigan insurance law requires Jackson, as a domestic life insurance company, to maintain at least US$7.5 million 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. The Michigan Department of Insurance and Financial Services considers the risk based capital standards developed by the National Association of Insurance Commissioners (NAIC) when making the determination of sufficiency of capital and surplus. The risk-based capital formula considers the risk characteristics of a company, including asset risk, insurance risk, interest rate risk, market risk and business risk.

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' in a business acquisition or reinsurance transaction as an admitted asset in excess of the amount allowed under NAIC guidance. At 31 December 2018, Jackson admitted US$237.9 million (£187 million) (31 December 2017: US$ 229.3 million (£170 million on an actual exchange rate basis)) 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 on 31 October 2019, unless 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 2018 the effect of the permitted practice decreased statutory surplus by US$164.7 million

(£129 million) (31 December 2017: US$480.2 million (£355 million on an actual exchange rate basis)), net of tax, respectively. The permitted practice had no impact on statutory net income.

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

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.

Tax legislation and rules

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.

Securities laws

Jackson, certain of its affiliates and certain policies and contracts that Jackson issues are subject to regulation under the US 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.

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.

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.

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. The majority of the Dodd-Frank Act has been met with finalised rules, however, in May 2018, President Trump signed into law S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act. The legislation included reforms of the Dodd-Frank Act predominantly for small and mid-size banks with little to no impact to Jackson or Prudential operations. It is possible that the Dodd Frank Act and/or the rules promulgated pursuant to it will be repealed, reversed, or otherwise limited by the US Congress. Overall, the impact of the Dodd-Frank Act on Jackson and Prudential operations is minimal.

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. In June 2018, NYSDFS adopted a "best interest" standard for sellers of life insurance and annuity products. The regulations pertain to the recommendation of annuities and life insurance and are effective 1 August 2019 for annuities and six months later for life insurance (1 February 2020). Jackson is currently reviewing the potential impact of NYSDFS rule on its business operations and on its affiliated business including Jackson National Life of New York.

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 re-examine existing laws and regulations applicable to insurance companies and their products.

On the US federal regulatory front, the SEC on 18 April 2018 proposed rules, interpretations and guidance (the Proposed Rules) designed to enhance and clarify the standards of care applicable to broker-dealers and to investment advisers when dealing with retail clients. The Proposed Rules provide for standardised and additional disclosure as well as new or clarified standards of care for broker-dealers and investment advisers. The SEC leadership has stated the intent to finalise the Proposed Rules sometime in 2019. Jackson is currently reviewing the potential impact of SEC Proposed Rules on its business.

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 six 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.

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 and was discovered in March 2012 through periodic customer screening. Total premiums of RM 7,500 (approximately US$1,794) were received in 2018. The matter was reported to the Malaysian government regulatory authority, the Bank Negara Malaysia Financial Intelligence Unit Currently, the policy is 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. 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 2018.

The third individual designated on 24 March 2016 pursuant to US Executive Order 13224, holds an OEIC with Prudential's UK business M&G and was discovered in April 2016 during periodic screening. The investment is frozen and has a value of £4,039 (approximately US$5,209), there have been no outward payments made.

The fourth 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 periodic customer 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 was US$10,309, HKD4,880 (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. Two of the three policies have lapsed and the remaining policy in force as it can still be funded by the policy's residual cash value.

The fifth 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. It was discovered in September 2017 during periodic customer 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. This policy has subsequently lapsed since 2017.

The sixth case relates to an entity designated on 25 October 2018 pursuant to US Executive Order 13551. This entity holds one "Key Man" insurance policy for the Managing Director with Prudential's Singapore insurance subsidiary, which has been in force since January 1996 and has an annual premium of US$28,666. The case was discovered in November 2018 during customer screening. The client relationship was reported to the Singapore Financial Intelligence Unit. The policy has been tagged in order to assess applicable legal and regulatory prohibitions prior to any outgoing payments. The last premium was received in February 2018 and there have been no further transactions since that time.

As the provisioning of insurance liabilities is undertaken on a portfolio basis, it is not practical to estimate the 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 98 scheme members are receiving benefits, with 19 deferred members and 79 pensioners. 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 pension schemes it is not practical to advise the net profit, but the fund value at 31 December 2018 stood at £7,446,242. In return for administering the scheme there are standard charges: an annual fee of £791, plus £12 per member, £65 per quote and a Trustee Accounts charge (£1,990). The annual invoice paid on 18 September 2018 was for £3,912. 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 sanctions authority, the Office of Financial Sanctions Implementation (OFSI), was previously 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. Previous payments out of the fund were approved by OFSI through a licence.

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

Good governance encourages decisions to be made in a way that is most likely to promote the success of the Company for the benefit of its members, taking into account the views and interest of the Group's wider stakeholders. Prudential aims to achieve this through a governance framework that supports decision-making, which is continuously updated to meet the Group's business needs, makes room for challenge and encompasses a prudent system of internal controls and processes for identifying, managing and mitigating key risks.

Set out below are some of the key strategic and governance items the Board has considered over 2018.

Demerger

Following the announcement in 2017 of the combination of Prudential's asset manager, M&G, and Prudential UK & Europe to form M&GPrudential, early in 2018 the Board announced the intention to demerge M&GPrudential from the remainder of the Prudential Group. During the year the Board has therefore been focused on the execution of that decision.

In preparation for this major transaction, the Board looked at its ways of working at the end of 2017 through an annual effectiveness review. The feedback from that review was used to ensure that the right environment for critical decision-making continued to be in place, and this has proved very helpful and effective groundwork as the Board was asked to consider a number of demerger-related items through the year.

In relation to the governance of both the Prudential and the M&GPrudential Groups, work has been undertaken to help ensure a smooth transition and ensure that both Groups have boards properly composed to meet their future strategic needs. Most importantly this has included establishing a separate M&GPrudential board and the appointment of the first independent non-executive director, Mike Evans, as chairman of that board. Further information about the demerger is set out in 'Group at a glance' and 'Explanation of performance and other financial measures'.

Culture and values

The Board spent time in 2018 focusing on Prudential's culture, recognising that it is an important contributor to the Group's success and sustainable growth and the Board made further progress on considering how the Group's culture is articulated, communicated, rewarded and recognised.

In light of the upcoming demerger, the Group's culture has taken on extra significance as we navigate through a period of change. It is one of the Board's objectives to ensure that the Group continues to be guided by its values and behaviours and demonstrates ongoing commitment to our stakeholders and to innovation, performance and excellence in execution.

The Board approved changes to its terms of reference in 2018 to make explicit reference to its role in establishing the Group's purpose, values and strategy.

Looking after our stakeholders and wider community initiatives

Prudential recognises that its stakeholders are key to its long-term success. The Group seeks to engage proactively with them, to understand their views and to take these views into account when making decisions.

The Board is cognisant of the emphasis that the new Corporate Governance Code puts on stakeholders more broadly than shareholders. The Board considered this in two separate meetings during the year and is developing mechanisms to ensure stakeholder views, and in particular the employee voice, make their way to Board level in an effective way.

The Chairman's Challenge continues to grow with over 9,000 colleagues having given 49,000 hours to supporting the community in 2018.

Succession planning and Board composition changes

Mr Manduca has served on the Board of Prudential plc since October 2010 and has served as Chairman since July 2012.

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The Chairman and the Nomination & Governance Committee agree that it is important that leadership of the Board is refreshed appropriately and that succession planning for the role of the Chairman takes place in an open and transparent way.

The Senior Independent Director, Mr Remnant, has therefore been consulting with major shareholders on the Chairman's tenure extending to May 2021, subject to re-election each year. The Board is mindful of the provisions of the Corporate Governance Code which state that a chair should not remain in post beyond nine years from the date of first appointment to the board, which, in the Chairman's case, would be October 2019. However, given the Group's planned demerger of the M&GPrudential business, and in light of the shareholder support received, and in light of the Group's planned demerger of the M&GPrudential business, the Board has considered and confirmed that it believes it to be in shareholders' best interests for Mr Manduca to continue to serve in the Chair role in order to oversee the Board during this time of change and ensure that the Prudential Group is strongly established in its post-demerger state. The Chairman is fully committed to this challenge. Further details of the agreed timeframe for the Chairman's departure and plans for identifying and appointing a successor are set out in the Nomination & Governance Committee report below. The Committee's report includes a description of the Group's approach to succession planning more widely.

Lord Turner has announced that he will retire from the Board at the 2019 Annual General Meeting. The Board thanks him for his significant contribution over the last three and a half years, as a Non-executive Director and member of the Risk Committee.

The Board has also looked at its composition as part of the progress towards demerger. As Chief Executive of M&GPrudential, Mr Foley will naturally stand down from the Board as part of the demerger transition. Having taken into account the changed shape of the Prudential Group post-demerger and the reduced number of business units, the Board has taken a decision that the roles of Chief Executive Prudential Corporation Asia and Chief Executive Officer of Jackson Holdings LLC will no longer be Executive Director roles on the Board, although will continue to serve on the Group Executive Committee. As announced to the market on 28 February 2019 all of these Board changes will take effect from the conclusion of the Company's 2019 Annual General Meeting. The Board thanks Mr Foley, Mr Nicandrou and Mr Falcon for their service.

The Board also thanks Ms Richards and Mr Stowe, as Executive Directors having stepped down during 2018, for their valuable contributions to the Board and to the Group during the year.

Board of Directors

The Prudential Board consists of 16 directors as at 21 March 2019.

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 21 March 2019.

Paul Manduca
Chairman

Appointment: October 2010

Age: 67

Committee: Nomination & Governance (Chair)

Relevant skills and experience
Paul will continue to draw on his extensive experience in leadership roles and his knowledge of the Group's core businesses, international markets and industry sectors, and his technical knowledge, to provide effective leadership during a period of change for the Group.

Paul has held a number of senior leadership roles. Notable appointments include serving as chairman of the Association of Investment Companies (1991 to 1993), acting as founding CEO of Threadneedle Asset Management Limited (1994 to 1999), global CEO of Rothschild Asset Management (1999 to 2002), directorships of Eagle Star and Allied Dunbar, holding the offices of European CEO of Deutsche Asset Management (2002 to 2005), chairman of Bridgewell Group plc and a director of Henderson Smaller Companies Investment Trust plc.

Other previous appointments include the chairmanship of Aon UK Limited and JPM European Smaller Companies Investment Trust Plc. From September 2005 until March 2011, Paul was a non-executive director of Wm Morrison Supermarkets Plc, including as senior independent director, audit committee chairman and remuneration committee chairman. He was a non-executive director and audit committee chairman of

KazMunaiGas Exploration & Production until the end of September 2012 and chairman of Henderson Diversified Income Limited until July 2017.

Paul initially joined the Board in October 2010 as the Senior Independent Director and member of the Audit and Remuneration Committees, roles he held until his appointment as Chairman in July 2012. On becoming Chairman, Paul was also appointed Chair of the Nomination & Governance Committee, having been a member of the Committee since January 2011.

Other appointments

- RateSetter (Retail Money Market Limited) (chairman)
- Templeton Emerging Markets Investment Trust (TEMIT) (chairman)
- Securities Institute
- TheCityUK Advisory Council (chairman)

Michael Wells
Group Chief Executive

Appointment: January 2011

Age: 58

Relevant skills and experience
Mike continues to develop the operational management of the Group on behalf of the Board, implementing Board decisions and leading the Executive Directors and senior executives in the management of all aspects of the day-to-day business of the Group.

Mike has more than three decades' experience in insurance and retirement services, having started his career at the US brokerage house Dean Witter, before going on to become a managing director at Smith Barney Shearson.

Mike joined the Prudential Group in 1995 and became Chief Operating Officer and Vice Chairman of Jackson in 2003. In 2011, he was appointed President and Chief Executive Officer of Jackson, and joined the Board of Prudential.

During his leadership of Jackson, Mike was responsible for the development of Jackson's market-leading range of retirement solutions. He was also part of the Jackson teams that purchased and successfully integrated a savings institute and two life companies.

Mike joined the Board in 2011 and was appointed Group Chief Executive in June 2015.

Other appointments

- International Advisory Panel of the Monetary Authority of Singapore
- San Diego University Advisory Board

Executive Directors
Mark FitzPatrick CA
Chief Financial Officer

Appointment: July 2017

Age: 50

Relevant skills and experience
Mark has a strong background across financial services, insurance and investment management, encompassing wide geographical experience relevant to the Group's key markets.

Mark previously worked at Deloitte for 26 years, building his industry focus on insurance and investment management globally. During this time, Mark was managing partner for Clients and Markets, a member of the executive committee and a member of the board of Deloitte UK. He was a vice chairman of Deloitte for four years, leading the CFO Programme and developing the CFO Transition labs. Mark previously led the

Insurance & Investment Management audit practice and the insurance industry practice.

Mark joined the Board as an Executive Director and Chief Financial Officer in July 2017.

James Turner FCA
Group Chief Risk Officer

Appointment: March 2018

Age: 49

Relevant skills and experience
Having held senior positions at Prudential for a number of years, James has a wide-ranging understanding of the business and draws on previous experience across internal audit, finance and compliance as well as technical knowledge, relevant to his role.

James has led internal audit teams in UBS in both the UK and Switzerland. Prior to joining Prudential, James was the deputy head of compliance for Barclays plc. He also held a number of senior internal audit roles across the Barclays group, leading teams that covered the UK, the US, Western Europe, Africa and Asia retail and commercial banking activities.

James joined Prudential in November 2010 as the Director of Group-wide Internal Audit and was appointed Director of Group Finance in September 2015, with responsibility for delivery of the Group's internal and external financial reporting, business planning, performance monitoring and capital and liquidity planning. He also led the development of the Group's Solvency II internal model.

James joined the Board as an Executive Director and Group Chief Risk Officer in March 2018.

Other appointments

West Bromwich Building Society (non-executive director)

Michael Falcon
Chief Executive Officer of Jackson Holdings LLC

Appointment: January 2019

Age: 56

Relevant skills and experience
Michael has extensive experience in senior positions across a range of financial services institutions in the US and Asia.

Michael holds a degree in Finance from Indiana University and began his career in commercial and investment banking at Chase Manhattan Bank in 1985. Between 1989 and 2000, Michael worked at Sara Lee Corporation (now Hanesbrands, Inc) in a variety of senior financial, strategic and general management roles, based in Chicago, Paris and Winston-Salem, North Carolina.

Between 2000 and 2008 Michael worked at Merrill Lynch, serving as head of the retirement group and other roles, including head of strategy and finance for the US Private Client business. Michael later served as a consultant and strategic adviser to companies in the retirement, equity awards, wealth management and asset management industries until joining J.P. Morgan Asset Management in 2010. Michael has served as a trustee and executive committee member of EBRI (the Employee Benefit Research Institute) and was founding chairman of the Advisory Board of EBRI's Center for Retirement Income Research between 2011 and 2014.

Before joining Prudential, Michael was based in Hong Kong as chief executive officer of Asia Pacific for J.P. Morgan Asset Management, a role he held since 2015, and was head of Asia Pacific funds from 2014. He joined J.P. Morgan Asset Management in New York as head of retirement in 2010, responsible for investment management and plan service businesses in the defined contribution, individual retirement and taxable savings market.

Michael joined the Board in January 2019 as an Executive Director, succeeding Barry Stowe, and holds the title of Chief Executive Officer of Jackson Holdings LLC (Jackson), which includes Jackson's US subsidiaries and affiliates (formerly the North American Business Unit).

John Foley
Chief Executive of M&GPrudential

Appointment: January 2016

Age: 62

Relevant skills and experience
John has wide-ranging experience of different senior roles in financial services, both at Prudential and in his earlier career, making him well placed to lead M&GPrudential and deliver on its long-term strategic aims.

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John spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury of the combined TSB and Hill Samuel Bank. Before joining Prudential, John spent three years as general manager, global capital markets at National Australia Bank.

John joined Prudential as Deputy Group Treasurer in 2000 and became Managing Director of Prudential Capital and Group Treasurer in 2001. During his career at Prudential, John has held the offices of Chief Executive of Prudential Capital, Group Chief Risk Officer, Group Investment Director and Chief Executive of Prudential UK & Europe.

John first joined the Board in 2011 as Group Chief Risk Officer and was reappointed in January 2016, having stepped down during his time as Group Investment Director.

In 2017, John's role was expanded from Chief Executive of Prudential UK & Europe to Chief Executive of M&GPrudential, the Group's combined UK asset management and savings and retirement solutions business. In 2018 he took on the additional responsibility of acting as Chief Executive of the key regulated entities of M&G and Prudential UK.

Nicolaos Nicandrou ACA
Chief Executive of Prudential Corporation Asia

Appointment: October 2009

Age: 53

Relevant skills and experience
Nic has a finance background and having built up deep knowledge of the Group, moved to the position of Chief Executive of Prudential Corporation Asia in July 2017. Nic is responsible for Prudential Corporation Asia's life insurance and asset management business across 14 markets in the region.

Nic started his career at PricewaterhouseCoopers (PwC). Before joining Prudential, he worked at Aviva, where he held a number of senior finance roles, including Norwich Union Life finance director and board member, Aviva group financial control director, Aviva group financial management and reporting director and CGNU group financial reporting director.

Nic joined the Board in October 2009 as an Executive Director and Chief Financial Officer.

Other appointments

CITIC-Prudential Life Insurance Company Limited (chairman) (a Prudential plc joint venture)

Non-executive Directors

The Hon. Philip Remnant CBE FCA
Senior Independent Director

Appointment: January 2013

Age: 64

Committees: Audit, Nomination & Governance, Remuneration

Relevant skills and experience
Philip contributes experience across a number of sectors and in particular listed company experience and the financial services industry, including asset management, in the UK and Europe.

Philip was a senior advisor at Credit Suisse and a vice chairman of Credit Suisse First Boston (CSFB) Europe and head of the UK Investment Banking Department. He was twice seconded to the role of director general of the Takeover Panel. Philip also served on the board of Northern Rock plc and as chairman of the Shareholder Executive. Until July 2018, he also served on the board of UK Financial Investments Limited.

Philip joined the Board in January 2013 as a Non-executive Director, as Senior Independent Director and as a member of each of the Audit Committee, the Remuneration Committee and the Nomination & Governance Committee. He also chaired the M&G Group Limited board from April 2016 until October 2018.

Other appointments

Severn Trent plc

City of London Investment Trust (chairman)

Takeover Panel (deputy chairman)

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Sir Howard Davies
Appointment: October 2010

Age: 68

Committees: Audit, Nomination & Governance, Risk (Chair)

Relevant skills and experience
Sir Howard has a wealth of experience in the financial services industry, across the Civil Service, consultancy, asset management, regulatory and academia. He also contributes his detailed knowledge of the Group's key international markets including the UK, Europe, North America and Asia as well as international regulatory experience.

Sir Howard was previously chairman of the Phoenix Group and an independent director of Morgan Stanley Inc.

Sir Howard joined the Board in October 2010 as a Non-executive Director and Chair of the Risk Committee. He joined the Audit Committee in November 2010 and the Nomination & Governance Committee in July 2012.

Other appointments

- Royal Bank of Scotland (chairman)
- China Banking Regulatory Commission international advisory board
- China Securities Regulatory Commission international advisory board (chairman)
- Institut d'Études Politiques (Sciences Po)
- Millennium LLC regulatory advisory board

David Law ACA
Appointment: September 2015

Age: 58

Committees: Audit (Chair), Nomination & Governance, Risk

Relevant skills and experience
David has experience across the Group's key international markets including the UK, Europe, North America and Asia, and across a number of industry sectors. He contributes extensive technical knowledge of audit, accounting and financial reporting essential to his role as Chair of the Audit Committee.

David was the global leader of PricewaterhouseCoopers (PwC) insurance practice, a partner in PwC's UK firm, and worked as the lead audit partner for multi-national insurance companies until his retirement in 2015. David has also been responsible for PwC's insurance and investment management assurance practice in London and the firm's Scottish assurance division.

David joined the Board in September 2015 as a Non-executive Director and member of the Audit Committee. David was appointed Chair of the Audit Committee and a member of the Risk Committee and of the Nomination & Governance Committee in May 2017.

Other appointments (Until July 2019)

- L&F Holdings Limited (CEO) and its subsidiaries (the professional indemnity captive insurance group that serves the PwC network and its member firms)

Kaikhushru Nargolwala FCA
Appointment: January 2012

Age: 68

Committees: Remuneration, Risk

Relevant skills and experience
Kai has experience across some of the Group's key international markets, particularly Hong Kong and the wider Asian market. In addition to his experience with listed groups, he contributes knowledge of the financial services sector.

Kai spent 19 years at Bank of America and was based in Hong Kong in roles as group executive vice president and head of the Asia Wholesale Banking Group during 1990 to 1995. He spent 10 years working for Standard Chartered PLC in Singapore as group executive director responsible for Asia Governance and Risk during 1998 to 2007. Kai was chief executive officer of the Asia Pacific Region of Credit Suisse AG during 2008 to 2010 and now serves as director and chairman of their remuneration committee.

Kai has served on a number of other boards, including Singapore Telecommunications and Tate and Lyle plc.

Kai joined the Board in January 2012 as a Non-executive Director and member of the Remuneration and Risk Committees.

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Other appointments

- Prudential Corporation Asia Limited (Prudential plc subsidiary) (chairman)
- Clifford Capital Pte. Ltd (chair)
- Credit Suisse Group AG
- Duke-NUS Medical School (chairman)
- PSA International Pte Ltd

Anthony Nightingale CMG SBS JP
Appointment: June 2013

Age: 71

Committees: Nomination & Governance, Remuneration (Chair)

Relevant skills and experience
Anthony has long executive experience of listed companies and, in particular, extensive knowledge of Asian markets.

Anthony spent his career in Asia, where he joined the Jardine Matheson Group in 1969, holding a number of senior positions before joining the board of Jardine Matheson Holdings in 1994. He was managing director of the Jardine Matheson Group from 2006 to 2012. His position on the Hong Kong-APEC trade policy study group ended in 2018 and he resigned as a member of the UK-ASEAN Business Council in 2019.

Anthony joined the Board in June 2013 as a Non-executive Director and member of the Remuneration Committee. He became Chair of the Remuneration Committee and a member of the Nomination & Governance Committee in May 2015.

Other appointments

- Jardine Matheson Holdings (and other Jardine Matheson group companies)
- Schindler Holding Limited
- Shui On Land Limited
- Vitasoy International Holdings Limited
- The Innovation and Strategic Development Council in Hong Kong
- The APEC Vision Group

Alice Schroeder
Appointment: June 2013

Age: 62

Committees: Audit, Risk

Relevant skills and experience
Alice has experience across the insurance, asset management, technology and financial services industries in the US.

Alice began her career as a qualified accountant at Ernst & Young. She joined the Financial Accounting Standards Board as a manager in 1991, overseeing the issuance of several significant insurance accounting standards.

From 1993, she led teams of analysts specialising in property-casualty insurance as a managing director at CIBS Oppenheimer, PaineWebber (now UBS) and Morgan Stanley. Alice was also an independent board member of the Cetera Financial Group and held the office of CEO and chair of Showfer Media LLC (formerly WebTuner). She was also a director of Bank of America Merrill Lynch International until December 2018.

Alice joined the Board in June 2013 as a Non-executive Director and member of the Audit Committee. She became a member of the Risk Committee in March 2018.

Other appointments

Quorum Health Corporation

Natus Medical Incorporated

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Lord Turner FRS
Appointment: September 2015
Age: 63
Committees: Audit, Risk
Relevant skills and experience
Lord Turner has extensive knowledge and experience of the UK regulatory regime.

Lord Turner began his career with McKinsey & Co, advising companies across a range of industries.

He served as director-general of the Confederation of British Industry, vice-chairman of Merrill Lynch Europe, chairman of the Pensions Commission and as a non-executive director of Standard Chartered Bank.

Lord Turner was chairman of the UK's Financial Services Authority, a member of the international Financial Stability Board and a non-executive director of the Bank of England.

Lord Turner joined the Board in September 2015 as a Non-executive Director and member of the Risk Committee. He became a member of the Audit Committee in May 2017.

Other appointments

- Chubb Europe (chairman)
- Energy Transition Commission (chairman)
- Envision Limited (advisory board)
- House of Lords crossbench member (from 2005)
- Senior Fellow of the Institute for New Economic Thinking
- London School of Economics and Cass Business School (visiting professor)
- OakNorth Bank (advisor)

Thomas Watjen
Appointment: July 2017
Age: 64
Committees: Remuneration, Risk
Relevant skills and experience
Tom has experience across the insurance, asset management and financial services industries as well as experience with listed companies in the UK and the US.

Tom started his career at Aetna Life and Casualty before joining Conning & Company, an investment and asset management provider, where he became a partner in the consulting and private capital areas. He joined Morgan Stanley in 1987, and became a managing director in its insurance practice.

In 1994 he was appointed executive vice president and chief financial officer of Provident Companies Inc.

He was a key member of the team associated with Provident's merger with Unum in 1999 and was appointed president and chief executive officer of the renamed Unum Group in 2003, a role he held until May 2017.

Tom joined the Board in July 2017 as a Non-executive Director and member of the Remuneration Committee. He became a member of the Risk Committee in November 2018.

Other appointments

SunTrust Banks, Inc

Fields Wicker-Miurin OBE
Appointment: September 2018

Age: 60

Committee: Remuneration

Relevant skills and experience
Fields has extensive international boardroom experience, combining knowledge of the Group's key geographic markets with experience across the global financial services industry.

Fields started her career at Philadelphia National Bank in 1982 before joining Strategic Planning Associates (now Oliver Wyman) as a senior partner in 1989. She became chief financial officer and director of strategy at the London Stock Exchange in 1994, leader of the global markets practice of AT Kearney in 1998 and managing director of Vesta Capital Advisors in 2000. She was appointed to Nasdaq's Technology Advisory

Council in 2000 and was a member of the panel of experts advising the European Parliament on financial markets harmonisation for four years from 2002. She became a non-executive director and chair of the audit committee of Savills plc in 2002 and a non-executive director and chair of the investment committee of the Royal London Group in 2003.

Fields joined the Board in September 2018 as a Non-executive Director and member of the Remuneration Committee.

Other appointments

BNP Paribas

SCOR SE

Department for Digital, Culture, Media & Sport

Leaders' Quest (Partner)

Board changes

Non-executive Directors

Mrs Wicker-Miurin was appointed as a Non-executive Director and a member of the Remuneration Committee with effect from 3 September 2018.

Ms Schroeder joined the Risk Committee with effect from 1 March 2018.

Mr Watjen joined the Risk Committee with effect from 1 November 2018.

As announced on 28 February, Lord Turner will step down from the Board with effect from the conclusion of the 2019 Annual General Meeting.

Executive Directors

Mr Turner joined the Board as an Executive Director and Group Chief Risk Officer with effect from 1 March 2018.

Ms Richards stepped down as Chief Executive of M&G and as Executive Director of the Company with effect from 10 August 2018.

Mr Stowe stepped down as Chairman and Chief Executive Officer of Prudential's North American Business Unit and as an Executive Director of the Company with effect from 31 December 2018. He was succeeded by Michael Falcon who joined the Board from 7 January 2019 and holds the title of Chief Executive Officer of Jackson Holdings LLC.

Mr Falcon will step down as an Executive Director of the Board at the conclusion of the 2019 Annual General Meeting, as will Mr Foley and Mr Nicandrou. These changes are being made as part of our progress towards demerger and are more fully described above. Each of Mr Falcon, Mr Foley and Mr Nicandrou will maintain their roles as chief executives of their respective business units and members of the Group Executive Committee.

Board Practices

How we operate

Our governance framework

The Group has established a governance framework for the business which is designed to promote appropriate behaviours across the Group.

The governance framework includes the key mechanisms through which the Group sets strategy, plans its objectives, monitors performance, considers risk management, holds business units to account for delivering on business plans and arranges governance.

The Group Governance Manual (the Manual) sets out the policies and procedures under which the Group operates, taking into account statutory, regulatory and other relevant matters.

Business units manage and report compliance with the Group-wide mandatory requirements and standards set out in the Manual through annual attestations. This includes compliance with our risk management framework.

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The content of the Manual is reviewed regularly, reflecting the developing nature of both the Group and the markets in which it operates, with significant changes on key policies reported to the relevant Board Committee.

Material Subsidiary governance

Prudential has appointed independent non-executive directors to the boards of its four Material Subsidiary entities within the Group: Jackson National Life Insurance Company, M&G Group Limited, Prudential Corporation Asia Limited and The Prudential Assurance Company Limited. Each Material Subsidiary has a board of directors led by an independent chair and an audit committee and risk committee, composed entirely of independent non-executives.

Dialogue between the Group Chair, Group Risk Committee Chair and Group Audit Committee Chair and their counterparts in the Material Subsidiaries provides an effective information flow. Over the course of 2018 and early 2019, the Board of M&GPrudential has been developed by its independent Chairman, Mr Mike Evans. Mr Evans and the Group Chair have maintained dialogue throughout.

An evaluation of the board, audit and risk committees of each Material Subsidiary was carried out in respect of 2018 which concluded that each of those boards and committees operated effectively during the year. An assessment of whether each business unit audit and risk committee has fulfilled their mandates is conducted annually and the results reported to the Group Audit Committee and Group Risk Committee.

The Nomination & Governance Committee is responsible for oversight of governance arrangements for the Material Subsidiaries. This and other activities of the Nomination & Governance Committee during 2018 are described below.

As part of the Group's focus on corporate responsibility, the boards of each of our Material Subsidiaries considers updates on corporate responsibility activities and spend in their communities on an annual basis. This has created a layer of independent scrutiny to help ensure those boards are close to the community and charitable activities of their businesses.

Regulatory environment

Until the demerger is completed, the Prudential Regulation Authority (PRA) will continue to be the Group-wide supervisor of Prudential. The PRA will be the Group-wide supervisor of M&GPrudential following the demerger. After the demerger, Prudential's individual insurance and asset management businesses will continue to be supervised at a local entity level and local statutory capital requirements will continue to apply. The Supervisory College, made up of the authorities overseeing the principal regulated activities in jurisdictions where the future Prudential Group will operate, has made a collective decision that Hong Kong's Insurance Authority (IA) should become the new Group-wide supervisor for Prudential plc.

Interactions with our regulators shape our governance framework and the Chairman and Group Chief Executive play a leading role in representing the Group to regulators and ensuring our dialogue with them is constructive.

Stakeholder engagement

The Board has identified the Group's key stakeholders as including customers, investors, employees, regulators, civil society, the media and suppliers.

During the year, the Board considered workforce engagement activities in light of the provisions of the revised UK Code published in July 2018. In 2019 the Group will be putting in place procedures to help ensure that workforce practices and policies are consistent with the Group's values and support its long-term sustainable success and that the workforce voice is understood at Board level.

As a major institutional investor, the Board recognises the importance of maintaining an appropriate level of two-way communication with shareholders.

A full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is conducted each year by the Group Chief Executive and the Chief Financial Officer, led by the Investor Relations team. A conference for investors and analysts is held on a regular basis, including in-depth business presentations and opportunities for attendees to meet with members of the Board and senior executives and an opportunity for the executive team to communicate progress and strategy outside of the financial reporting cycle. The most recent event was held in November 2018 and feedback was provided to the Board in November and December 2018.

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The Group Chief Executive, Chief Financial Officer and Investor Relations team also attend major financial services conferences to present to, and meet with, the Company's shareholders.

In 2018, as part of the investor relations programme, over 370 meetings were held with more than 300 individual institutional investors in London, continental Europe, the USA and Asia.

The Company holds an ongoing programme of regular contact with major shareholders, conducted by the Chairman, to discuss their views on the Company's governance. The Senior Independent Director offers meetings to major shareholders as needed and this year carried out a consultation specifically on the Chairman's tenure. Engagement with institutional investors on the Directors' Remuneration Policy and implementation is led by the Remuneration Committee Chair on an annual basis. Other Non-executive Directors are available to meet with major shareholders on request.

Shareholder feedback and key issues from these meetings is communicated to the Board. Details of when feedback was discussed by the Board in 2018 can be found in the table describing 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 2018 Annual General Meeting.

Operation of the Board

How the Board leads the Group

The Group is headed by a Board led by the Chairman.

The Board is currently made up of 16 Directors, of which a majority, excluding the Chairman, are independent Non-executive Directors. Biographical details of each of the Directors can be found above 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 below.

The Board is collectively responsible to shareholders for the long-term sustainable success of the business through:

- Approving the Group's long-term strategic objectives, annual budgets and business plans, as recommended by the Group Chief Executive and any material changes to them;
- Monitoring the implementation of strategic objectives, annual budgets and business plans;
- Establishing the Company's purpose, values and strategy and satisfying itself that these are aligned with the Group's culture; and
- Assessing and monitoring culture, including alignment with policy, practices, behaviours and risk appetite.

Specific matters are reserved for decision by the Board, including:

- Approving dividend policy and determination of dividends;
- Approval of strategic projects;
- Approval of the three-year business and financial plan;
- Approval of the Group's full and half-yearly results announcements and any other periodic financial reporting;
- Responsibility for an effective system of internal control and risk management;
- Overseeing the Group's corporate social responsibility programmes; and
- Ensuring effective engagement with, and encouraging participation from, key stakeholder groups.

Key areas of focus how the Board spent its time

The Board held 10 meetings during 2018. In addition to those meetings set out in the table below, the Board held a separate two-day strategy event in June and two Board workshops focused on the demerger.

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In addition to meetings, the Board receives a monthly update report from management.

	Mar1	Apr	May	Jun	Jul	Aug	Sep	Oct	Dec
Strategy and implementation									
Approval and review of strategic priorities									
Strategic priorities monitoring									
Approval of three-year operating plan									
Strategic projects2									
Group Chief Executive's report									
Report from Committee Chairs									
Audit									
Nomination & Governance									
Remuneration									
Risk									
Financial reporting and dividends									
Chief Financial Officer's performance report									
Full year									
Half year									
Group Solvency II reporting									
Business unit Chief Executive updates									
Prudential Corporation Asia									
Jackson									
M&GPrudential									
Risk, regulatory and compliance									
Regulatory and compliance updates									
Chief Risk Officer's report									
Government relations									
Relations with regulators									
Governance and stakeholders									
Governance updates									
Board evaluation and actions tracking									
Succession planning									
Corporate responsibility reporting and ESG									
Diversity and inclusion									
Talent review									
Non-executive Directors' fees									
Investor updates including feedback on investor meetings									

Notes

1

The Board held two meetings in March 2018.

2

Strategic projects considered during the year included the demerger of M&GPrudential, announced in March, the acquisition of TMB Asset Management Co., Ltd. in Thailand, announced in July, and the renewal of the bancassurance alliance with United Overseas Bank Limited, announced in January 2019, as well as other confidential matters.

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Board and Committee meeting attendance throughout 2018

Individual Directors' attendance at meetings throughout the year is set out in the table below.

	Board	Audit Committee	Nomination & Governance Committee	Remuneration Committee	Risk Committee	Joint Audit and Risk Committee	General Meeting
Number of meetings held	10	9	3	5	5	1	1
Chairman							
Paul Manduca	10		3				1
Executive Directors							
Mike Wells	10						1
Mark FitzPatrick	10						1
James Turner	10						1
John Foley	10						1
Nic Nicandrou	10						1
Anne Richards[1]	7/7						1
Barry Stowe[2]	9/10						1
Non-executive Directors							
Philip Remnant	10	9	3	5		1	1
Howard Davies	10	9	3		5	1	1
David Law	10	9	3		5	1	1
Kai Nargolwala	10			5	5	1	1
Anthony Nightingale	10		3	5			1
Alice Schroeder[3]	10	9			4/4	1	1
Lord Turner	10	9			5	1	1
Tom Watjen[4]	10			5	1/1		1
Fields Wicker-Miurin[5]	3/3			2/2			

Notes

1 Ms Richards stepped down from the Board with effect from 10 August 2018.

2 Mr Stowe stepped down from the Board with effect from 31 December 2018.

3 Ms Schroeder was appointed a member of the Risk Committee with effect from 1 March 2018.

4 Mr Watjen was appointed a member of the Risk Committee with effect from 1 November 2018.

5 Mrs Wicker-Miurin was appointed a member of the Board with effect from 3 September 2018.

Board and Committee papers are usually provided one week in advance of a meeting. Where a Director is unable to attend a meeting, his or her views are canvassed in advance by the Chairman of that meeting where possible.

Board effectiveness

Actions during 2018 arising from the 2017 review

At the end of 2017, an externally facilitated review of the Board's effectiveness was carried out by Boardroom Review Limited. During 2018, the action points that had been identified in that review were addressed and the Board received an update on progress against those actions in September 2018 and February 2019.

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Set out below are the themes, summary of actions and progress updates:

Theme	*Summary of actions*	*Progress*
Creating the right environment for critical decision-making	Spend additional time on site visits Continue to hold Non-executive Director only sessions on an as required basis	The agenda of the April 2018 Board meeting held in Singapore was extended to ensure that a range of internal and external stakeholder views on the Group's Asia business was given. During the Board visit to Washington, DC in September 2018, the Jackson Holdings team provided the Board with updates on the US business and with a specific perspective on the US government, its regulatory regime and impact on the Jackson Holdings businesses. The Chairman's current practice of holding regular private Non-executive Director meetings has continued and Non-executive Directors may request additional meetings if needed. The practice of private, members-only meetings is also established separately for the Risk and Audit Committees and has continued in 2018, with ad hoc private meetings being held as required.
Highlighting culture on the agenda	Provide further reports to the Board on culture in 2018 and mature the Group's strategic objective to develop a framework for a measurable, definable culture	A report on culture was presented to the Board in October 2018 detailing actions taken and proposed actions up to demerger and beyond. The Risk Committee continues to monitor risk culture across the organisation. The Board has approved amendments to its terms of reference which formalise the Board's role in establishing the Group's purpose, values and strategy and ensuring the alignment of these with Group culture.
Increasing the Board's resilience	Continue to focus on gender and other diversity in all new Board appointments Introduce a skills map to monitor experience and	The appointment of Mrs Wicker-Miurin as a Non-executive Director and member of the Remuneration Committee with effect from 3 September 2018, helped to strengthen the Board's range of skills, technical expertise and knowledge.

expertise more formally

The search for additional Non-executive Directors is ongoing given the Board's desire to continue enhancing its diversity, including gender and geography.

The Nomination & Governance Committee continues to utilise a skills map for Non-executive Director succession planning to ensure that gaps in Board experience or knowledge are identified and addressed.

2018 review and actions for 2019

The performance evaluation of the Board and its principal Committees for 2018 was conducted internally at the end of 2018 through a questionnaire. The findings were presented to the Board in February 2019 and an action plan agreed to address areas of focus identified by the evaluation.

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The review confirmed that the Board continued to operate effectively during the year and no major areas requiring improvement were highlighted.

Theme	Summarised actions
Board composition and process	
	Continuing work on Board succession with a focus on gender and geographic diversity.
	Reduction in Board and Committee paper volume.
Risk, capital and audit	
	Cyber risk focus for Board agenda for 2019.
	Board training on the HK Insurance Authority regulatory regime.
Stakeholders	
	Review of stakeholder groups.
	Review of workforce voice and its representation at Board level.
People	
	Develop diversity and inclusion reporting to the Board.
	Ensure overseas and 'home' Boards give scope for Non-executives to meet colleagues below Group Executive Committee level.

Director evaluation

The performance of the Non-executive Directors and the Group Chief Executive during 2018 was evaluated by the Chairman in individual meetings.

Philip Remnant, the Senior Independent Director, led the Non-executive Directors in a performance evaluation of the Chairman. Executive Directors are subject to regular review and the Group Chief Executive individually appraised the performance of each of the Executive Directors as part of the annual Group-wide performance evaluation of all employees.

The outcome of each of these evaluation processes is reported to the Nomination & Governance Committee in February each year in order to inform the Committee's recommendation for Board members to be put forward for re-election by shareholders. Executive Director performance is also reviewed by the Remuneration Committee as part of its deliberations on bonus payments.

Board site visits

Singapore

In Singapore, the Board received deep dive presentations on:

- Eastspring Investments, Prudential Corporation Asia's asset management business;
- The health ecosystem and partnerships that Prudential Corporation Asia is developing, including with healthcare technology and services company, Babylon Health;
- Digitisation and customer acquisition;
- Expanding the Group's presence in China; and
- Financial and performance updates on the Singapore business and Asia more widely.

Washington DC, USA

In Washington, the Board focused on Jackson's initiatives around:

- Customer understanding of variable annuity products;
- Distribution;
- Regulatory modernisation and government interactions; and
- Technology and people.

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Directors

Board roles and governance

The terms of reference of the Chairman, Group Chief Executive and Senior independent Director were updated in December 2018 to reflect the 2018 UK Code and the Board also considered the Board Effectiveness Guidance issued by the Financial Reporting Council (FRC) as to how these roles ought to be implemented.

Chairman Paul Manduca

The Chairman is responsible for the leadership and governance of the Board, ensuring its smooth and effective running in discharging its responsibilities to the Group's stakeholders and managing Board business.

Managing Board business

- Responsible for setting the Board agenda, ensuring the right issues are brought to the Board's attention through collaboration with the Group Chief Executive and the Group General Counsel and Company Secretary
- Facilitating open, honest and constructive debate among Directors. When chairing meetings, ensuring there is sufficient time to consider all topics, all views are heard and all Board members, and in particular Non-executive Directors, have an opportunity to constructively challenge management
- Meeting with Non-executive Directors throughout the year. In 2018, the Chairman met with Non-executive Directors without Executive Directors being present on four occasions
- Ensuring information brought to the Board is accurate, clear, timely and contains sufficient analysis appropriate to the scale and nature of the decisions to be made
- Promoting effective reporting of Board Committee business at Board meetings through regular Committee Chair updates

Membership and composition of the Board

- Leading the Nomination & Governance Committee in succession planning and the identification of potential candidates, having regard to the skills and experience the Board needs to fulfil its strategy, and making recommendations to the Board
- Considering the development needs of the Directors so that Directors continually update their skills and knowledge required to fulfil their duties, including the provision of a comprehensive induction for new Directors

-

Maintaining an effective dialogue with the Non-executive Directors to encourage engagement and maximise their contributions

Governance

-

Leading the Board's determination of appropriate corporate governance and business values, including ethos, values and culture at Board level and throughout the Group

-

Working with the Group General Counsel and Company Secretary to ensure continued good governance

-

Acting as key contact for independent chairs of Material Subsidiaries

-

Meeting with the independent chairs of the Group's Material Subsidiaries on a regular basis and reporting to the Board on the outcome of those meetings

Relationship with the Group Chief Executive

-

Discussing broad strategic plans with the Group Chief Executive prior to submission to the Board

-

Ensuring the Board is aware of the necessary resources to achieve the strategic plan

-

Providing support and advice to the Group Chief Executive

Relations with shareholders and other stakeholders

-

Representing the Board externally at business, political and community level. Presenting the Group's views and positions as determined by the Board

-

Playing a major role in the Group's engagement with regulators

-

Balancing the interests of different categories of stakeholders, preserving an independent view and ensuring effective communication

-

Engaging in a programme of meetings with key shareholders throughout the year and reporting to the Board on the issues raised at those meetings

External positions

-

Approving Directors' external appointments prior to them being accepted, taking into account the required time commitment and escalating consideration of conflicts of interests to the Nomination & Governance Committee as needed

Group Chief Executive Mike Wells

The Group Chief Executive leads the Executive Directors and senior executives and is responsible for the operational management of the Group on behalf of the Board on a day-to-day basis:

- Responsible for the implementation of Board decisions
- Establishes processes to ensure operations are compliant with regulatory requirements
- Sets policies, provides day-to-day leadership and makes decisions on matters affecting the operation, performance and strategy of the Group, seeking Board approval for matters reserved to the Board
- Supported by the Group Executive Committee which he chairs and which receives reports on performance and implementation of strategy for each business unit and discusses major projects and other activities related to the attainment of strategy
- Chairs the Chief Executive's Committee meetings which are held weekly to review matters requiring approval under the Group's framework of delegated authorities
- Keeps in regular contact with the Chairman and briefs him on key issues
- Meets with key regulators worldwide
- Leads on day-to-day effective stakeholder engagement

Senior Independent Director Philip Remnant

The Senior Independent Director acts as an alternative conduit to the Board for shareholder concerns and leads the evaluation of the Chairman:

- Acts as a sounding board for the Chairman, providing support in the delivery of the Chairman's objectives
- Leads the Non-executive Directors in conducting the Chairman's annual evaluation
- Holds meetings with Non-executive Directors without management being present, typically at least once a year to evaluate the performance of the Chairman
- Offers meetings to major shareholders to provide them with an additional communication point on request and is generally available to any shareholder to address concerns not resolved through normal channels

Committee Chairs

Non-executive Directors

Each of the Committee Chairs is responsible for the effective operation of their respective Committees:

- Responsible for the leadership and governance of their Committee
- Sets the agenda for Committee meetings
- Reports to the Board on the activities of each Committee meeting and the business considered, including, where appropriate, seeking Board approval for actions in accordance with the Committees' terms of reference
- Works with the Group General Counsel and Company Secretary to ensure the continued good governance of each Committee during the year
- In addition to Committee duties, the Chairs of the Audit and Risk Committees act as key contact points for the independent chairs of the audit and risk committees of the Material Subsidiaries

All of the Non-executive Directors are deemed to be independent and together have a wide range of experience which can be applied to attain the strategic aims of the Group through:

- Constructive and effective challenge
- Providing strategic guidance and offering specialist advice
- Scrutinising and holding to account the performance of management in meeting agreed goals and objectives
- Serving on at least one of the Board's principal Committees
- Engaging with Executive Directors and other senior management at Board and Committee meetings as well as at site visits, training sessions and on an informal basis
- Taking part in one-to-one meetings with the Group Strategy team and participation in the annual Strategy Away Day

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The Board has established four principal Committees whose functions are summarised below.

Board

Nomination & Governance Committee

Chair
Paul Manduca

- Keeps leadership needs under review in support of the Group's strategic objectives
- Develops succession planning for the Board and senior executives based on merit against objective criteria promoting diversity in all areas
- Oversees development of a diverse pipeline in succession planning
- Monitors the Group's diversity initiatives
- Recommends appointments to the Board, its principal Committees and appointments of non-executive chairs to the boards of Material Subsidiaries
- Oversees the governance of Material Subsidiaries and the Group's overall governance

Remuneration Committee

Chair
Anthony Nightingale

- Ensures there is a formal and transparent process for establishing the Directors' Remuneration Policy
- Approves individual remuneration packages of the Chairman, Executive Directors, senior executives and Material Subsidiary non-executive directors
- Approves the overall Remuneration Policy for the Group
- Reviews the design and development of share plans and approves and assesses performance targets where applicable and ensures alignment with the Group's culture
- Reviews workforce remuneration practices and policies when setting executive remuneration

Audit Committee

Chair
David Law

- Responsible for the integrity of the Group's financial reporting, including scrutinising accounting policies
- Monitors the effectiveness of internal control and risk management systems, including compliance arrangements
- Monitors the effectiveness and objectivity of internal and external auditors
- Approves the internal audit plan and recommends the appointment of the external auditor

Risk Committee

Chair
Howard Davies

- Leads on and oversees the Group's overall risk appetite, risk tolerance and strategy
- Approves the Group's risk management framework and monitors its effectiveness
- Supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk
- Provides advice to the Remuneration Committee on risk management considerations to inform remuneration decisions

framework

See Nomination & Governance Committee report later in this section.	See Remuneration Committee report later in this section.	See Audit Committee report later in this section.	See Risk 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.

The Board has established a Standing Committee which can meet as required to assist with any business of the Board. It is typically used for ad hoc or urgent matters which cannot be delayed until the next scheduled Board meeting. All Directors are members of the Standing Committee and have the right to attend all meetings and receive papers. Notice of a Standing Committee meeting is sent to all Directors and if an individual is unable to attend, he/she can give comments to the Chairman or Group Company Secretary ahead of the meeting for consideration by the Standing Committee. Before taking decisions on any matter, the Standing Committee must first determine that the business it is considering is appropriate for a Committee of the Board and does not properly need to be brought before the whole Board. All Standing Committee meetings are reported in full to the next scheduled Board meeting. Over 2018, the Company held five meetings of the Standing Committee. This governance structure allows for fast decision-making where necessary, while ensuring that the full Board has oversight of all matters under consideration and all Non-executives can contribute.

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Building Directors' knowledge

Induction new Directors

The two new Directors appointed during 2018, Mr Turner and Mrs Wicker-Miurin, each received a comprehensive induction, tailored to reflect their experience and position as Executive and Non-executive Directors respectively.

Prior to his appointment as Group Chief Risk Officer, Mr Turner was a long-serving member of the Prudential senior executive team, having most recently served as Director of Group Finance. As a result of his prior roles, Mr Turner was a regular attendee of meetings of the Risk and Audit Committees and has a strong understanding of the business and its control environment. Therefore his induction was specifically tailored to cover the strategic and operational priorities of the Group Risk function and his role as a member of the Board, including his regulatory obligations.

A summary of the general and specific induction programme for Mrs Wicker-Miurin is set out below:

General induction programme relevant to new Non-executive Directors		Role-specific induction programme for Fields Wicker-Miurin
Understanding our governance	**Understanding our business**	
- Meetings with the Chairman and Group Chief Executive separately	- Tailored briefings with each business unit to gain a comprehensive understanding of each of their business models, product suites, pricing arrangements and governance structures	- Orientation to the work and role of the Remuneration Committee
- Explanation of the Group's strategy and business plan	- Tailored meetings with all Group functions	- Updates on current UK remuneration topics
- Explanation of Prudential's corporate structure, Board and Executive Committee structure	- Comprehensive briefings on the regulatory environment in which the Group operates	- Meeting with the Chair of the Remuneration Committee to discuss the annual cycle of Committee work, its current focus and focus for 2019 and beyond
- Briefings on Group governance framework and key policies	- Briefings on top risks and internal controls	
- 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	- Induction briefings and training as a whole give Directors an understanding of the interests of the Group's key stakeholders	

Mr Falcon has commenced a comprehensive induction programme following his appointment to the Board with effect from 7 January 2019.

Continuing development of knowledge and skills

During 2018, the Board and its Committees received a number of technical and business updates as part of their scheduled meetings, providing information on external developments relevant to the Group and on particular products or operations. Below is an overview of how Directors are kept up to date:

- The Board holds an annual strategy session, which allows for detailed updates on each of the business units and deep dives on strategic direction and objectives for the Group;
- The Board receives updates on brand, diversity and inclusion, health and safety matters and corporate responsibility activities, usually once a year;
- The Board receives updates on corporate governance, political and regulatory developments, and the dynamics of equity and currency markets at every scheduled meeting;
- Over 2018, the Board received two specific updates on the impact of the FRC's revised corporate governance code highlighting key themes and actions for the Group;
- In October 2018, the Group ran a focused cyber security update for members of the Risk and Audit Committees, which was particularly aimed at developing the knowledge of the Non-executive Directors;
- In October 2018, the Board also received an update about developments surrounding Environmental, Social and Governance (ESG) reporting, including climate related risk;

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- The Board reviews each business unit in depth at least once a year and conducts periodic site visits as part of this. In 2018, the Board met in Singapore and Washington, DC, USA. Details of the activities undertaken on these visits are set out below;

- The Board and the Risk Committee receive regular updates on market developments and key risks, including Solvency II and cyber risk. The Risk Committee reviews top risks on an annual basis and deep dives into specific topics in response to the identification of key risks. This review covers the financial, operational and strategic risks, whilst also identifying and addressing business environment and insurance risks within the Group. The identification of such risks inform the risk reporting provided to the Committee and the Board;

- The Risk Committee received updates and training on matters including General Data Protection Regulation, reputational risks and LIBOR discontinuation over the year;

- The Audit Committee received updates on developments affecting financial reporting and the work of audit committees generally. In 2018, this included financial reporting developments, anti-money laundering, anti-bribery and corruption, fraud prevention, whistleblowing and cyber risk training; and

- The Remuneration Committee receives updates on regulatory and governance developments affecting the Group's remuneration arrangements. In 2018, these included trends with the insurance industry and peers, trends from the 2018 Annual General Meeting season, Corporate Governance reform including remuneration and gender pay gap reporting.

All Directors have the opportunity to discuss their individual development needs as part of the annual Board effectiveness review and Directors are asked to provide a record of training received externally on an annual basis. All Directors have the right to obtain professional advice at Prudential's expense.

Further information on Directors

Information on a number of regulations and processes relevant to Directors, and how these are addressed by Prudential, is given below.

Area	**Prudential's approach**
Rules governing appointment and removal	- The appointment and removal of Directors is governed by the provisions in the Articles of Association (the Articles), the UK Code, the HK Code (as appended to the Hong Kong Listing Rules (the HK Listing Rules)) and the Companies Act 2006.
'Senior management' definition	- The Executive Directors are the senior management population for the purposes of the Hong Kong Listing Rules.
Terms of appointment	- Non-executive Director tenure is shown in 'Compensation and Employees' below. - Non-executive Directors are appointed for an initial term of three years, commencing with their election by shareholders. From 2019, Directors' tenure commences from the date of their initial appointment to the Board. -

Subject to review by the Nomination & Governance Committee and re-election by shareholders, it would be expected that Non-executive Directors serve a second term of three years. After six years, Non-executive Directors may be appointed for a further year, up to a maximum of three years in total. Reappointment is subject to rigorous review as well as re-election by shareholders.

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The terms of the Non-executive Directors' letters of appointment and the terms of Executive Directors' service contracts are set out in 'Compensation and Employees' below.

Time commitment	- At present, the time commitment expected of a Non-executive Director is approximately 32.5 days per annum. - All Non-executive Directors currently serve on at least one of the Board's principal Committees, which requires an additional commitment of time dependent on the Committee and role. - On appointment, all Non-executive Directors confirm they are able to devote sufficient time to the Group's affairs to meet the demands of the role. - All Non-executive Directors are required to discuss any additional commitments which might impact the time which he or she is able to devote to their role with the Chairman prior to accepting.

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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
Independence	- The independence of the Non-executive Directors is determined by reference to the UK Code and HK Listing Rules as follows: ○ For the purposes of the UK Code, throughout the year, all Non-executive Directors were considered by the Board to be independent in character and judgement and to have met the criteria for independence as set out in the UK Code; and ○ All the Non-executive Directors were considered independent for the purposes of the HK Listing Rules, and each Non-executive Director provides an annual confirmation of his or her independence as required under the HK Listing Rules. - In accordance with US regulatory requirements, Prudential affirms annually that all members of the Audit Committee are independent within the meaning of the Sarbanes-Oxley legislation. - Prudential is one of the UK's largest institutional investors. The Board does not believe that this compromises the independence of those Non-executive Directors who are on the boards of companies in which the Group has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre Non-executive Directors. - The Board and Nomination & Governance Committee in particular considered independence of the Chairman and Mr Davies before proposing them for re-election, given that both will have served on the Board for nine years at October 2019. A full explanation of independence considerations is set out in the Nomination & Governance Committee Report.
Audit Committee experience	- In relation to the provisions of the UK Code and HK Listing Rules, the Board is satisfied that Mr Law has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the business operates. Full biographies of the Committee members including experience and professional qualifications, are set out in 'Board of Directors' below.
Indemnities	-

Subject to the provisions of the Companies Act 2006, the Company's Articles permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office.

- Suitable insurance cover is in place in respect of legal action against directors and senior managers of companies within the Group.

- Qualifying third-party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain directors of other companies within the Group.

- Qualifying pension scheme indemnity provisions are also in place for the benefit of certain pension trustee directors within the Group.

- These indemnities were in force during 2018 and remain so.

Significant contracts

- At no time during the year did any Director hold a material interest in any contract of significance with the Company or any subsidiary undertaking.

Governance Committees

Committee Reports

The principal Board Committees are the Nomination & Governance, Audit, Risk and Remuneration Committees.

These Committees form a key element of the Group governance framework, providing effective independent oversight of the Group's activities by the Non-executive Directors.

Each Committee Chair provides an update to the Board on the matters covered at each Committee meeting, supported by a short written summary.

Nomination & Governance Committee report

This report describes how the Nomination & Governance Committee has fulfilled its duties under its terms of reference during 2018.

Ongoing succession planning

The Committee's main role is ensuring that the Board retains an appropriate balance of skills to support the strategic objectives of the Group and maintains a rigorous and transparent approach to the appointment of Directors.

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In 2018 two Directors joined the Board. Mr Turner was appointed as an Executive Director and Group Chief Risk Officer in March, an internal appointment to succeed Penny James.

A new Non-executive Director, Mrs Wicker-Miurin, was appointed in September following an extensive search. Full biographical details for both Mr Turner and Mrs Wicker-Miurin can be found in 'Board of Directors' above.

Mr Falcon joined the Board in January 2019 following Mr Stowe's retirement as Chairman and Chief Executive of the North American Business Unit.

The Committee views succession as ongoing planning for both Executive and Non-executive roles includes emergency cover as well as longer-term options.

Demerger

A significant part of the Committee's succession planning this year was focused on determining the best mix of skills for the Board for post demerger.

The new structure of the Board will include Mr Wells, Mr FitzPatrick and Mr Turner as Executive Directors. The Board took the decision that the business unit chief executives would step down from their Board roles although they will continue to attend relevant parts of Board meetings. Prudential is making that change to the Board from the Annual General Meeting this year, and accordingly Mr Falcon, Mr Nicandrou and Mr Foley will not stand for election or re-election in May 2019.

Since the announcement of the intention to demerge M&GPrudential, the Committee has had to oversee some elements of establishing the M&GPrudential board. The Committee interviewed and recommended, with the input of the M&GPrudential chief executive, the appointment of Mike Evans to the M&GPrudential board, and details were announced on 1 October. The Committee has assisted Mike Evans in the search for suitable non-executives to join the M&GPrudential board.

The Committee also considered succession planning in respect of the role of Chairman of the Board. A separate part of this section provides an update on this matter.

Diversity

Although improving gender diversity at Board level has received a great deal of the Committee's attention, this remains a challenge and one which the Committee is focusing on. Gender diversity is an important factor in identifying candidates for Board level succession and there is more work to be done across building the internal pipeline, ensuring external recruitment is producing a diverse pool and appointing at Board level.

The Committee's terms of reference were updated to formalise its role in developing a diverse pipeline and expanding its role in reviewing and monitoring diversity initiatives across the Group as a whole.

Committee governance

Following the publication of the revised UK Corporate Governance Code in July 2018 the Committee reviewed and recommended a number of amendments to its terms of reference in order to align them with the new Code and evolving governance best practice.

The Committee also conducted its usual reviews of governance arrangements of the Group's Material Subsidiaries, including the review of performance of each Material Subsidiary board, their terms of reference and the review of the ongoing appointments of the independent non-executive directors and chairs of those boards.

The Committee Chair has responsibility for ensuring the Committee operates effectively. In order to enable the Committee to provide constructive challenge to management, the Chair encourages open debate and contributions from all Committee members.

As part of the Board's effectiveness review, described in more detail above, the Committee was found to be operating effectively.

Committee members
Paul Manduca (Chair)

Howard Davies
David Law
Anthony Nightingale
Philip Remnant

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Regular attendees
Group Chief Executive
Group Human Resources Director
Group General Counsel and Company Secretary

Number of meetings in 2018: Three.

How the Committee spent its time during 2018

	Feb	Jun	Oct
Year end matters, re-election and tenure			
Review external positions, conflicts of interests and independence, time commitment, tenure and terms of appointment	•		
Review performance of Chairman and Non-executive Directors	•		
Review relevant disclosures in the Annual Report and Accounts	•		
Recommend election of Directors by shareholders	•		
Succession planning, diversity and appointments			
Chairman	•		•
Non-executive Directors	•	•	•
Group Chief Executive		•	
Executive Directors			•
Group Executive Committee composition			•
Governance			
Membership review of principal Board Committees	•		•
Committee terms of reference			•
Demerger governance arrangements			•
Group governance framework			•
Material Subsidiary governance			
Subsidiary board composition, non-executive succession planning and appointments	•		•
Terms of reference for Material Subsidiary boards, chairs and committees			•

Material Subsidiary governance manual			•
Material Subsidiary board, chair and director evaluations	•		
Appointment of M&GPrudential chair (not a Material Subsidiary)		•	

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Key matters considered during the year

Matter considered	*How the Committee addressed the matter*
Succession planning	
Chairman	***Report on succession planning for the Chairman*** The Senior Independent Director leads on succession planning for the role of Chairman of the Board and is considered by the Committee on a regular basis. The Committee reviews the necessary skills and experience required for the effective leadership of the Board of an international financial services group. This year, the Committee also had to consider two major changes: the revised UK Code which, under the comply or explain principle, sets out that the tenure of the chairman of a listed company should be no more than nine years from first appointment to the board, and the demerger. Mr Manduca's appointment to the Board was in October 2010, meaning the Code would prescribe his retirement in October 2019. At a time of substantial change for the Group, the Board considers that it would be disruptive for Mr Manduca to stand down during the demerger process. The Board believes that shareholders will benefit from a committed and engaged Chairman to lead the Group through the transaction and to remain in role for some period of time thereafter to ensure continuing strong governance in the Prudential Group post-demerger. It is currently intended that Mr Manduca would stand down as Chairman in May 2021, subject to annual re-election up to that date. It is therefore proposed that Mr Manduca stand for election as Chairman at the Company's forthcoming 2019 Annual General Meeting. Before taking this decision, a number of investors were consulted to obtain their views and take them into account in the decision-making process. Shareholders responded positively to the specific engagement on this topic and were supportive of Mr Manduca's extended tenure. The process for identifying candidates to succeed Mr Manduca will commence in 2020, led by the Senior Independent Director and assisted by the Committee.
Board composition	Throughout the year, the Committee kept succession plans for all Executive and Non-executive Board roles under review. Succession plans are supported by the year end Board evaluation and individual performance evaluations which help inform the Committee's recommendations. The Committee takes account of the size, structure and composition of the Board

and its Committees, including existing knowledge, experience and diversity. In doing so, the Committee considers the Group's strategic needs and anticipates future needs, skills and experience.

The Committee is involved from the start when a vacancy or a gap in the Board's skills is identified. Led by the Chairman, and working with the Group Chief Executive and Human Resources Director, a role specification is prepared. This will take into account feedback from the Committee and the Group's Diversity and Inclusion Policy. Once the specification is agreed, specialist talent agencies are typically engaged to create a shortlist of candidates which is reviewed by the Committee and other stakeholders. Interviews with individuals then take place with selected Committee members and feedback is provided to all members. In this manner, a preferred candidate is selected and the Committee then recommends the individual to the Board for appointment (subject to regulatory approval where required).

Contemporaneously with this process, due diligence checks are undertaken on the candidate and Prudential liaises with the relevant regulatory authorities for any approvals needed. The Committee is kept updated on this process as necessary.

Key matters considered during the year

Matter considered	*How the Committee addressed the matter*
	This year, the Committee has considered Board composition and succession planning in the context of the decision to demerge M&GPrudential from the Prudential Group, and took the decision in February 2019 to recommend that the current chief executives of the business units would step down at the forthcoming Annual General Meeting. The Board was in unanimous agreement that under the post-demerger structure, effective oversight of the business units can be maintained without the business unit chief executives being plc Board members.
Non-executive Directors	During the year, the Committee finalised the appointment of Mrs Wicker-Miurin as a Non-executive Director. The Committee was supported in the search for candidates by the Miles Partnership. The number of Non-executive Directors required on the Board is considered on a regular basis, and this year particularly in the context of the smaller Group post-demerger. The Committee uses a regularly refreshed skills map for Non-executive succession planning. The skills map identifies skills and experience by sector, geography and technical skills, which are desirable for the Board as a whole, taking account the Group's strategic direction. Full biographical details of each Non-executive Director, including a summary of the skills and experience attributable to them which have been identified as important to the Group's long-term sustainable success, are set out in 'Board of Directors' above.
Executive Directors and senior executives	The Committee carried out its annual review of the succession plans in place for the Group Chief Executive, other Executive Directors and Group Executive Committee (GEC) roles. The Committee directed the development and renewal of these plans through the Group HR Director, supported by Egon Zehnder in the case of the Group Chief Executive plan and by Talent Intelligence for the other Executive Director roles and GEC members. In 2017, Talent Intelligence prepared long-lists and short-lists with a focus on gender and ethnic diversity requirements. The Committee has oversight of senior executive level succession planning and the talent pipeline. The Committee discussed these plans closely with the Group Chief Executive to identify business requirements and plan for future succession needs and gave feedback on the planning process. The Company announced on 12 October 2018 that Mr Stowe would retire as

	Chairman and Chief Executive of the North American Business Unit with effect from 31 December 2018. Mr Stowe was succeeded in this role by Mr Falcon, who joined the Board on 7 January 2019. Mr Falcon's appointment was considered in June 2018 following a comprehensive search, led by Korn Ferry, with support from Spencer Stuart. The Committee considered candidate profiles and skills and conducted interviews before agreeing to recommend Mr Falcon's appointment to the Board. Full biographical details for Mr Falcon can be found in 'Board of Directors' above.
Use of search consultancies	The Miles Partnership does not have any additional connection with Prudential. In addition to acting as search consultant for certain executive hires, Egon Zehnder also provides support for senior development assessments. Talent Intelligence also provides additional succession planning support to the Group below GEC level.
Election of Directors	As part of its ongoing work on Board succession planning, the Committee considered the ongoing appointment of the Chairman, Committee Chairs and Non-executive Directors, taking into account time commitment and the general balance of skills, diversity, experience and knowledge on the Board and assessing length of service in their roles.

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Key matters considered during the year

Matter considered	*How the Committee addressed the matter*
	Particular attention has been paid to the recommendation to re-elect Mr Nargolwala and Sir Howard Davies at the Annual General Meeting to be held in 2019 due to their length of service. In Mr Davies' case, election at the 2019 Annual General Meeting will take him through the Code-prescribed nine years from date of appointment. The Board does not consider that Mr Davies' independence will be impacted by his tenure extending for six months beyond the nine-year anniversary. When making recommendations for Directors to stand for election at the Annual General Meeting, the Committee considers individual Directors' contribution to Prudential's long-term success as well as their commitment to the role and other external positions or directorships which may impact their independence or availability. Having reviewed the performance of the Non-executive Directors in office at the time, and having received feedback from the Group Chief Executive on the performance of the Executive Directors, the Committee concluded that each Director continued to perform effectively and was able to devote sufficient time to fulfil their duties. Following review of the outcomes of the Board evaluation process, the Group considers that the Non-executive Directors continued to exhibit appropriate behaviours, contributed effectively to decision-making and exercised sound independent judgement in holding management to account. The diversity of the Board including skills and experience, and the contribution made by each Director is set out in the individual biographies of Directors in 'Board of Directors' above. The Committee recommended to the Board those Directors standing for election at the Company's Annual General Meeting.
Diversity	
Diversity and Inclusion Policy	The Group has a Diversity and Inclusion Policy that aims to provide equal opportunities for all who apply and who perform work for our organisation, including the Executive and Non-executive Directors, irrespective of sex, race, age, ethnic origin, educational, social and cultural background, marital status, pregnancy and maternity, civil partnership status, any gender reassignment, religion or belief, sexual orientation, disability, or part time/fixed term work. The Committee keeps this under review across all its recruitment planning.
Board and senior management	Given the global reach of the Group's operations, its business strategy and long-term focus, the Board makes every effort to ensure it is able to recruit Directors from different backgrounds, with diverse experience, perspective and skills. This diversity not only contributes towards Board effectiveness but is

essential for successfully delivering the strategy of an international group.

The Board is committed to recruiting the best available talent and appointing the most suitable candidate for each role, while at the same time aiming for, appropriate diversity on the Board.

In December 2018 the Board approved changes to the Committee's terms of reference to formalise its responsibility for overseeing the development of a diverse pipeline for Board and other senior executives. This will include ensuring that plans are based on merit against objective criteria and promote diversity across gender, social and ethnic background and cognitive and personal strengths.

In the case of Board appointments, the Committee will consider relevant results of the annual Board effectiveness evaluation and ensure suggested enhancements to the Board are addressed.

The Board considers that its diversity of experience, skill set and professional background has increased as a result of Board level succession in 2018.

Key matters considered during the year

Matter considered	*How the Committee addressed the matter*
Group-wide	In December 2018 the Board approved changes to the Committee's terms of reference to include responsibility for periodically reviewing any objectives for the implementation of diversity for the Group as a whole and monitoring the impact of diversity initiatives. In 2016 the Board decided to sign the HM Treasury Women in Finance Charter. In 2018 the Group achieved its commitment to have 27 per cent women in senior management roles, a year earlier than the target date of the end of 2019. The Group continues to work towards achieving at least 30 per cent of women in senior management by the end of 2021. The business units also engaged in a number of targeted activities in support of the Group's Diversity and Inclusion Policy, including awareness training of unconscious bias. Updates on activities relating to the diversity across the Group are provided to the Board periodically.
Governance	
Review of principal Committee membership	The Committee regularly reviews the membership of all principal Committees and makes recommendations to the Board as appropriate. Recommendations on Committee membership are taken after consultation with the Chair of the relevant Committee. In March, the Committee made a recommendation that Ms Schroeder join the Risk Committee, and in October, that Mr Watjen join the Risk Committee. These appointments refreshed experience, provided succession options and increased diversity on the Committee.
Independence criteria	The Committee considered the independence of the Non-executive Directors against relevant requirements as outlined above, taking into account the amended Code which requires nine-year tenure to run from the time of appointment to the board rather than first election by shareholders.
Conflicts of interest	The Board considered in October and December 2018 the new Code provision formalising the need for boards to identify and manage conflicts of interest. The Board has delegated authority to the Committee to consider, and authorise where necessary, any actual or potential conflicts of interest. Prior to proposing Directors for re-election, the Committee considered the external appointments of all Directors and reviewed existing conflict authorisations, reaffirming or updating any terms or conditions attached to authorisations where required.

In addition, the Committee considered the external positions of those Directors appointed during the year, noted changes in the external positions of existing Directors and considered whether these gave rise to any conflicts.

The Board considers that the procedures set out above for dealing with conflicts of interest operate effectively.

Subsidiary governance

Material Subsidiaries

During the year under review, the Committee carried out various duties related to the Material Subsidiaries:

- Succession planning arrangements for non-executive directors;
- Evaluating the performance of the Material Subsidiary boards, chairs and directors; and
- Reviewing Material Subsidiary governance arrangements, including principles for attendance at committee meetings, and the terms of reference for the Material Subsidiary boards and chairs.

Key matters considered during the year

Matter considered	*How the Committee addressed the matter*
M&GPrudential	On 1 October 2018, the Company announced the appointment of Mike Evans as Chair of M&GPrudential with immediate effect. The Committee considered and recommended the appointment of Mr Evans as Chair of the M&GPrudential board. The Committee continues to be involved in supporting Mr Evans in M&GPrudential board appointments which are ongoing.

Audit Committee report

This report describes how the Audit Committee has fulfilled its duties under its terms of reference during 2018.

The Committee provides the Board with assurance as to the integrity of the Group's financial reporting and, together with the Risk Committee, monitors the effectiveness of the second and third lines of defence, which are an integral part of the Group's internal control environment.

With regard to the Group's financial reporting, the Committee's work is focused on ensuring appropriate financial accounting policies are adopted and implemented and on assessing key judgements and disclosures. The introduction of financial accounting standard IFRS 17, which is now anticipated to come into effect in 2022, will be a significant challenge and change and as a consequence the Committee received updates during 2018 on the Group's progress towards its implementation.

External auditor

An important part of the Committee's work consists of overseeing the Group's relationship with KPMG LLP (KPMG), including safeguarding independence, approving non-audit fees and satisfying itself that it is in the best interests of shareholders to recommend the reappointment of KPMG. Following the publication of the FRC's Audit Quality Inspection report for KPMG in June 2018. The Committee Chair and the Group Finance Director met with KPMG's leadership and the Committee discussed the actions their firm is taking to improve quality. The Committee also reviewed the assessment of the audit of Prudential and introduced changes to enhance the auditor effectiveness monitoring process.

It remains the Committee's current view that, without exceptional circumstances, change to the current auditor should not occur during a period of significant change for Prudential. It is therefore the Committee's intention to appoint a new auditor for the 2023 financial year-end, after the first year of implementation of the new insurance accounting standard. A plan to identify KPMG's successor to ensure a smooth transition has been developed. Further explanation of the Committee's approach is set out in this report.

Demerger activities

In 2018 the Committee considered a number of key areas under its remit in the context of the demerger process including the progress in integrating the finance functions of M&G and Prudential UK & Europe into a single M&GPrudential team with an appropriate control environment and the capabilities, processes and systems to support both the demerger activity and the future ambitions of the M&GPrudential business.

Internal audit

During 2018 the Committee continued to receive regular briefings from the Group-wide Internal Audit (GwIA) Director. GwIA undertook a programme of risk-based audits covering matters across the business units in addition to assurance work on significant change programmes. Delivery of the internal audit plan and the independent assurance provided by GwIA represent important components of the Committee's oversight of the Group's internal controls procedures. The effectiveness of GwIA was assessed during the year, together with a review of progress against suggested enhancements identified by the external review undertaken by Deloitte in 2017. The Committee Chair meets regularly with the GwIA Director to discuss the work done and matters arising and the Committee also asked that management responsible for rectifying some of the issues identified to attend the Committee to ensure that appropriate action was being taken. The Committee also approved the 2019 internal audit plan which takes account of the business and organisational changes arising from the planned demerger. The work highlighted GwIA's role in supporting the demerger and the creation of two appropriately sized, resourced and experienced independent internal audit functions.

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Compliance

The Committee received updates on matters arising from the annual Compliance Plan (the Plan) throughout 2018. The Plan focused on a number of areas to help strengthen the compliance framework, which is intended to aid the Group in meeting regulatory obligations, including monitoring compliance with key elements of the compliance framework such as conflicts of interest, anti-money laundering and anti-bribery and corruption policies. The Committee also approved the 2019 Compliance Plan in the context of the proposed demerger, and is monitoring relevant aspects of the proposed transition of Prudential's lead regulator from the Prudential Regulatory Authority to the Hong Kong Insurance Authority (IA).

Committee governance

The Committee works closely with the Risk Committee to make sure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, Sir Howard and Mr Law agree the most appropriate Committee to consider the matter. In October 2018 the two Committees held a joint session on cyber security, including updates on the Group-wide cyber security strategy and information security programme, more details of which are set out in the Risk Committee report below.

The Committee Chair has responsibility for ensuring the Committee operates effectively. In advance of each Committee meeting, The Committee Chair speaks to the chairs of the Material Subsidiary audit committees and reports to the full Board after each Committee meeting on the main matters discussed. The Committee also held private sessions to discuss performance and also with the Group's Resilience Director to discuss whistleblowing cases and their resolution and had private discussions with GwIA and KPMG. An annual review of the Committee's effectiveness was carried out as part of the Board evaluation, described in more detail above. The Committee was found to be functioning effectively.

Committee members
David Law (Chair)
Howard Davies
Philip Remnant
Alice Schroeder
Lord Turner

Regular attendees
Chairman of the Board
Group Chief Executive
Chief Financial Officer
Group Chief Risk Officer
Director of Group Finance
Director of Group Financial Accounting & Reporting
Group Regulatory and Government Relations Director
Group General Counsel and Company Secretary
Director of Group Compliance
Director of Group-wide Internal Audit
External Audit Partner

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Number of meetings in 2018: Nine. (In addition, a joint meeting was held with the Risk Committee)

	Feb	Mar[1]	May	Jul	Aug	Oct[1]	Dec
Financial reporting and external auditor							
Periodic financial reporting including:							
- Full and half-yearly report and accounts							
- Key accounting judgements and disclosures, including tax							
- Solvency II results and governance processes							
- Associated audit reports							
Audit planning, fees, independence, effectiveness and reappointment							
Environmental, social and governance reporting							
Internal control framework							
Internal control framework including effectiveness							
Internal audit							
Status updates and effectiveness							
Internal audit plan							
Compliance							
Status updates							
Compliance plan							
Financial crime and whistleblowing							
Financial crime prevention and whistleblowing regular updates							
Governance and reporting							
Material Subsidiaries updates							
Internal governance framework including effectiveness							
Business unit audit committee effectiveness and terms of reference							
Committee terms of reference and effectiveness							

Note

1 Two meetings were held in each of March and October 2018.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Financial reporting and tax	
Overview	One of the Committee's key responsibilities is to monitor the integrity of the financial statements and any other periodic financial reporting. During the last year, items reviewed by the Committee included the 2017 Annual Report and Accounts, the 2017 Solvency and Financial Condition Report and associated Pillar 3 returns submitted to the Group's regulator, the 2017 Environmental, Social and Governance Report, the 2017 Tax Strategy Report, the 2018 Half Year Report and Accounts, and the key accounting judgements for the 2018 Annual Report. In reviewing these and other items, the Committee received reports from management and, as appropriate, reports from internal and external assurance providers, which in some cases were provided at the explicit request of the Committee.

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Key matters considered during the year

Matter considered	**How the Committee addressed the matter**
	When considering financial reporting the Committee assesses compliance with relevant accounting standards, regulations and governance codes. During 2018, the Group adopted IFRS 15 'Revenue from contracts with customers' and, as described in note A2, this had no material effect on the Group's financial results. The Committee also reviewed the potential impact of accounting standards that are effective in the future, including IFRS 16 'Leases' and IFRS 17 'Insurance Contracts'. The approach to adopting these standards is further discussed in note A2. The Committee requested regular updates from management on the progress against plans for implementing IFRS 17 given its particular significance.
	The following sections set out the key assumptions, judgements and other matters considered as part of their review of the 2018 Annual Report and Accounts.
Key assumptions and judgements	The Committee reviewed the key assumptions and judgements including those made in valuing the Group's investments, insurance liabilities and deferred acquisition costs under IFRS, together with reports on the operation of internal controls to derive these amounts. It also reviewed the assumptions underpinning the Group's European Embedded Value (EEV) metrics.
	Assumption setting
	The measurement of insurance liabilities are based on estimates of future cash flows, including those to and from policyholders, over a long period of time. These estimates can, depending on the type of business, be highly judgemental. The Committee considered changes to assumptions and other estimates used to derive IFRS insurance liabilities. Peer benchmarking was considered where available. The key assumptions reviewed were:
	- Persistency, mortality, morbidity (including in relation to medical inflation) and expense assumptions within the Asia life businesses;
	- Policyholder behaviour assumptions (including mortality) affecting the measurement of Jackson guaranteed liabilities (see note C4.2(b) of the IFRS financial statements); and
	- Mortality, expense and credit risk assumptions for the UK annuity business. Mortality assumptions continued to be an area of focus given ongoing analysis of historic experience, (see note C4.1(d) to the IFRS financial statements).
	The Committee was satisfied that the assumptions adopted by management were appropriate. Further information on the effects of material changes to insurance assets and liabilities is included in note B3 to the IFRS financial statements.
	Goodwill and other intangible assets including deferred acquisition costs (DAC)
	The Committee received information to enable it to review the more material intangible asset balances. This included the recoverability and amortisation of the DAC balance in the US and whether there had been any indication of impairment of the Group's distribution rights assets. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2018. Further information is contained in note C5 of the IFRS financial statements.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
	Investments The Committee received information on the carrying value of investments in the Group's balance sheet including on those assets which are harder to value and data on the application of the Group's Independent Price Verification policy. This data showed that the majority of the Group's assets were marked to market using two independent prices, reducing the level of judgement applied in investment valuation. Further information on the valuation of assets is contained in note C3 of the IFRS financial statements. The Committee satisfied itself that overall investments were valued appropriately.
Other financial reporting matters and tax reporting	Provisions The Committee regularly reviews the Group's provisions, including the level of provisioning for regulatory and litigation matters and provisions for certain open tax items including tax matters in litigation. The Committee was satisfied that the level of provisioning adopted by management was appropriate. See note C11 of the IFRS financial statements. Going concern and viability statements The Committee considered various analyses from management regarding Group and subsidiary capital and liquidity prior to recommending to the Board that it could conclude that the financial statements should continue to be prepared on the going-concern basis and that the disclosures on the Group's longer-term viability were both reasonable and appropriate. The Committee considered information on the risks to the Group's liquidity and capital position as well as the impact of the proposed demerger and the scenarios that could arise as part of the UK's intended withdrawal from the EU. Alternative performance measures The Committee reviewed the alternative performance measures contained in the Group's Strategic Report. It considered the consistency with the prior year and the prominence as compared to IFRS measures of performance. Fair, balanced and understandable requirement The Committee carried out a formal review of whether the Annual Report and Accounts were 'fair, balanced and understandable' as required by the UK Corporate Governance Code. In particular, they considered whether the report gave a full picture of the Group's performance in the year with important messages appropriately highlighted, the level of consistency between financial statements and narrative sections and whether performance measures were clearly explained. After completion of its detailed review, the Committee was satisfied that, taken as a whole, the Group's Annual Report and Accounts were fair, balanced and understandable. FRC review of 2017 Annual Report and Accounts As an outcome of the FRC's regular oversight role on company reporting through its review of the Group's 2017 Annual Report and Accounts, a small number of disclosure improvements have been made in the 2018 financial statements of which the most significant is to demonstrate better the linkage between movement in insurance and investment contract balances reported in the income statement and the notes (see note C4.1(a)(iii)). The FRC notes that its review was based on the Group's 2017 Annual Report and Accounts only and does not benefit from detailed knowledge of the Group's business or an understanding of the underlying transactions.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
	Parent company financial statements The Committee reviewed the parent company profit and loss account and balance sheet, which included recognition of a pension surplus asset, (see note 7 of the Parent Company financial statements).

External audit

Review of effectiveness, non-audit services and auditor reappointment

External audit effectiveness	The Group's external auditor is KPMG LLP (KPMG) and oversight of the relationship with them is one of the Committee's key responsibilities. The Committee reviews the effectiveness of the audit throughout the year taking into account: - The detailed audit strategy for the year and coverage of the highlighted risks; - Group materiality and how that is applied to the individual business units; - Insight around the key accounting judgements, including benchmarking, and the way KPMG applied constructive challenge and professional scepticism in dealing with management. The Committee formally met with the Group Lead Partner without management present on three occasions over the last year; - The outcome of management's internal evaluation of the auditor as discussed below; and - Other external evaluations of KPMG, with a focus on the FRC's Annual Quality Review. Internal evaluation of KPMG This was conducted using a questionnaire that was circulated to the Committee members, Material Subsidiary audit committee members, the Chief Financial Officer and the Group's senior financial leadership for completion. The survey asked 24 questions over four categories (team performance, process, communication and audit execution) in relation to the 2017 audit. The degree of challenge and robustness of approach to the audit were key components of the evaluation. KPMG were given the opportunity to respond to the findings in the report. As a result of the report KPMG proposed enhancements to the audit and team and progress against these changes were reported to the Committee in December.

FRC's Annual Audit Quality Review of KPMG

During June 2018, the FRC published the principal findings arising from the 2017/18 inspection of KPMG carried out by its Audit Quality Review team. The FRC noted that there had been a deterioration in quality at KPMG and it was placing the firm under increased scrutiny. The audit of Prudential plc had not been reviewed by the FRC as part of the 2017/18 inspection.

As a result of the FRC's findings the Committee discussed the findings and the firm's response and questioned KPMG on how those enhancements would be applied to the Prudential plc audit. It noted the good practice identified by the FRC in respect of the audit of insurance liabilities and the seriousness with which KPMG were addressing the FRC's findings. Overall, it was satisfied that the audit of Prudential plc remained effective. However, in light of the findings it requested that KPMG provide continuing updates on progress on delivering the enhancements discussed and the items raised as part of the internal evaluation of audit effectiveness. It also challenged management to further enhance its internal process to review its effectiveness of the 2018 audit.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
Auditor independence and objectivity	The Committee has responsibility for monitoring auditor independence and objectivity and is supported in doing so by the Group's Auditor Independence Policy (the Policy). The Policy is updated annually and approved by the Committee. It sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and is based on four key principles which specify that the auditor should not: - Audit its own firm's work; - Act as management or employees for the Group; - Have a mutual or conflicting interest with the Group; or - Be put in a position of being an advocate for the Group. The Policy has two permissible service types: those that require specific approval by the Committee on an engagement basis and those that are pre-approved by the Committee with an annual monetary limit capped at no more than 5 per cent of the Group audit fee in the proposed year and capped at £50,000 individually. In accordance with the Policy, the Committee approved these permissible services, classified as either audit or non-audit services, and monitored the usage of the annual limits on a quarterly basis. All non-audit services undertaken by KPMG were agreed prior to the commencement of work and were confirmed as permissible for the external auditor to undertake in accordance with the Policy which complies with the rules and regulations of the UK Financial Reporting Councils Ethical Standard (2016), the US Securities and Exchange Commission (SEC) and the standards of the Public Company Accounting Oversight Board (PCAOB). In keeping with professional ethical standards, KPMG also confirmed their independence to the Committee and set out the supporting evidence for their conclusion in a report that was considered by the Committee prior to publication of the financial results. While as yet to be formalised as rules, the Kingman review, the Competitions and Market Authority review of the audit market and the Brydon review will shape the future of audit and the audit regulator with a view to enhancing audit quality and independence. The Committee will continue to monitor developments to ensure the Group's policies and processes around audit effectiveness and independence evolve in line with market practice.
Fees paid to the auditor	The fees paid to KPMG for the year ended 31 December 2018 amounted to £18.3 million (2017: £17.3 million) of which £2.3 million (2017: £2.6 million) was payable in respect of non-audit services. Non-audit services accounted for 13 per cent of total fees payable (2017: 15 per cent). A breakdown of the fees paid to KPMG can be found in note B2.4 to the financial statements. Of the £2.3 million of non-audit services, £1.1 million was in respect of assurance services. These services covered assurance over the Group's Solvency II external disclosures, assurance reports on internal controls of certain Group companies that are made available for third parties and comfort letter procedures to support debt raising in the year. The remaining £1.2 million principally related to work performed as part of planning for the proposed demerger. In all

these cases, the audit firm was considered the most appropriate to carry out the work, given its knowledge of the Group and the synergies that arise from running these engagements alongside its main audit.

All non-audit services were pre-approved by the Committee and were in line with the Policy discussed above.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Reappointment	Based on the outcome of the effectiveness evaluation and all other considerations, the Committee concluded that there was nothing in the performance of the auditor which would require a change. The Committee therefore recommended that KPMG be reappointed as the auditor. A resolution to this effect will be proposed to shareholders at the 2019 Annual General Meeting.
Audit tender	The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements, the Company will be required to change audit firm no later than for the 2023 financial year end. The external audit was last put out to competitive retender in 1999 when the present auditor, KPMG, was appointed. Since 2005, the Committee has annually considered the need to retender the external audit service. The Committee's Chairman and the Group's Finance Director currently recuse themselves from these discussions. The Group is undergoing a period of unprecedented change with both the demerger of M&GPrudential from Prudential plc being considered and the new insurance accounting standard (IFRS 17) requiring implementation in 2022. The Committee currently believes any change of auditor should be scheduled to limit operational disruption during such a period of change given the significant volume of work to be delivered by the Group's finance teams in relation to the demerger and preparing to implement the new insurance accounting standard in 2022. The Committee considered its strategy on audit tendering in February 2019, concluding that with the change in implementation date for IFRS 17 that the previously proposed timeline for appointing a new auditor should also be extended by one year to the 2023 year end. In conducting this review, the Committee concluded that it would be appropriate to commence a competitive tender for the 2023 audit in the first half of 2020. This would permit the current auditors to complete the first year of IFRS 17 adoption and reduce the 'self-review' threat to any of the audit firms conducting advisory services on implementation of finance systems for the new accounting standard who are invited to tender for the audit. The suggested timeline should also enable the Committee to take into account any proposals arising from the current reviews of the auditing profession. The timing remains subject to the Committee's normal annual review of auditor performance and recommendation to shareholders. The Company has complied throughout the 2018 financial year with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the Competition and Markets Authority. A plan to identify successor firms to ensure that there is sufficient time for an orderly transition and to safeguard independence was considered and agreed by the Committee. In line with the FRC Ethical Standard, the rules and regulations of the SEC and the standards of the PCAOB, a new lead audit partner, Philip Smart, was appointed in respect of the 2017 financial year. Mr Smart is expected to be in place for a five year term until the completion of the 2021 reporting cycle. A new lead audit partner would be required for the 2022 audit and an appropriate transition plan developed.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
Second line oversight	
Compliance, financial crime prevention, whistleblowing	
Regular reporting from the Compliance function	Regular updates were provided to the Committee by the Group Regulatory and Government Affairs Director and the Group Compliance Director. The reports kept the Committee apprised of key compliance activities, issues and controls, including progress against the 2018 Compliance Plan, the outcome of compliance monitoring activities across the Group and the effectiveness of business units' compliance activities.
Compliance Plan and focus for 2019	Key activities identified for the first half of 2019 include: regulatory engagement, including managing the transition of our lead regulator from the UK's Prudential Regulatory Authority to the Hong Kong IA, supporting delivery of the demerger activities in key areas and providing ongoing advice, guidance and oversight to business units covering key risks such as conflicts of interest and financial crime. The Committee intends to review updates to the 2019 Group Compliance Plan around the mid-year point.
	Group Compliance will also continue to drive forward capabilities within the team and wider compliance community, carrying out activities to maintain oversight of the top risks identified.
Financial crime prevention	The Committee received the Money Laundering Reporting Officer's report which assessed the operation and effectiveness of the Group's systems and controls in relation to managing financial crime risks.
	As part of its responsibility for the oversight of financial crime prevention, the Committee received updates on cyber security (as part of a joint meeting held with the Risk Committee in October 2018), anti-bribery and corruption, anti-money laundering and sanctions activities undertaken during the year.
Whistleblowing	The Group continues to operate a Group-wide whistleblowing programme (Speak Out), hosted by an independent third party (Navex). The Speak Out programme receives ad hoc reports from a wide variety of channels, including a web portal, hotline, email and letters. Reports are captured, confidentially recorded by Navex, and flagged for investigation by the appropriate team. Under the Senior Managers Certification Regime (SMCR), the role of the Whistleblowing Champion continues to be carried out by the Chair of the Prudential Assurance Company (PAC) Audit Committee, an independent non-executive director of PAC.
	The Committee is responsible for oversight of the effectiveness of the Group's whistleblowing arrangements. The Committee receives regular reports on the most serious cases and other significant matters raised through the programme and the action taken to address them. The Committee is also briefed on emerging Speak Out trends and themes. The Committee may, and has, requested further review of particular areas of interest.
	The Committee reviewed the Group's Speak Out programme arrangements during the year, satisfying itself that they continue to comply with regulatory and governance requirements. The Committee also noted the consistency of approach adopted across subsidiary committees. This was facilitated through greater visibility of regional significant issues (addressed by subsidiary audit committees) and their outcomes. The Speak Out process has been further enhanced this year by focusing on (post-reporting) management action and, where relevant, sharing of lessons learnt.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
	The Chair and Committee spent time privately with the Group Resilience Director, to ensure that investigations were adequately resourced and appropriately managed, that there had been no retaliation against anyone making a report and that investigations were not improperly influenced. The Committee was also updated on arrangements for promoting Group-wide awareness of the Speak Out policy (including computer-based training tailored for each business unit) and a refresh of Speak Out communications across the Group.
Third line oversight	
Internal audit	
Regular reporting	The Committee received regular updates from Group-wide Internal Audit (GwIA) on audits conducted and management's progress in addressing audit findings within agreed timelines. Any delays in implementing remediation actions were escalated to the Committee and given particular scrutiny.
	The independent assurance provided by GwIA formed a key part of the Committee's deliberations on the Group's overall control environment. During 2018, the areas reviewed included: change management and transformation, financial controls, outsourcing and third-party supply, customer outcomes, cyber risk, compliance and regulatory and second line of defence.
	The Director of GwIA reports functionally to the Committee Chair and for management purposes to the Group Chief Executive, and also has direct access to the Chairman of the Board. In addition to formal Committee meetings, the Committee meets with the Director of GwIA in private to discuss matters relating to, for example, the effectiveness of the internal audit function, significant audit findings and the risk and control culture of the organisation.
	The Committee Chair also meets with GwIA's Quality Assurance Director to discuss the outcome of the quality reviews of GwIA's work and actions arising.
Annual plan and focus for 2019	The Committee approved the half-year update of the 2018 plan. It also considered and approved the Internal Audit Plan, resource and budget for 2019.
	The 2019 Internal Audit Plan was formulated based on a bottom-up risk assessment of audit needs mapped against various metrics combined with top-down challenge. The plan was then mapped against a series of risk and control parameters, including the top risks identified by the Risk Committee, to verify that it is appropriately balanced between financial, business change, regulatory and operational risk drivers and provides appropriate coverage of key risk areas and audit themes within a risk-based cycle of coverage. Key areas of focus for 2019 include: strategic change initiatives, customer outcomes, cyber security, financial risk and financial controls, outsourcing and digitisation.
Effectiveness	The Committee is responsible for approval of the GwIA charter, audit plan, resources, and for monitoring the effectiveness of the function. The Committee assesses the effectiveness of GwIA through a combination of External Quality Assessment (EQA) reviews, required every five years, and an annual internal effectiveness review, performed by the GwIA Quality Assurance Director.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
	A 2018 Internal Effectiveness review, performed by the GwIA Quality Assurance Director, was conducted in accordance with the professional practice standards of the Chartered Institute of Internal Auditors (CIIA) and assessed continued conformance with the CIIA guidance for Effective Internal Audit in the Financial Services (the Code). The review concluded that GwIA continued to comply with the requirements of internal audit policies, procedures and practices, and standards in all material respects relating to audit planning and execution, and continued to be aligned with its mandated objectives and maintained general conformance with the CIIA Code.
	During 2018, GwIA also progressed those areas that were identified by the 2017 EQA as opportunities for enhancement to existing practice. In response to the demerger announcement, the function commenced its preparations for creating two appropriately skilled and sized, independent internal audit functions, where previously there was a single function.
	Having considered the findings of the internal effectiveness review performed by the Quality Assurance Director, the Committee concluded that GwIA had continued to operate in compliance with the requirements of GwIA policies, procedures and practice standards in all material respects and remained aligned to mandated objectives during 2018.
Internal control	
Internal control and risk management systems	The Committee is responsible for reporting and making recommendations to the Board on the effectiveness of Group-wide internal control and risk management systems.
	The Committee considered the outcome of the annual review of the systems of internal control and risk management. The review identified a number of areas for improvement, particularly in respect of the general IT control environment, and the necessary actions that have been or are being taken. The Audit Committees at group and subsidiary level collectively monitor outstanding actions regularly and ensure sufficient resource and focus is in place to resolve them within a reasonable time frame.
	The Board confirmed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report and confirms that the system remains effective.
	An update to the organisational structure and governance model for cyber security management, to further strengthen the Group's information security capabilities, was presented at a joint meeting of the Risk and Audit Committees in October 2018.
Governance	
Group governance framework	The Group Governance Manual sets out the policies and procedures by which the Group operates within its framework of internal governance, taking into account relevant statutory and regulatory matters. It is a platform for mandating specific ways of working across the Group and each business unit attests annually to compliance with:
	Mandatory requirements set out in Group-wide policies, including matters which must be reported to the Group functions; and
	Matters requiring prior approval from those parties with delegated authority.
	The Committee reviewed the results of the Group Governance Manual annual content review and the results of the

year end certification of compliance with Group Governance Manual requirements for the year ended 31 December 2018.

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Risk Committee report

This report describes how the Risk Committee has fulfilled its duties under its terms of reference during 2018.

Committee operation

The Committee assists the Board in providing leadership, direction and oversight of the Group's overall risk appetite and limits, risk strategy, and risk culture. It also oversees and advises the Board on current and future risk exposures of the Group, including those which have the potential to impact on the delivery of the Group's Business Plan. The Committee reviews the Group Risk Framework and recommends changes to it for approval by the Board to ensure that it remains effective in identifying and managing the risks faced by the Group. In March 2018, the Group announced the appointment of Mr Turner as Group Chief Risk Officer (CRO) and Executive Director. During the year, Ms Schroeder and Mr Watjen joined the Committee as members in March and November respectively.

The Committee received regular reports from the CRO, who is advised by the Group Executive Risk Committee (GERC). The Committee Chair provided feedback on the performance of the CRO to the Group Chief Executive Officer as part of the annual evaluation of the Board and its members. The Committee also received regular reports from the Group-wide Internal Audit and Compliance functions and updates from other areas of the business as needed.

Transformation activity and demerger of M&GPrudential

During 2018, a key area of consideration for the Committee was the risk associated with the Group's portfolio of key strategic change initiatives, including the merger and transformation programmes at M&GPrudential and the planned demerger of M&GPrudential from the rest of the Group. In March 2018, prior to the announcement of the demerger, the Committee considered the associated risks of proceeding and weighed them against the risks of retaining the current Group structure. Analyses of the key financial risks to the execution of the demerger under various stress scenarios were considered. During the year, the Committee considered updates, risk opinions, guidance and assurance on critical change and demerger activity.

Risk appetite and principal risks

During 2018 the Committee reviewed the Group's risk policies and the aggregate limits accompanying the Group risk appetite statements, updating limits where necessary to reflect changes in the Group's risk profile and the evolving regulatory and macroeconomic environments. The Committee also reviewed the principal risks facing the Group and received regular updates on these through the course of the year and received regular reports from the chief risk officers of the Material Subsidiaries. A fuller explanation of principal risks facing the Group and the way in which the Group manages these is set out in 'Group Risk Framework' above. During 2018, the Committee considered risk assessments and opinions on key areas covering the risks associated with the Group's Business Plan and executive remuneration, further details of which are noted below.

In respect of the Group's principal risks, the Committee continued to focus on those arising from the products the Group offers its customers, those inherent in the Group's investment portfolios and the risks that arise from the operation of its businesses. The Committee regularly reviewed the strength of our capital and liquidity positions, which included the results of stress and scenario analyses, and the significant ongoing changes to the regulatory framework and environment. In addition, the Committee closely monitored risks arising from the macroeconomic environment and the pace of regulatory developments across the globe.

In-depth reviews included consideration of the Jackson fixed annuity business and hedging programme. Reviews were also performed on the Group's credit risk exposures, in the context of the Committee's assessment of the global credit cycle, and into the Group's Asia business which included reviews of the product lifecycle in Singapore, persistency risk in Indonesia and fund management and modelling in the Group's Hong Kong and Singapore businesses. During the year the Committee continued to oversee the work required as a result of the continued applicability to the Group of the requirements under the Global Systemically Important Insurer (G-SII) regime, which included the approval of the 2018 Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan.

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Information security and privacy

Information security and data privacy also received attention from the Committee in 2018. During the year the Committee reviewed progress achieved on the implementation of the Group's plans on cyber defence. The Committee received updates on implementation activity to ensure compliance with the EU's General Data Protection Regulation (GDPR), which came into force in May 2018. In October 2018 a joint session with the Audit Committee on cyber security included an update on the Group-wide cyber security strategy and information security programme and was aimed at enhancing the knowledge of Non-executive Directors as well as providing an update on the progress of the Group's approach to cyber security.

Regulatory matters

The Committee reviewed the methodology and annual calibration of the Solvency II internal model, and also oversaw the submission of the Group's Major Model Change application in December 2018 in respect of the model. The Committee considered the Group results of field testing of the Insurance Capital Standards (ICS) in October 2018.

Following the announcement in August 2018 that the Hong Kong IA would become the Group's regulator after the demerger of M&GPrudential, updates on the discussions with the Hong Kong IA on the future regulatory relationship were provided as part of the CRO's regular reporting to the Committee.

Committee governance

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, Mr Law and Sir Howard agree the most appropriate Committee to consider the matter.

The Committee Chair has responsibility for ensuring the Committee operates effectively. In order to enable the Committee to provide constructive challenge to management, the Committee Chair encourages open debate and contributions from all Committee members. The Committee Chair reports to the Board in full 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 above. The Committee was found to be functioning effectively.

Committee members

Howard Davies (Chair)
David Law
Kai Nargolwala
Alice Schroeder (from March 2018)
Lord Turner
Tom Watjen (from November 2018)

Regular attendees

Chairman of the Board
Group Chief Executive
Group Chief Risk Officer
Chief Financial Officer
Group Regulatory and Government Relations Director
Group General Counsel and Company Secretary
Director of Group-wide Internal Audit
Dependent on the business to be discussed at each meeting, chief risk officers of the business units and members of the Group Risk Leadership Team are invited to attend each meeting as appropriate

Number of meetings in 2018: Five. (In addition a joint meeting was held with the Audit Committee)

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How the Committee spent its time during 2018

	Feb	May	Jul	Oct	Dec
Markets and Group risk updates					
Group risk update	•	•	•	•	•
Material Subsidiaries	•	•	•	•	•
Risk management					
Group top risk identification	•		•		
Top risk discussions	•	•	•	•	•
Business unit specific risk matters	•	•	•	•	•
Risk assessment of Business Plan					•
Risk function effectiveness	•				
Risk culture					•
Risk oversight of remuneration	•		•		•
Transformation	•	•	•	•	•
Information security and privacy	•	•	•	•	•
Regulatory matters					
Regulatory matters	•	•	•	•	•
Risk framework					
Solvency II internal model development and changes	•	•	•		•
Group risk appetite review				•	
Risk limit updates	•		•		
Risk policy framework refresh			•		•
Risk-related compliance policies	•		•	•	
Group-wide Internal Audit update	•	•	•	•	•
Governance and reporting					
Full and half year risk disclosures	•		•		
Global Systemically Important Insurer				•	
Liquidity Risk Management Plan, Systemic Risk Management Plan and Recovery Plan				•	

Solvency II reporting and governance processes		•			
Own Risk and Solvency Assessment		•			
Year-end ECap results		•			
Group Regulatory and Compliance report	•	•	•	•	•
Committee terms of reference	•			•	

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
Business Plan	As part of its role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed Group Risk's assessment of the Group's Business Plan which covered a range of both financial and non-financial considerations including those associated with the demerger of M&GPrudential from the Group. As part of the Group Risk's review of the annual Group Business Plan, Group Approved Limits were reviewed, updated and approved by the Committee.
Risk appetite	The Committee is responsible for recommending the Group's overall risk appetite and tolerance to the Board. The Committee approved the Group Risk Appetite Statement, which sets aggregate risk limits in respect of capital requirements, earnings volatility and liquidity as well as maintaining the existing tolerance levels associated with each of these limits.
Risk framework and management	Annually, business units must assess and certify their compliance with the Group Risk Framework and risk policies as part of the annual Group Governance Manual certification. The certification process for risk policies is facilitated by Group Risk and subject to oversight by the Committee. In 2018, the Group Risk Framework and risk policies were subject to their annual review, with changes being approved by the Committee. The Committee conducted its annual review of Risk effectiveness in February. It also approved the Group Risk Mandate, which formally sets out the purpose and responsibilities of the Group Risk function, and how it works with other functions and maintains oversight of business unit risk functions and their effectiveness in managing the key risks to the Group. In December 2018, the Committee considered an update on activities supporting a positive risk culture across Prudential, including the developments and improvements implemented across the business units over the year. The Committee considered the results of a number of 'deep dive' reviews undertaken during 2018. These focused on risks embedded within the existing portfolio of products in our US, Asia and UK businesses, as well as the risks arising from, and to, the demerger.
Transformation activity and demerger of M&GPrudential	In March 2018, the Group announced the planned demerger of M&GPrudential from the rest of the Group, further contributing to the portfolio of key strategic change activity across the Group. The Committee was provided with updates on this activity throughout the year, and considered the results of risk opinions, guidance and assurance on the demerger. Analyses of the key financial risks to the execution of the demerger under various stress scenarios were considered. Risk recommendations and observations were provided to the Committee on the key merger and transformation programmes currently ongoing at M&GPrudential.
Hong Kong Insurance Authority (IA)	In August 2018, it was announced that the Hong Kong IA would become the Group-wide supervisor for Prudential plc after the demerger of M&GPrudential. Key updates on the discussions with the Hong Kong IA on the future regulatory relationship were provided to the Committee as part of the CRO's regular reporting.
Information security and privacy	In July 2018, the Committee was provided with an update on the key deliverables relating to the Group's cyber resilience and, throughout 2018, the Committee received regular updates on Group-wide information security metrics providing a view of security posture across our businesses. An update to the organisational structure and governance model for cyber security management, to further strengthen the Group's information security capability, was presented at a joint meeting of the Risk and Audit Committees in October.

In November 2018, Prudential participated in the annual FTSE 350 Cyber Governance Health Check survey, insights from which inform government policy on cyber security and contribute to guidance and support provided to industry and boards.

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Key matters considered during the year

Matter considered	How the Committee addressed the matter
	In the key area of data privacy, the Committee received updates throughout the year on progress on Group-wide implementation activity to ensure compliance with the General Data Protection Regulation.
Jackson oversight	The Committee received regular updates on the Jackson business throughout 2018, including updates on financial risk oversight over the business.
	The Committee approved updates to key risk limits used in its monitoring of the financial risks to the Jackson business, in particular those over interest rate risk.
	Additionally, the Committee considered the results of in-depth reviews performed on the Jackson fixed annuity business and hedging programme.
Group principal risks	The Committee evaluated the Group's principal risks, considering recommendations for promoting additional risks and changes in the scope of existing risks. The Committee received regular reporting on the principal risks and mitigating actions over the course of the year within the Group CRO's regular report to the Committee.
	These reports also provided the Committee with regulatory updates; developments under Solvency II and the Group's internal model; the implications of the developing global capital standards including the engagement with the Hong Kong IA on the development of an industry group capital and risk management framework; and developments and the deliverables required as a result of the Group's designation as a Global Systemically Important Insurer.
Solvency II reporting	The Committee considered the Own Risk and Solvency Assessment report based on the outcomes of the Group's Business Plan and the full year 2017 risk and solvency positions prior to its approval by the Board. The report was also considered in light of the results of the Group's regular stress testing.
	The Committee reviewed the methodology and annual calibration of the Solvency II internal model. The 2018 Major Model Change application was closely overseen by the Committee throughout the year and we approved the model changes as part of the submission of the application to the regulator.
Global Systemically Important Insurer (G-SII)	The Financial Stability Board (FSB) confirmed in November 2017 that the 2016 Global Systematically Important Insurer designation would continue to apply to the Group. As a result, in 2018 the Committee was required to consider and approve updated deliverables associated with the designation. These included the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan.
Stress testing	Stress and scenario testing is a key risk measurement and management tool for the Group. The Reverse Stress Test exercise was carried out which confirmed the Group's position as remaining resilient to certain business failure scenarios. The report related to the Group's year end 2017 position and was submitted to the PRA.
	The Committee also considered the results of the 2018 European Insurance and Occupational Pensions Authority (EIOPA) Stress Tests, which were submitted to the PRA and EIOPA.
Remuneration	The Committee has a formal role in the provision of advice to the Remuneration Committee on risk management considerations in respect of executive remuneration.
	The Committee considered reviews on the risk management considerations associated with annual incentive plans during the year and reports on remuneration-related matters.
Compliance and audit reporting	The Committee received regular reporting on key compliance risks and mitigation activity, and reviewed and approved updates to a number of regulatory compliance risk-related policies including those around anti-bribery and corruption, conflicts of interest and personal account dealing.

The Committee also received updates from Group-wide Internal Audit throughout the year.

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.

Governance Differences between Prudential's Governance Practice and the NYSE Corporate Governance Rules

The application of the New York Stock Exchange (NYSE) corporate governance rules is 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, the 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. Throughout 2018, the UK Code applicable to Prudential consisted 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). The Financial Reporting Council published a revised version of the UK Corporate Governance Code in July 2018, which is applicable to accounting periods commencing on or after 1 January 2019. Prudential will be reporting on compliance with the revised UK Code in 2020, also on a comply or explain basis.

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').

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. 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 'Board of Directors' above.

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.

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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 confirm 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 CEO and the Chairman to be separate.

The UK Code requires that these roles be fulfilled by different individuals. As at 21 March 2019, 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 for consideration 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.

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. Prudential shareholders approved the adoption of new Articles of Association at the annual general meeting held 17 May 2018. A complete copy of the Articles has been filed as an exhibit to this Form 20-F. In addition, the Articles may be viewed on Prudential's website.

Issued share capital

The issued share capital as at 31 December 2018 consisted of 2,593,044,409 (2017: 2,587,175,445; 2016: 2,581,061,573) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2018, there were 47,260 (2017: 48,086; 2016: 48,534) accounts on the register. Further information can be found in Note C10 to the consolidated financial statements.

As at 21 March 2019, the issued share capital of Prudential consisted of 2,593,258,619 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.

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 trustee on behalf of the registered owner in accordance with the relevant plan rules. The trustees would not usually vote any unallocated shares held in trust but they may do so at their discretion provided it would be considered to be in the best interests of the beneficiaries of the trust and permitted under the relevant trust deed.

As at 21 March 2019, Trustees held 0.37 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' below.

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 no transfer is 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 directors require authority from shareholders, other than under certain types of employee share schemes, whenever shares are issued. Newly issued shares must first be offered to existing shareholders pro rata to their holdings (pre-emption rights) subject to certain exemptions, for example, where shares are issued for non-cash consideration or in respect of certain types of employee share schemes.

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 available for rights issues. The existing authorities to issue shares and dis-apply pre-emption rights are due to expire at the end of the 2019 annual general meeting of the Company when shareholder approval will be sought to renew those authorities.

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.

Subject to the Articles, 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 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.

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 2004 for five years was renewed most recently 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) unless renewed by shareholders. It is anticipated that shareholder approval will be sought to renew the authority at the 2019 annual general meeting of the Company.

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

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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.

At the Company's annual general meeting held on 17 May 2018, shareholders renewed the authority for Directors 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 2018. The authority to allot MCS will expire at the earlier of 30 June 2019 or the conclusion of the Company's 2019 annual general meeting of the Company when shareholder approval will be sought to renew the authority.

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 primarily held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

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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 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 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 that all Directors should stand for annual re-election at each 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 2019 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.

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.

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

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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	The Committee reviews salaries annually, considering factors such as: Salary increases for other employees across the Group; The performance and experience of the executive; The size and scope of the role; Group and/or business unit financial performance; Internal relativities; and External factors such as economic conditions and market data. Market data is also reviewed so that salaries remain in a competitive range, relative to each Executive Director's local market.	Annual salary increases for Executive Directors will normally be in line with the increases for other employees across our business units. However, there is no prescribed maximum annual increase.

Fixed pay	Benefits	Executive Directors are offered benefits which reflect their individual circumstances and are competitive within their local market, including: Health and wellness benefits; Protection and security benefits; Transport benefits; Family and education benefits; All employee share plans and savings plans; Relocation and expatriate benefits; and Reimbursed business expenses (including any tax liability) incurred when travelling overseas in performance of duties.	The maximum paid will be the cost to the Company of providing benefits. The cost of benefits may vary from year to year but the Committee is mindful of achieving the best value from providers.
	Provision for an income in retirement	Current Executive Directors have the option to: Receive payments into a defined contribution scheme; and/or Take a cash supplement in lieu of contributions. Jackson's Defined Contribution Retirement Plan has a guaranteed element (6 per cent of pensionable salary) and additional contributions	Executive Directors are entitled to receive pension contributions or a cash supplement (or combination of the two) up to a total of 25 per cent of base salary. In addition, the Chief Executive, Prudential Corporation Asia receives statutory contributions into the Mandatory Provident Fund.

(up to a further 6 per cent of pensionable
salary) based on the profitability of Jackson.

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	Element	Operation	Opportunity
	Annual bonus	**Currently all Executive Directors participate in the Annual Incentive Plan (AIP).** AIP awards for all Executive Directors, other than the Group Chief Risk Officer, are subject to the achievement of financial and personal objectives. The Group Chief Risk Officer's performance measures are entirely based on a combination of functional and personal measures. Business unit chief executives either have measures of their business unit's financial performance in the AIP or they may participate in a business unit specific bonus plan. For example, the Chairman and CEO, NABU currently participates in the Jackson Senior Management Bonus Pool as well as in the AIP. The financial measures used for the annual bonus will typically include profit and cash flow targets and payments depend on the achievement of minimum capital thresholds. Jackson's profitability and other key financial measures determine the value of the Jackson Senior Management Bonus Pool. In specific circumstances, the Committee also has the power to recover all (or part of) bonuses for a period after they are awarded to executives. These clawback powers apply to the cash and deferred elements of bonuses made in respect of performance in 2015 and subsequent years.	The Chief Executive, M&G has a bonus opportunity of the lower of six times salary or 0.75 per cent of M&G's operating profit. For other Executive Directors the maximum AIP opportunity is up to 200 per cent of salary. Annual awards are disclosed in the relevant Annual report on remuneration. In addition to the AIP, the Chairman and CEO, NABU receives a 10 per cent share of the Jackson Senior Management Bonus Pool.
Variable pay	Deferred bonus shares	Executive Directors are required to defer a percentage (currently 40 per cent) of their total annual bonus into Prudential shares for three years. The release of awards is not subject to any further performance conditions. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding deferred award in specific circumstances. From 2015, the Committee also	The maximum vesting under this arrangement is 100 per cent of the original deferral plus accrued dividend shares.

	has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).	
Prudential Long Term Incentive Plan	Currently all Executive Directors participate in the Prudential Long Term Incentive Plan (PLTIP). The PLTIP has a three-year performance period. The performance measures attached to each award are dependent on the role of the executive and will be disclosed in the relevant Annual report on remuneration. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and subsequent years, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback). From 2017, PLTIP awards are usually subject to an additional two-year holding period following the end of the three-year performance period.	The value of shares awarded under the PLTIP (in any given financial year) may not exceed 550 per cent of the executive's annual basic salary. Awards made in a particular year are usually significantly below this limit and are disclosed in the relevant Annual report on remuneration. The Committee would consult with major shareholders before increasing award levels during the life of this policy. The maximum vesting under the PLTIP is 100 per cent of the original share award plus accrued dividend shares.

Element	Operation	Opportunity
Share ownership guidelines	The guidelines for share ownership are as follows: 400 per cent of salary for the Group Chief Executive; and 250 per cent of salary for other Executive Directors. Executives have five years from the implementation of these increased guidelines (or from the date of their appointment, if later) to build this level of ownership. Shares earned and deferred under the AIP are included in calculating the Executive Director's shareholding for these purposes. Unvested share awards under long-term incentive plans are not included but vested share awards under long-term incentive plans which are subject to the two-year holding period are included. Progress against the share ownership guidelines is detailed in the Statement of Directors' shareholdings section of the Annual report on remuneration.	

Malus and clawback policy

The Committee may apply clawback and/or a malus adjustment to variable pay in certain circumstances as set out below. The Committee can delay the release of awards pending the completion of an investigation which could lead to the application of malus or clawback.

	Circumstances when the Committee may exercise its discretion to apply malus or clawback to an award
Malus (applies in respect of any annual bonus or long-term incentive award) Allows unvested shares awarded under deferred bonus and LTIP plans to be forfeited or reduced in certain circumstances.	Where a business decision taken during the performance period by the business unit by which the participant was employed has resulted in a material breach of any law, regulation, code of practice or other instrument that applies to companies or individuals within the business unit. There is a materially adverse restatement of the accounts for any year during the performance period of (i) the business unit in which the participant worked at any time in that year; and/or (ii) any member of the Group which is attributable to incorrect information about the affairs of that business unit. Any matter arises which the Committee believes affects or may affect the reputation of the Company or any member of the Group.
Clawback	Where at any time before the fifth anniversary of the start of the performance period, either (i) there is a materially adverse restatement

Allows cash and share awards to be recovered before or after release in certain circumstances.	of the Company's published accounts in respect of any financial year which (in whole or part) comprised part of the performance period; or (ii) it becomes apparent that a material breach of a law or regulation took place during the performance period which resulted in significant harm to the Company or its reputation, and the Committee considers it appropriate, taking account of the extent of the participants' responsibility for the relevant restatement or breach, that clawback be applied to the relevant participant.

The full Directors' remuneration policy sets out the Committee's powers in respect of Executive Directors joining or leaving the Board, where a change in performance conditions is appropriate or in the case of corporate transactions (such as a takeover, merger or rights issue). The policy also describes legacy long-term incentive plans under which some Executive Directors continue to hold awards.

Subsequent to the approval of the Directors' remuneration policy by our shareholders, we have determined that for PLTIP awards granted in 2019 and subsequent years the proportion vesting for threshold performance will be reduced from 25 per cent to 20 per cent of the maximum opportunity, and externally recruited Executive Directors appointed on or after 1 March 2019 will be offered pension benefits of 20 per cent of salary, rather than the current level of 25 per cent of salary.

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Scenarios of total remuneration

The following chart provides an illustration of the future total remuneration for each Executive Director in respect of their remuneration opportunity for 2019. Three scenarios of potential outcome are provided based on underlying assumptions shown in the notes to the chart. In line with changes to Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which would apply from the next Directors' remuneration policy, we have indicated the maximum remuneration that would be delivered to each Executive Director by a 50 per cent share price growth during the relevant performance period.

The Committee is satisfied that the maximum potential remuneration of the Executive Directors is appropriate. Prudential's policy is to offer Executive Directors remuneration which reflects the performance and experience of the executive, internal relativities and Group and/or business unit financial performance. In order for the maximum illustrated total remuneration to be payable:

Financial performance must exceed the Group and/or business unit's stretching business plan;

Relative TSR must be at or above the upper quartile relative to the peer group;

The balanced scorecard, aligned to the Group's strategic priorities, must be fully satisfied;

Functional and personal performance objectives must be fully met;

Performance must be achieved within the Group's and business units' risk framework and appetites; and

The Company's share price must grow by 50 per cent over three years.

Note

The scenarios in the chart above have been calculated on the following assumptions:

	Minimum	In line with expectations	Maximum
Fixed pay	-		

	Base salary at 1 January 2019. - Pension allowance at 1 January 2019. - Estimated value of benefits based on amounts paid in 2018. For Michael Falcon this has been based on the value of benefits paid to his predecessor, Barry Stowe. - Nic Nicandrou and Michael Falcon are paid in HK$ and US$ respectively and figures have been converted to GBP for the purposes of this chart.		
Annual bonus	No bonus paid.	- 50% of maximum AIP. - Jackson bonus pool at the average of the last three years.	- 100% of maximum AIP. - Jackson bonus pool at highest of the last three years.
Long-term incentives (excludes dividends)	No PLTIP vesting.	- Vesting of 62.5% of award under PLTIP (midway between threshold and maximum).	- Vesting of 100% of award under PLTIP; plus - Share price growth of 50% over three years.

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Remuneration for Non-executive Directors and the Chairman

	Fees	Benefits	Share ownership guidelines
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.	Travel and expenses for Non-executive Directors are incurred in the normal course of business, for example, in relation to attendance at Board and Committee meetings. The costs associated with these are all met by the Company.	It is expected that Non-executive Directors will hold shares with a value equivalent to one times the annual basic fee (excluding additional fees for chairmanship and membership of any committees). Non-executive Directors are expected to attain this level of share ownership within three years of their appointment.
Chairman	The Chairman receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of	The Chairman may be offered benefits including: -	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

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.	Health and wellness benefits; - Protection and security benefits; - Transport benefits; - Reimbursement of business expenses (and any associated tax liabilities) incurred when travelling overseas in performance of duties; and - Relocation and expatriate benefits (where appropriate). The Chairman is not eligible to receive a pension allowance or to participate in the Group's employee pension schemes.	appointment.

In setting the Directors' remuneration policy, the Committee considers a range of factors including:

Statement of consideration of conditions elsewhere in the Group

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit's salary increase budget is set with reference to local market conditions. The Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

Prudential does not consult with employees when setting the Directors' remuneration policy. Prudential is a global organisation with employees and agents in multiple business units and geographies. As such, there are practical challenges associated with consulting with employees directly on this matter. As many employees are also shareholders, they are able to participate in binding votes on the Directors' remuneration policy and annual votes on the Annual report on remuneration.

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Statement of consideration of shareholder views

The Committee and the Company undertake regular consultation with key institutional investors on the remuneration policy and its implementation. This engagement is led by the Remuneration Committee Chair and is an integral part of the Company's investor relations programme. The Committee is grateful to shareholders for their feedback and takes this into account when determining executive remuneration.

ANNUAL REPORT ON REMUNERATION

The Board has established Audit, Remuneration, Risk and Nomination & Governance Committees as principal standing committees of the Board. These committees form a key element of the Group governance framework.

The operation of the Remuneration Committee

Members
Anthony Nightingale (Chair of the Committee)
Kai Nargolwala
Philip Remnant
Thomas Watjen
Fields Wicker-Miurin (member since 3 September 2018)

Role and responsibility

The role and responsibilities of the Committee are set out in its terms of reference, which are reviewed by the Committee and approved by the Board on an annual basis, and which can be found on the Company's website. The Committee's role is to assist the Board in meeting its responsibilities regarding the determination, implementation and operation of the overall remuneration policy for the Group, including the remuneration of the Chairman and Executive Directors, as well as overseeing the remuneration arrangements of other staff within its purview.

The principal responsibilities of the Committee are:

- Determining and recommending to the Board for approval, the framework and policy for the remuneration of the Chairman, Executive Directors and other members of the Group Executive Committee;
- Approving the design of performance-related pay schemes operated for the Executive Directors and other members of the Group Executive Committee, and determining the targets and individual payouts under such schemes;
- Reviewing the design and development of all share plans requiring approval by the Board and/or the Company's shareholders;
- Approving the share ownership guidelines for the Chairman and Executive Directors and other members of the Group Executive Committee, and monitoring compliance;
- Reviewing and approving individual packages for the Executive Directors and other members of the Group Executive Committee, and the fees of the Chairman and the Non-executive Directors of the Group's material subsidiaries;
- Reviewing and approving packages to be offered to newly recruited Executive Directors and other members of the Group Executive Committee;
- Reviewing and approving the structure and quantum of any severance package for Executive Directors and other members of the Group Executive Committee to ensure they are fair and do not reward failure;
- Ensuring the process for establishing remuneration policy is transparent and consistent with the Group's risk framework and appetites, encouraging strong risk management and solvency management practices;
- Reviewing the workforce remuneration practices and related policies across the Group when setting the remuneration policy for Executive Directors, as well as the alignment of incentives and awards with culture;
-

Monitoring the remuneration and risk management implications of remuneration of senior executives across the Group, other selected roles and those with an opportunity to earn in excess of £1 million in a particular year; and

- Overseeing the implementation of the Group remuneration policy for those roles within scope of the specific arrangements referred to in Article 275 of Solvency II.

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In 2018, the Committee met five times. Key activities at each meeting are shown in the table below:

Meeting	**Key activities**
Early March 2018	Approve the 2017 Directors' remuneration report and the Gender pay gap report; consider 2017 bonus awards for Executive Directors; consider vesting of the long-term incentive awards with a performance period ending on 31 December 2017; approve 2018 long-term incentive awards, performance measures and plan documentation; note an update on regulation affecting remuneration; and review the appointment of the Committee's independent adviser.
Mid-March 2018	Confirm 2017 annual bonuses and the vesting of long-term incentive awards with a performance period ending on 31 December 2017, in light of audited financial results.
June 2018	Consider performance for outstanding long-term incentive awards, based on the half-year results; review the remuneration of senior executives across the Group, employees with a remuneration opportunity over £1 million per annum and employees within the scope of the Solvency II remuneration rules; review progress towards share ownership guidelines by the Chairman, Executive Directors and other Group Executive Committee members; approve the expense approval process for the Group Chief Executive and Chairman; and approve the Chairman's fees.
September 2018	Review proposed 2019 remuneration arrangements for Executive Directors ahead of consultation with shareholders; note an update on regulation affecting remuneration; review the potential impact of the demerger on remuneration arrangements; review gender pay gap reporting data; and approve the Committee's terms of reference for recommendation to the Board.
December 2018	Review level of participation in the Company's all-employee share plans and dilution levels resulting from the Company's share plans; consider the potential impact of the demerger on remuneration arrangements; approve Group Executive Committee members' 2019 salaries and incentive opportunities; consider the annual bonus measures and targets to be used in 2019; review an initial draft of the 2018 Annual report on remuneration; approve the Committee's 2019 Schedule of Business; approve the fees for independent non-executive directors of Material Subsidiaries; and note an update on regulation affecting remuneration.

Additionally, a number of resolutions in writing were approved by the Committee between these meetings relating to the approval of the Solvency II Remuneration Policy Statement covering the 2017 financial year; new Executive Directors' remuneration arrangements and separation arrangements for those Executive Directors who stepped down from the Board; joining arrangements for the new Chairman and Chief Executive Officer, NABU; and the M&GPrudential Chairman's fee.

The Chairman and the Group Chief Executive attend meetings by invitation. The Committee also had the benefit of advice from:

- Group Chief Risk Officer;
- Chief Financial Officer;

Group Human Resources Director; and

Director of Group Reward and Employee Relations.

Individuals are never present when their own remuneration is discussed and the Committee is always careful to manage potential conflicts of interest when receiving views from Executive Directors or senior management about executive remuneration proposals.

During 2018, Deloitte LLP was the independent adviser to the Committee. Deloitte was appointed by the Committee in 2011 following a competitive tender process. As part of this process, the Committee considered the services that Deloitte provided to Prudential and its competitors, as well as other potential conflicts of interest. Deloitte is a member of the Remuneration Consultants' Group and voluntarily operates under their code of conduct when providing advice on executive remuneration in the UK. Deloitte regularly meets with the Chair of the Committee without management present. The Committee is comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee do not have connections with Prudential that may impair their independence and objectivity. The total fees paid to Deloitte for the provision

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of independent advice to the Committee in 2018 were £48,400 (2017: £56,000) charged on a time and materials basis. During 2018, Deloitte gave Prudential management advice on remuneration, as well as providing guidance on capital optimisation, digital and technology, taxation, internal audit, real estate, global mobility and other financial, risk and regulatory matters. Remuneration advice is provided by an entirely separate team within Deloitte. As set out in the table above, the Committee reviewed Deloitte's appointment during 2018 and considered Deloitte to be independent.

In addition, management received external advice and data from a number of other providers. This included market data and legal counsel. This advice, and these services, are not considered to be material.

During the year, the Company has complied with the appropriate provisions of the UK Corporate Governance Code regarding Directors' remuneration.

Table of 2018 Executive Director total remuneration (the 'single figure')

£000s	2018 salary	2018 taxable benefits*	2018 total bonus	*Amount paid in cash*	*Of which: Amount deferred into Prudential shares*	2018 LTIP releases	2018 pension benefits§	**Total 2018 remuneration the 'single figure'¶**
Mark FitzPatrick	745	89	1,241	*745*	*496*	-	186	2,261
John Foley	781	123	1,186	*712*	*474*	1,511	195	3,796
Nic Nicandrou1,6	1,023	396	1,692	*1,015*	*677*	1,433	258	4,802
Anne Richards2	249	102	-	-	-	-	62	413
Barry Stowe3,6	867	70	4,935	*2,961*	*1,974*	2,761	217	8,850
James Turner4	521	109	793	*476*	*317*	347	130	1,900
Mike Wells5	1,126	407	2,133	*1,280*	*853*	3,486	282	7,434
Total	**5,312**	**1,296**	**11,980**	***7,189***	***4,791***	**9,538**	**1,330**	**29,456**

*

Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

In line with the regulations, the estimated value of the 2018 PLTIP releases has been calculated based on the average share/ADR price over the last three months of 2018 (£15.34/US$39.41) and includes the accumulated dividends delivered in the form of shares/ADRs. The actual value of PLTIPs, based on the share price on the date awards are released, will be shown in the 2019 report. In line with the early adoption of requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, it is estimated that 15.3 per cent of the value of the 2018 LTIP releases is attributable to share price growth over the vesting period as awards were granted using a share/ADR price of £12.99/US$37.29 in 2016. The Committee concluded that no discretion will be applied in determining the remuneration resulting from the 2018 LTIP releases as a result of share price appreciation.

§ 2018 pension benefits include cash supplements for pension purposes and contributions into DC schemes.

¶ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 - The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Notes

1 To facilitate Nic Nicandrou's relocation to Hong Kong, Nic's benefits include £267,000 to cover accommodation.

2 Anne Richards stepped down from the Board on 10 August 2018. The remuneration above was paid in respect of her service as an Executive Director.

3 Barry Stowe retired from the Board on 31 December 2018.

4 James Turner was appointed to the Board on 1 March 2018.

5 To facilitate his appointment as Group Chief Executive and move to the UK in 2015, Mike Wells's benefits include £311,000 to cover mortgage interest, which ceased effective 30 November 2018.

6 Barry Stowe and Nic Nicandrou are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

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Table of 2017 Executive Director total remuneration (the 'single figure')

£000s	2017 salary	2017 taxable benefits*	2017 total bonus	*Amount paid in cash*	*Of which: Amount deferred into Prudential shares*	2017 LTIP releases	2017 pension benefits§	**Total 2017 remuneration the 'single figure'¶**
Mark FitzPatrick1	335	18	1,197	*718*	*479*	-	84	1,634
John Foley	765	115	1,283	*770*	*513*	2,243	191	4,597
Penny James2	478	81	-	-	-	-	119	678
Nic Nicandrou3, 8	869	303	1,414	*848*	*566*	1,901	218	4,705
Anne Richards4	400	153	2,400	*1,440*	*960*	-	100	3,053
Barry Stowe5,8	880	59	5,354	*3,212*	*2,141*	3,028	220	9,541
Mike Wells6	1,103	493	2,072	*1,243*	*829*	4,616	276	8,560
Tony Wilkey7	490	456	787	*472*	*315*	2,819	123	4,675
Total	**5,320**	**1,678**	**14,507**	**8,703**	**5,803**	**14,607**	**1,331**	**37,443**

*

Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

In line with the regulations, the estimated value of 2017 LTIP releases has been recalculated based on the actual share/ADR price on the date awards were released, being £17.47/US$49.24 for the March release and a share/ADR price of £18.41/US$49.38 in the June release. The restated value of those awards released in June also reflects dividends paid on those awards in the previous month.

§

2017 pension benefits include cash supplements for pension purposes and contributions into Defined Contribution (DC) schemes.

¶

Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 - The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Notes

1

Mark FitzPatrick was appointed to the Board on 17 July 2017.

2

Penny James stepped down from the Board on 30 September 2017. The remuneration above was paid in respect of her service as an Executive Director.

3

To facilitate Nic Nicandrou's relocation to Hong Kong to take up his new role as Chief Executive, Prudential Corporation Asia, Nic's benefits include relocation support being temporary accommodation of £126,000 and tax and immigration advice of £33,000.

4

To facilitate her appointment as Chief Executive, M&G, in 2016 Anne Richards's benefits include travel costs from Anne's home in Edinburgh to London of £15,000.

5

Barry Stowe's bonus figure excludes a contribution of £16,200 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2017 pension benefits.

6

To facilitate his appointment as Group Chief Executive and move to the UK in 2015, Mike Wells's benefits include £340,000 to cover mortgage interest and £37,000 to cover home leave flights.

7

Tony Wilkey stepped down from the Board on 17 July 2017. The remuneration above was paid in respect of his service as an Executive Director. His benefits include £148,000 for housing, £24,000 for home leave flights and a £235,000 Executive Director Location Allowance. Two of the LTIP releases relate to his previous role, prior to his service as an Executive Director.

8

Barry Stowe, Tony Wilkey and, following his appointment as Chief Executive, Prudential Corporation Asia, Nic Nicandrou are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

Remuneration in respect of performance in 2018

Base salary

Executive Directors' salaries were reviewed in 2017 with changes effective from 1 January 2018. When the Committee took these decisions it considered:

- The salary increase budgets for other employees, which vary across our business units, reflecting local market conditions;
- The performance and experience of each Executive Director;
- The relative size of each Executive Director's role; and
- The performance of the Group.

As reported last year, after careful consideration by the Committee, all Executive Directors received a salary increase of 2 per cent. The 2018 salary increase budgets for other employees across our business units were between 2.5 per cent and 10 per cent. No changes were made to Executive Directors' maximum opportunities under either the annual incentive or the long-term incentive plans.

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To provide context for the market review, information was also drawn from the following market reference points:

Executive	Role	Benchmark(s) used to assess remuneration
Mark FitzPatrick	Chief Financial Officer	- FTSE 40 - International insurance companies
John Foley	Chief Executive, M&GPrudential	- FTSE 40 - International insurance companies
Nic Nicandrou	Chief Executive, Prudential Corporation Asia	- Willis Towers Watson Asian Insurance Survey
Anne Richards	Chief Executive, M&G	- McLagan UK Investment Management Survey - International insurance companies
Barry Stowe	Chairman & CEO, NABU	- Willis Towers Watson US Financial Services Survey - LOMA US Insurance Survey
James Turner1	Group Chief Risk Officer	- FTSE 40 - FTSE 50 insurers

Mike Wells	Group Chief Executive	- FTSE 40 - International insurance companies

Note

1

James Turner was appointed to the role of Group Chief Risk Officer and to the Board on 1 March 2018. His salary was reviewed on appointment.

As a result, Executive Directors received the following salary increases:

Executive Director	2017 salary	2018 salary
Mark FitzPatrick1	£730,000	£745,000
John Foley	£765,000	£781,000
Nic Nicandrou2	HK$10,500,000	HK$10,710,000
Anne Richards3	£400,000	£408,000
Barry Stowe	US$1,134,000	US$1,157,000
James Turner4	N/A	£625,000
Mike Wells	£1,103,000	£1,126,000

Notes

1

Mark FitzPatrick was appointed Chief Financial Officer on 17 July 2017. The annualised 2017 salary above was paid in respect of his service as Chief Financial Officer.

2

Nic Nicandrou was appointed Chief Executive, Prudential Corporation Asia on 17 July 2017. The annualised 2017 salary above was paid in respect of his service as Chief Executive, Prudential Corporation Asia.

3

Anne Richards stepped down from the Board on 10 August 2018. Her employment with the Company ended on 30 November 2018 and her 2018 annualised salary is illustrated above.

4

James Turner was appointed to the Board on 1 March 2018. The annualised 2018 salary above was paid in respect of his service as Group Chief Risk Officer.

Pension entitlements

Pension provisions in 2018 were:

Executive Director	2018 pension arrangement	Life assurance

		provision
Barry Stowe	Pension supplement of 25 per cent of salary, part of which is paid as a contribution to an approved US retirement plan.	Two times salary
Nic Nicandrou	Pension supplement in lieu of pension of 25 per cent of salary and a HK$18,000 employer payment to the Hong Kong Mandatory Provident Fund.	Eight times salary
UK-based executives	Pension contribution to defined contribution plan and/or pension supplement in lieu of pension of 25 per cent of salary.	Up to four times salary plus a dependants' pension

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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 1/60th of final pensionable earnings for each year of pensionable service. John received pension payments of £15,636 per annum which increased to £16,061 per annum from 1 April 2018, in line with the Consumer Prices Index. The pension will continue to be subject to statutory increases in line with the Consumer Prices Index.

Annual bonus outcomes for 2018

Target setting

For the financial AIP metrics which comprise 80 per cent of the bonus opportunity for all Executive Directors apart from the Group Chief Risk Officer, the performance ranges are set by the Committee prior to, or at the beginning of, the performance period. These ranges are based on the annual business plans approved by the Board and reflect the ambitions of the Group and business units, in the context of anticipated market conditions.

Personal objectives comprise 20 per cent of the bonus opportunity for all Executive Directors apart from the Group Chief Risk Officer, for whom this accounts for 50 per cent of the total bonus opportunity. These objectives are established at the start of the year and reflect the Company's Strategic Priorities set by the Board.

In line with the remuneration requirements of Solvency II, functional objectives account for the remaining 50 per cent of the Group Chief Risk Officer's bonus opportunity. These are based on the Group Risk Plan and are developed with input from the Chairman of the Group Risk Committee.

AIP payments are subject to meeting Solvency II minimum capital thresholds which are aligned to the Group and business unit risk framework and appetites (as adjusted for any Group Risk Committee and/or business unit risk committees approved counter-cyclical buffers).

The Committee also seeks advice from the Group Risk Committee on risk management considerations to be applied to remuneration architecture and performance measures. This is to ensure risk management culture and conduct is appropriately reflected in the design and operation of Executive Directors' remuneration.

Executive Directors' 2018 bonuses were determined by the achievement of four Group measures, namely operating profit, free surplus, EEV new business profit and cash flow, which are aligned to the Group's growth and cash generation focus.

In compliance with Solvency II, the weightings of the Group Chief Risk Officer's AIP performance targets relate to a combination of functional and personal measures only.

Performance assessment

The Committee determines the overall value of the bonus, taking account of the inputs described above and any other factors which it considers relevant. The table below illustrates the weighting of performance measures for 2018 and the level of achievement under the AIP. The total bonus outcomes reflect the strong performance during the year as discussed in this section and in the Annual Statement from the Chairman of the Remuneration Committee.

	Weighting of measures (% of total bonus opportunity)			Achievement against performance measures		2018 AIP outcome1
Executive Director	**Group financial measures**	**Business unit financial measures**	**Personal / functional objectives**	**Financial measures (%)**	**Personal / functional objectives (%)**	**(% of total bonus opportunity)**
Mark FitzPatrick	80%	-	20%	94%	99%	95%
John Foley	20%	60%	20%	82%	92%	84%

Nic Nicandrou	20%	60%	20%	94%	84%	92%
Anne Richards2	20%	60%	20%	N/A	N/A	nil
Barry Stowe3	80%	-	20%	94%	83%	92%
James Turner	-	-	100%	N/A	95%	95%
Mike Wells	80%	-	20%	94%	96%	95%

Notes

1
All bonus awards are subject to 40 per cent deferral for three years and the deferred bonus will be paid in Prudential plc shares or ADRs.

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2 Anne Richards stepped down from the Board on 10 August 2018. Her employment with the Company ended on 30 November 2018. No 2018 bonus was awarded.

3 Barry Stowe retired from the Board on 31 December 2018 and remained eligible to receive his 2018 AIP award. Barry Stowe is also eligible to receive 10 per cent of the Jackson bonus pool.

Financial performance

The Committee reviewed performance against the performance ranges at its meeting in March 2019. 2018 Group operating profit and Group free surplus generation exceeded the stretching targets established by the Board. All of our business units achieved target remittances levels and, although lower than the prior period, we achieved our objective to balance net remittances sufficient to cover the dividend and corporate costs, with reinvestment in profitable opportunities within the business units, and maintained significant cash stock at the centre. The business unit remittances contributed to Group cashflow, which approached the maximum target. Group EEV new business profit was between threshold and plan.

The Committee considered a report from the Group Chief Risk Officer which had been approved by the Group Risk Committee. This report confirmed that the 2018 results were achieved within the Group's and business units' risk framework and appetite. The Group Chief Risk Officer also considered the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The report also confirmed that the Group met Solvency II minimum capital thresholds which were aligned to the Group and business unit risk framework and appetites. The Group Chief Risk Officer's recommendations were taken into account by the Committee when determining AIP outcomes for Executive Directors.

The level of performance required for threshold, plan and maximum payment against the Group's 2018 AIP financial measures and the results achieved are set out below.

Group operating profit	35%	3,691	3,991	4,290	4,827
Group free surplus generated	30%	3,235	3,370	3,572	4,047
Group cash flow	20%	(237)	10	93	58
Group EEV new business profit	15%	3,663	3,897	4,053	3,877

The Committee had regard to the achievement against the performance measures and the Group Chief Risk Officer's report and decided not to apply a discretionary adjustment to the arithmetic outcome under the financial element of the 2018 bonus. The Board believes that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

Personal performance

As set out in our Directors' remuneration policy, a proportion of the annual bonus for each Executive Director is based on the achievement of personal objectives including:

- The executive meeting their individual conduct and customer measures;
- The executive's contribution to Group strategy as a member of the Board; and

Specific goals related to the business or function for which they are responsible and progress on major projects including the demerger.

At the end of the year the Committee considered the performance of each Executive Director against objectives established at the start of the year. At its meeting in March 2019 it concluded that there had been a high level of performance against these 2018 objectives, as summarised below. All executives met their individual conduct measures and there was a high level of individual contribution made by each Executive Director to the achievement of Group strategy during 2018.

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Business	Overview of objectives	2018 performance against objectives
Group Head Office	Objectives included progressing the demerger of the M&GPrudential business from Prudential plc, developing relationships with stakeholders, enhancing external publications, continued development of executive bench strength and leveraging digital opportunities.	Announced the demerger of M&GPrudential from Prudential plc resulting in two separately-listed companies, each with its own distinct investment prospects in order to further strengthen two already strong businesses for the benefit of customers;
		Announced that the Hong Kong Insurance Authority would be the Group-wide supervisor after the demerger of M&GPrudential;
		Raised £1.6 billion of subordinated debt, with substitution clauses to be activated on demerger, supporting the capital rebalancing across Prudential plc and M&GPrudential; and
		Won the Insurance category of Management Today's 'Britain's Most Admired Companies' award for the second consecutive year.
Prudential Corporation Asia and Africa	Objectives included leveraging digital opportunities, diversifying distribution channels, continued development of executive bench strength, developing Eastspring Investments and growing the Group's Africa footprint.	Entered a new partnership with Alkanza and built a robo-advice platform to create bespoke portfolios for our wealth management clients in Taiwan;
		Launched our innovative and exclusive partnership with Babylon Health to bring a comprehensive set of digital health tools to our customers which is part of our ambition to make healthcare more accessible and affordable in Asia;

Established Eastpring's wholly foreign-owned enterprise in Shanghai and extended our asset management presence to Thailand following the acquisition of TMB Asset Management;

Eastspring Investments named both largest retail asset manager and largest institutional asset manager in Asia, excluding Japan, in the Asia Asset Management annual rankings;

Won top honours in this year's Asian Investor's Institutional Excellence Awards; and

Extended our long-term partnership with Standard Chartered Bank in Ghana and signed a long-term exclusive partnership with Zambia's largest retail bank, Zambia National Commercial Bank Plc to enable our products to be offered to more than a million new customers across the country.

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Business	Overview of objectives	2018 performance against objectives
North American Business Unit	Objectives included leveraging digital opportunities, developing our product range and focusing on core business areas.	Launched Jackson's Financial Freedom For Life campaign to encourage Americans to sign up for an annuity that will protect them in retirement; Collaborated with the Envestnet Insurance Exchange to offer our products on its platform; Jackson launched MarketProtector and MarketProtector Advisory, two new fixed annuities with index-linked interest to provide consumers with a combination of tax-deferred investment growth, protection from market risk and the flexibility to adapt to changing needs in retirement; Entered into a key distribution partnership with State Farm, further strengthening our market-leading distribution footprint; and Won the Contact Centre World Class CX Certification and Highest Customer Service for the Financial Industry awards by The Service Quality Measurement Group, Inc.
M&GPrudential	Objectives included completing the sale of the shareholder annuity portfolio to Rothesay Life Plc, progressing the demerger of the M&GPrudential business from Prudential plc, continuing to build positive relationships with regulators, leveraging digital opportunities, developing our range of products and investment offerings, and continued development of executive bench strength.	Reinsured £12 billion of UK annuity policies and completed the first stages at the High Court of England & Wales for the transfer of Prudential UK annuities to Rothesay Life Plc;

Established a new M&GPrudential leadership team, implemented a new governance model and built a set of unified corporate support services in preparation for demerger from Prudential plc;

Introduced a new digital service for investment bond customers which has reduced cash withdrawal waiting times by almost 80 per cent; and

Launched the Luxembourg SICAV fund range with £21 billion assets under management as an investment in international growth and to minimise disruption of Brexit for customers.

Functional performance

The Chair of the Group Risk Committee undertakes the assessment of performance against functional objectives for the Group Chief Risk Officer. 2018 achievement is summarised below:

Overview of functional objectives	2018 performance against objectives
Defining and maintaining a Group-wide risk policy, appetite and business unit limits and triggers framework, and oversight/controlling of adherence to this framework. Ensuring the Group Risk Function maintains appropriate risk oversight across the Group, and enabling the Group Risk Committee and Board to discharge their responsibilities in respect of risk management.	Successfully enhanced an appropriately defined system of policies, risk appetites and limits. Provided strong oversight of Group-wide adherence in accordance with the requirements of the Group Risk Mandate.
Delivering regulatory requirements, including those required under Solvency II, the Group's Own Risk and Solvency Assessment, and those relating to the Group's designation as a Global Systemically Important Insurer.	Provided key insight and analysis on emerging issues to the Group Risk Committee and Board throughout the year, facilitating the performance of their respective duties.
Providing risk guidance, opinion and assurance on critical transformation activity, including the demerger.	Strengthened focus on areas of strategic risk, significantly enhancing Group-wide transformation oversight delivering assurance, risk guidance and opinions on critical transformation activity.

Delivered an extensive set of regulatory deliverables, including the Group's ORSA Report, Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan. Ensured appropriate internal model validation per Solvency II requirements.

Positive engagement with regulatory bodies throughout the year, including proactive engagement with the Hong Kong Insurance Authority as the regulator-elect for the international Group.

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2018 Jackson bonus pool

In 2018, the Jackson bonus pool was determined by Jackson National Life Insurance Company's profitability, remittances to Group and advisory sales. Across all these measures Jackson National Life Insurance Company delivered strong performance, and more detail on that performance is set out below. The Committee also considered performance in a number of key activities and the delivery against certain non-financial Group requirements. As a result of this assessment, the Committee determined that Barry Stowe's share of the bonus pool was US$4,886,910.

Outcome of bonus assessments

On the basis of the strong performance of the Group and its business units and the Committee's consideration of the total bonus value in light of its view of all relevant circumstances, including the overall contribution of the executive, behavioural, conduct and risk management considerations, the Committee determined the following 2018 AIP awards. Forty per cent of all awards are deferred into shares for three years:

Executive Director	Role	2018 salary1	Maximum 2018 AIP (% of salary)	Actual 2018 AIP award (% of maximum opportunity)	2018 bonus award (including cash and deferred elements)
Mark FitzPatrick	Chief Financial Officer	£745,000	175%	95%	£1,241,000
John Foley	Chief Executive, M&GPrudential	£781,000	180%	84%	£1,186,000
Nic Nicandrou	Chief Executive, Prudential Corporation Asia	HK$10,710,000	180%	92%	£1,692,000
Anne Richards2	Chief Executive, M&G	£249,000	600%	0%	£nil
Barry Stowe3	Chairman & CEO, NABU	US$1,157,000	160%	92%	£4,935,000
James Turner4	Group Chief Risk Officer	£521,000	160%	95%	£793,000
Mike Wells	Group Chief Executive	£1,126,000	200%	95%	£2,133,000

Notes

1
Salary paid in respect of services as an Executive Director.

2
Anne Richards stepped down from the Board on 10 August 2018. Her employment with the Company ended on 30 November 2018. The maximum bonus opportunity shown represents her annual opportunity as an Executive Director, but no bonus was paid.

3
In addition to the AIP, Barry Stowe also participates in the Jackson bonus pool.

4
James Turner was appointed to the Board on 1 March 2018. The AIP shown above was awarded in respect of his service as an Executive Director.

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Remuneration in respect of performance periods ending in 2018

Prudential Long Term Incentive Plan (PLTIP)

Target setting

Our long-term incentive plans have stretching performance conditions that are aligned to the strategic priorities of the Group. In 2016, all Executive Directors were granted awards under the PLTIP. In determining the targets the Committee had regard to the stretching nature of the three-year Business Plan for operating profit set by the Board.

Further details may also be found in note B2.2 to the consolidated financial statements.

The weightings of these measures are detailed in the table below.

	Weighting of measures	
Executive Director1	Group TSR2	Operating profit (Group or business unit)3
John Foley	50%	50% (business unit target)
Nic Nicandrou4	50%	50% (Group target)
Barry Stowe	50%	50% (business unit target)
James Turner5	50%	50% (Group target)
Mike Wells	50%	50% (Group target)

Notes

1 This table includes current Executive Directors with 2016 PLTIP awards. Anne Richards stepped down from the Board on 10 August 2018 and her 2016 PLTIP award lapsed.

2 Group TSR is measured on a ranked basis over three years relative to peers.

3 Operating profit is measured on a cumulative basis over three years.

4 Nic Nicandrou was granted this award when he was in the role of Chief Financial Officer. The performance measures attached to his PLTIP award did not change following his appointment to the role of Chief Executive, Prudential Corporation Asia in 2017.

5 James Turner was granted this award when he was in his previous role of Director of Group Finance. The performance measures attached to his PLTIP award did not change following his appointment to the role of Group Chief Risk Officer on 1 March 2018.

Under the Group TSR measure used for 2016 PLTIP awards, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. The peer group for the 2016 awards is:

Aegon	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 performance period, the Committee determined that Standard Life would be retained in the peer group for the pre-merger period and the combined entity would be included in the peer group from the date of the merger for all outstanding PLTIP awards. In addition, following the demerger of Quilter from Old Mutual and Old Mutual's delisting from the FTSE on 26 June 2018, the Committee determined that Old Mutual be retained as a TSR peer with no adjustment to its performance during the period prior to its demerger and delisting, and that Old Mutual's TSR performance from the date of its demerger and delisting would track an index of the peers (excluding Prudential plc) for all outstanding PLTIP awards.

Performance assessment

In deciding the proportion of the awards to be released, the Committee considered actual financial results against these performance targets. The Committee also reviewed underlying Company performance to ensure

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vesting levels were appropriate, including an assessment of whether results were achieved within the Group's and business units' risk framework and appetite. The Directors' remuneration policy contains further details of the design of Prudential's long-term incentive plans.

Prudential's TSR performance during the performance period (1 January 2016 to 31 December 2018) was ranked at median of the peer group. The portion of the awards related to TSR that therefore vested was 25 per cent.

Under the operating profit measure, 25 per cent of the 2016 awards vest for meeting the threshold operating profit target set at the start of the performance period, increasing to full vesting for performance at or above the stretch level. The table below illustrates the cumulative performance achieved over 2016 to 2018 compared to the Group targets set in 2016:

Group	**2016-18 cumulative targets**			**2016-18 cumulative achievement**	**Vesting under the operating profit element**
	Threshold	**Plan**	**Maximum**		