MERITAGE CORP
Form 8-K
April 24, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): APRIL 24, 2003

MERITAGE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

MARYLAND	I-9977	86-0611231
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(COMMISSION FILE NUMBER)	(IRS EMPLOYER IDENTIFICATION NO.)

8501 E. PRINCESS DRIVE, SUITE 290, SCOTTSDALE, ARIZONA	85255
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(480) 609-3330
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NOT APPLICABLE
(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) Exhibits

99.1 Press Release dated April 24, 2003.

ITEM 9. REGULATION FD DISCLOSURE AND

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

References to "we," "our" and "us" in this Current Report on Form 8-K refer to Meritage Corporation and its consolidated subsidiaries.

On April 24, 2003, we issued a press release to announce our first quarter earnings for the three months ended March 31, 2003. A copy of this press release, including information concerning forward-looking statements and factors that may affect our future results, is attached as Exhibit 99.1. This press release is being furnished, not filed, under Item 12 in this Report on Form 8-K.

SIGNATURES

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

Dated: April 24, 2003

MERITAGE CORPORATION

By: /s/ Vicki L. Biggs

Vicki L. Biggs
Chief Accounting Officer and
Vice President-Controller

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
99.1	Earnings Release - First Quarter 2003

M&G European Secured Property Income Fund U 22.97% M&G European Select Fund OS
Pountney Hill, London, EC4R 0HH, UK M&G European Strategic Value Fund OS 71.25% M
Limited OS 100.00% M&G Founders 1 Limited OS 100.00% M&G General Partne
Walker House, 87 Mary Street, Grand Cayman, KY1-9002, Cayman Islands M&G Gilt & Fixed Inter
45.22% Laurence Pountney Hill, London, EC4R 0HH, UK M&G Global Corporate Bond Fund OS 31.2
Global Credit Investment Fund OS 67.28% 80, route d'Esch, L-1470, Luxembourg M&G Global Leaders
Laurence Pountney Hill, London, EC4R 0HH, UK M&G Global Select Fund OS 20.09% M
OS 100.00% M&G International Investments Limited OS 100.00% M&G International
Limited OS 100.00% M&G International Investments SA OS 100.00% 34-38, Avenue
Luxembourg M&G International Investments Switzerland AG OS 100.00% Talstrasse 66, 8001 Zurich
M&G Investment Funds (10) M&G Absolute Return Bond Fund OS 50.23% Laurence Pountney Hill, London, EC4R 0HH, UK

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Investment Funds (10) M&G Global Listed Infrastructure Fund	OS	64.83%	
M&G Investment Management Limited	OS	100.00%	
M&G Investments (Hong Kong) Limited	OS	100.00%	6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong
M&G Investments (Singapore) Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
M&G Investments Japan Co., Ltd.	OS	100.00%	3-1 Toranomon, 4 Chome, Minato-ku, Tokyo, Japan
M&G Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Luxembourg SA	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G Managed Growth Fund	OS	26.14%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Management Services Limited	OS	100.00%	
M&G Nominees Limited	OS	100.00%	
M&G Pan European Dividend Fund	OS	25.74%	
M&G PFI 2018 GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G PFI 2018 GP2 Limited	OS	100.00%	
M&G PFI Carry Partnership 2016 LP	LPI	25.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100.00%	
M&G Platform Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Prudential Limited	OS	100.00%	

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G RE Espana 2016 S.L.	OS	100.00%	Plaza de Colon, Torre II, Planta 14, 28046, Madrid, Spain
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
M&G Real Estate Asia Pte. Ltd.	OS	100.00%	
M&G Real Estate Debt Fund LP	LPI	29.20%	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 2HT
M&G Real Estate Funds Management SARL	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G Real Estate Japan Co., Ltd.	OS	100.00%	9th Floor, Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo 105-6009, Japan
M&G Real Estate Korea Co., Ltd.	OS	100.00%	17th Floor, Kyobo Building, Jongno, Jongno-Gu, Seoul, Korea
M&G Real Estate Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Real Estate UK Enhanced Value LP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G RED Employee Feeder GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED GP Limited	OS	100.00%	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 2HT
M&G RED II Employee Feeder GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
M&G RED II SLP GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28.00%	
M&G RED III Employee Feeder GP Limited	OS	100.00%	

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G RED III GP Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
M&G RED III SLP GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25.00%	
M&G RED SLP GP Limited	OS	100.00%	
M&G RED SLP LP	LPI	44.00%	
M&G RPF GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G RPF Nominee 1 Limited	OS	100.00%	
M&G RPF Nominee 2 Limited	OS	100.00%	
M&G Securities Limited	OS	100.00%	
M&G SIF Management Company (Ireland) Limited	OS	100.00%	78 Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
M&G UK Companies Financing Fund II LP	LPI	48.32%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G UK Property GP Limited	OS	100.00%	
M&G UK Property Nominee 1 Limited	OS	100.00%	
M&G UK Property Nominee 2 Limited	OS	100.00%	
M&G UKCF II GP Limited	OS	100.00%	
M&G UKEV (SLP) General Partner LLP	LPI	100.00%	
M&G UKEV (SLP) LP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Manchester JV Limited	OS	50.00%	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

MCF S.r.l	LPI	45.00%	Via Romagnosi 18/a, 00196 Roma, Italy
Minster Court Estate Management Limited	OS	75.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Mission Plans of America, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
MM&S (2375) Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Murphy & Partners Fund, LP	LPI	21.07%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
NAPI REIT, Inc	OS	99.00%	300 E Lombard Street, Baltimore, MD 21202, USA
National Planning Corporation	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
National Planning Holdings, Inc	OS	100.00%	
North Sathorn Holdings Company Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Nova Sepadu Sdn. Bhd. (In liquidation)	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Oaktree Business Park Limited	OS	12.50%	Laurence Pountney Hill, London, EC4R 0HH, UK
Old Kingsway, LP	LPI	100.00%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Limited	OS	100.00%	Barratt House, Cartwright Way, Bardon Hill, Coalville, Leicestershire, LE67 1UF, UK
Pacus (UK) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
PCA IP Services Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PCA Life Assurance Co. Ltd.	OS	99.79%	8th Floor, No.1 Songzhi Road, Taipei 11047, Taiwan
PCA Reinsurance Co. Ltd.	OS	100.00%	Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PGDS (UK One) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
PGDS (US One), LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
PGF Management Company (Ireland) Limited	OS	50.00%	5 George's Dock, Dublin 1, D01 X8N7, Ireland
PPM America Capital Partners II, LLC	MI	63.45%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners III, LLC	MI	60.50%	
PPM America Capital Partners IV, LLC	MI	34.50%	
PPM America Capital Partners V, LLC	MI	34.00%	
PPM America Capital Partners VI, LLC	MI	32.00%	
PPM America Capital Partners, LLC	MI	52.50%	
PPM America Private Equity Fund II, LP	LPI	99.81%	
PPM America Private Equity Fund III, LP	LPI	99.81%	
PPM America Private Equity Fund IV, LP	LPI	99.84%	
PPM America Private Equity Fund, LP	LPI	99.60%	
PPM America Private Equity Fund V, LP	LPI	99.84%	
PPM America Private Equity Fund VI, LP	LPI	99.85%	
PPM America, Inc	OS	100.00%	
PPM Capital (Holdings) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM CLO 2018-1 Ltd.	PS	100.00%	Queensgate House, South Church Street, George Town, Grand Cayman KY1-1102, Cayman Islands
PPM Finance, Inc	OS	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM Holdings, Inc	OS	100.00%	
PPM Loan Management Company LLC	MI	100.00%	
PPM Loan Management Holding Company LLC	MI	100.00%	
PPM Managers GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25.00%	
PPM Ventures (Asia) Limited (In liquidation)	OS	100.00%	Gloucester Tower, 15 Queens Road, Central, Hong Kong
PPMC First Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prenetics Limited	PS	15.00%	7th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong
Property Partners (Two Rivers) Limited	OS	50.00%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Pru Life Insurance Corporation of U.K.	OS	100.00%	9th Floor, Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Pru Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudence Foundation	LBG	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudence Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential (Cambodia) Life Assurance Plc	OS	100.00%	20th Floor, #445, Monivong Blvd, Boeung Prolit, 7 Makara, Phnom Penh Tower, Phnom Penh, Cambodia
Prudential / M&G UKCF GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Africa Holdings Limited	OS	100.00%	
Prudential Africa Services Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Assurance Company Singapore (Pte) Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Assurance Malaysia Berhad	OS	51.00%	Level 3, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Assurance Uganda Limited	OS	100.00%	Kampala Road, Kampala, Uganda
Prudential BSN Takaful Berhad	OS	49.00%	Level 8A, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Capital (Singapore) Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Prudential Capital plc	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Corporate Pensions Trustee Limited	OS	100.00%	
Prudential Corporation Australasia Holdings Pty Limited	OS	100.00%	c/o Highgate Legal Pty Limited, 33 Lexington Drive, Bella Vista, NSW 2153, Australia
Prudential Corporation Holdings Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Credit Opportunities 1 SARL	OS	100.00%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Credit Opportunities GP SARL	OS	100.00%	
Prudential Credit Opportunities Scsp	OS	100.00%	

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Development Management Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, UK
	PS	100.00%	
Prudential Distribution Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Dublin Investments Limited (In liquidation)	OS	100.00%	IFSC, North Wall Quay, Dublin 1, D01 H104, Ireland
Prudential Dynamic 0 - 30 Portfolio	OS	29.81%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 10 - 40 Portfolio	OS	31.51%	
Prudential Dynamic 20 - 55 Portfolio	OS	36.60%	
Prudential Dynamic 40 - 80 Portfolio	OS	38.09%	
Prudential Dynamic 60 - 100 Portfolio	OS	35.42%	
Prudential Dynamic Focused 0 - 30 Portfolio	OS	61.66%	
Prudential Dynamic Focused 20 - 55 Portfolio	OS	42.94%	
Prudential Dynamic Focused 40 - 80 Portfolio	OS	28.38%	
Prudential Dynamic Focused 60 - 100 Portfolio	OS	31.01%	
Prudential Equity Release Mortgages Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Europe Assurance Holdings Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Prudential Financial Planning Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Five Limited	OS	100.00%	

Prudential General Insurance Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Global Services Private Limited	OS	100.00%	Prudential House, Mumbai, India
Prudential GP Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Greenfield GP LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Greenfield GP1 Limited	OS	100.00%	
Prudential Greenfield GP2 Limited	OS	100.00%	
Prudential Greenfield LP	LPI	100.00%	
Prudential Greenfield SLP GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Prudential Group Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Group Secretarial Services Limited	OS	100.00%	
Prudential Holborn Life Limited	OS	100.00%	
Prudential Holdings Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Assurance plc	OS	100.00%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100.00%	
Prudential International Staff Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Investment (Luxembourg) 2 SARL	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
Prudential Investments Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential IP Services Limited	OS	100.00%	
	OS	100.00%	

Prudential Life Assurance (Lao) Company Limited	Unit A, 6th Floor, Vientiane Plaza Hotel Office Building, Sailom Road, Hatsady Neua Village, Chanthabouly District, Vientiane Capital, Lao, PDR

463

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Life Assurance (Thailand) Public Company Limited	OS	99.93%	9/9 Sathorn Building, 20th-27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
Prudential Life Assurance Kenya Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Life Assurance Zambia Limited	OS	100.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Life Insurance Ghana Limited	OS	100.00%	35 North Street, Accra, Ghana
Prudential Lifetime Mortgages Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
	PS	100.00%	
Prudential Loan Investments 1 SARL	OS	100.00%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Loan Investments GP SARL	OS	100.00%	
Prudential Loan Investments SCSp	OS	100.00%	
Prudential Mauritius Holdings Limited	OS	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront, Port Louis, Mauritius
Prudential Mortgages Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Nominees Limited	OS	100.00%	
Prudential Pensions Limited	OS	100.00%	
Prudential Pensions Management Zambia Limited	OS	49.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Polska sp. z.o.o	OS	100.00%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS	49.99%	PO Box 44813, Claremont 7735, South Africa
	A Class OS	75.00%	

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Portfolio Managers Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Properties Trusty Pty Limited	OS	100.00%	Darling Park Tower 2, 201 Sussex Street, Sydney, NSW 2000, Australia
Prudential Property Holding Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Property Investment Managers Limited	OS	100.00%	
Prudential Property Investments Limited	OS	100.00%	
	PS	100.00%	
Prudential Protect Limited	OS	100.00%	
Prudential Real Estate Investments 1 Limited	OS	100.00%	
Prudential Real Estate Investments 2 Limited	OS	100.00%	
Prudential Real Estate Investments 3 Limited	OS	100.00%	
Prudential Retirement Income Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
	PS	100.00%	
Prudential Services Asia Sdn. Bhd.	OS	100.00%	Suite 1005, 10th Floor, Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
	PS	100.00%	
Prudential Services Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Services Singapore Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
Prudential Singapore Holdings Pte. Ltd.	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Staff Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Trustee Company Limited	OS	100.00%	
Prudential UK Real Estate General Partner Limited	OS	100.00%	
Prudential UK Real Estate LP	LPI	100.00%	
Prudential UK Real Estate Nominee 1 Limited	OS	100.00%	
Prudential UK Real Estate Nominee 2 Limited	OS	100.00%	
Prudential UK Services Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Unit Trusts Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Venture Managers Limited	OS	100.00%	
Prudential Vietnam Assurance Private Limited	OS	100.00%	25th Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential Vietnam Finance Company Limited	OS	100.00%	23rd Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential/M&G UK Companies Financing Fund LP	LPI	34.42%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prutec Limited	OS	100.00%	
PT. Eastspring Investments Indonesia	OS	99.95%	23rd Floor, Prudential Tower, JI. Jendral Sudirman Kav. 79, 12910, Jakarta Selatan, Indonesia
PT. Prudential Life Assurance	OS	94.62%	
PVFC Financial Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PVM Partnerships Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Randolph Street LP	LPI	100.00%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA

REALIC of Jacksonville Plans, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA

466

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Reksa Dana Eastspring IDR Fixed Income Fund (NDEIFF)	OS	100.00%	23rd Floor, Prudential Tower, JI. Jendral Sudirman Kav. 79, 12910, Jakarta Selatan, Indonesia
Reksa Dana Eastspring Investments Cash Reserve	U	100.00%	
Reksa Dana Eastspring Investments IDR High Grade	OS	44.09%	
Reksa Dana Eastspring Investments Value Discovery	OS	89.60%	
Reksa Dana Eastspring Investments Yield Discovery	OS	79.21%	
Reksa Dana Syariah Eastspring Syariah Equity Islamic Asia Pacific USD	OS	99.90%	
Reksa Dana Syariah Eastspring Syariah Fixed Income Amanah	OS	96.82%	
Rhodium Investment Fund	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Rift GP 1 Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rift GP 2 Limited	OS	100.00%	
ROP, Inc	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
ScotAm Pension Trustees Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Finance plc	OS	100.00%	
Scottish Amicable Holdings Limited	OS	100.00%	
Scottish Amicable Life Assurance Society	No share capital	100.00%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Pensions Investments	OS	100.00%	

Limited			
Scotts Spazio Pte. Ltd.	OS	45.00%	30 Cecil Street, #23-02, Prudential Tower, Singapore 049712

467

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Sealand (No 1) Limited	OS	100.00%	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
Sealand (No 2) Limited	OS	100.00%	
Sectordate Limited	OS	32.60%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park (General Partner) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100.00%	
Selly Oak Shopping Park (Nominee 2) Limited	OS	100.00%	
SII Investments, Inc	OS	100.00%	5555, Grande Market Drive, Appleton, WI 54912, USA
Silverfleet Capital 2004 LP	LPI	100.00%	1 Royal Plaza, St Peters Port, Guernsey, GY1 2HL
Silverfleet Capital 2005 LP	LPI	100.00%	
Silverfleet Capital 2006 LP	LPI	100.00%	
Silverfleet Capital 2008 LP	LPI	100.00%	
Silverfleet Capital 2009 LP	LPI	100.00%	
Silverfleet Capital 2011/12 LP	LPI	100.00%	
Silverfleet Capital II WPLF	LPI	100.00%	
Smithfield Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
SM, LLC	LPI	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Squire Capital I, LLC	MI	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Squire Capital II, LLC	OS	100.00%	
Squire Reassurance Company II, Inc	OS	100.00%	40600 Ann Arbor Road, East Suite 201, Plymouth, MI 48170, USA
	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA

Squire Reassurance Company, LLC	468

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Sri Han Suria Sdn. Bhd.	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
	PS (A & B)	100.00%	
St Edward Homes Limited	OS	50.00%	Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK
St Edwards Strand Partnership	OS	50.00%	
Stableview Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Staple Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Staple Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Thanachart Life Assurance Public Company Limited (In liquidation)	OS	99.93%	9/9 Sathorn Building, 25th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
The Car Auction Unit Trust	OS	50.00%	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 2HT
The First British Fixed Trust Company Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
The Greenpark (Reading) LP	LPI	100.00%	
The Heights Management Company Limited	OS	50.00%	
The Hub (Witton) Management Company Limited (In liquidation)	OS	100.00%	
The St Edward Homes Partnership	OS	49.95%	Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK
The Strand Property Unit Trust	LPI	50.00%	Liberte house, 19-23 La Motte Street, St Helier, Jersey, JE2 4SY

Table of Contents

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
The Two Rivers Trust	OS	50.00%	
Three Snowhill Birmingham SARL	OS	100.00%	5, rue Guillaume Kroll, L-1882, Luxembourg
Two Rivers LP	LPI	50.00%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham SARL	OS	100.00%	5, rue Guillaume Kroll, L-1882, Luxembourg
US Strategic Income Bond Fund D USD Acc	OS	96.36%	26, Boulevard Royal, L-2449, Luxembourg
VFL International Life Company SPC, Ltd.	OS	100.00%	171 Elgin Avenue, Grand Cayman, Cayman Islands
Warren Farm Office Village Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, UK
Wessex Gate Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Westwacker Limited	OS	100.00%	
Wynnefield Private Equity Partners I, LP	LPI	99.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Wynnefield Private Equity Partners II, LP	LPI	99.00%	1209 Orange Street, Wilmington, DE 19801, USA
Zenith-Prudential Life Insurance Company Limited	OS	51.00%	Plot 280, Ajose Adeogun Street, Victoria Island, Nigeria

E FURTHER ACCOUNTING POLICIES

E1 Other significant accounting policies

In addition to the critical accounting polices presented in note A3.1, the following detailed accounting policies are adopted by the Group to prepare the consolidated financial statements. These accounting policies are applied consistently for all years presented and normally are not subject to change unless new accounting standards, interpretations or amendments are introduced by the IASB.

(a)

Basis of consolidation

The Group consolidates those investees it is deemed to control. The Group has control over an investee if all three of the following are met: (1) it has power over an investee; (2) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (3) it has ability to use its power over the investee to affect its own returns.

470

Table of Contents

(i)

Subsidiaries

Subsidiaries are those investees that the Group controls. The majority of the Group's subsidiaries are corporate entities, but the Group's insurance operations also invest in a number of limited partnerships.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee. Where the Group is deemed to control an entity it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity, with no control over the entity, the investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Entities consolidated by the Group include Qualifying Partnerships as defined under the UK Partnerships (Accounts) Regulations 2008 (the 'Partnerships Act'). Some of these limited partnerships have taken advantage of the exemption under regulation 7 of the Partnerships Act from the financial statements requirements. This is under regulations 4 to 6, on the basis that these limited partnerships are dealt with on a consolidated basis in these financial statements.

(ii)

Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In a number of these arrangements, the Group's share of the underlying net assets may be less than 50 per cent but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party. Associates are entities over which the Group has significant influence, but it does not control. Generally it is presumed that the Group has significant influence if it holds between 20 per cent and 50 per cent voting rights of the entity.

With the exception of those referred to below, the Group accounts for its investments in joint ventures and associates by using the equity method of accounting. The Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The equity method of accounting does not apply to investments in associates and joint ventures held by the Group's insurance or investment funds. This includes venture capital business, mutual funds and unit trusts and which, as allowed by IAS 28, 'Investments in Associates and Joint Ventures', are carried at fair value through profit or loss.

(iii)

Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

Open-Ended Investment Companies (OEICs);

Unit Trusts (UTs);

Limited partnerships;

Variable interest entities;

Investment vehicles within separate accounts offered through variable annuities;

Collateralised debt obligations;

Mortgage-backed securities; and

Similar asset-backed securities.

471

Table of Contents

Open-ended investment companies and unit trusts

The Group invests in OEICs and UTs, which invest mainly in equities, bonds, cash and cash equivalents, and properties. The Group's percentage ownership in these entities can fluctuate on a daily basis according to the participation of the Group and other investors in them.

Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity exceeds 50 per cent, the Group is judged to have control over the entity.

Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is between 20 per cent and 50 per cent, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity.

Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is less than 20 per cent, the Group is judged to not have control over the entity.

Where the entity is managed by an asset manager outside the Group, an assessment is made of whether the Group has existing rights that gives it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of OEICs and UTs where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as a subsidiary and are consolidated, with the interests of investors other than the Group being classified as liabilities, and appear as net asset value attributable to unit holders of consolidated unit trusts and similar funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Where the Group's asset manager sets up OEICs and UTs as part of asset management operations, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with OEICs and UTs. For these open-ended investment companies and unit trusts, the Group is not deemed to control the entities but to be acting as an agent.

The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of these investment vehicles.

Jackson's separate account assets

These are investment vehicles that invest contract holders' premiums in equity, fixed income, bonds and money market mutual funds. The contract holder retains the underlying returns and the ownership risks related to the underlying investments. The shareholder's economic interest in separate accounts is limited to the administrative fees charged. The separate accounts are set up as separate regulated entities governed by a Board of Governors or trustees for which the majority of the members are independent of Jackson or any affiliated entity. The independent members are responsible for any decision making that impacts contract holders' interest and govern the operational activities of the entities' advisers, including asset managers. Accordingly, the Group does not control these vehicles. These investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Table of Contents

Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities, the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements.

The majority of such vehicles are not consolidated. In these cases the Group is not the sponsor of the vehicles in which it holds investments and has no administrative rights over the vehicles' activities. The Group generates returns and retains the ownership risks commensurate to its holding and its exposure to the investments. Accordingly the Group does not have power over the relevant activities of such vehicles and all are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

The table below provides aggregate carrying amounts of the investments in unconsolidated structured entities reported in the Group's statement of financial position:

	2017			2016		
	OEICs/UTs	**Separate account assets**	**Other structured entities**	**OEICs/UTs**	**Separate account assets**	**Other structured entities**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Statement of financial position line items						
Equity securities and portfolio holdings in unit trusts	**20,718**	**130,528**		16,489	120,411	
Debt securities			**10,894**			12,220
Total	**20,718**	**130,528**	**10,894**	16,489	120,411	12,220

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments.

As at 31 December 2017, the Group does not have an agreement, contractual or otherwise, or intention to provide financial support to structured entities that could expose the Group to a loss.

(b) Reinsurance

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. The treatment of any gains or losses arising on the purchase of reinsurance contracts is dependent on the underlying accounting basis of the entity concerned.

Table of Contents

(c)
Earned premiums, policy fees and claims paid

Premiums for conventional with-profits policies and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where Prudential collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

(d)
Investment return

Investment return included in the income statement principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit or loss, and realised gains and losses (including impairment losses) on items held at amortised cost and Jackson's debt securities designated as available-for-sale. Movements in unrealised appreciation/depreciation of Jackson's debt securities designated as available-for-sale are recorded in other comprehensive income. Interest income is recognised as it accrues, taking into account the effective yield on investments. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accrual basis.

(e)
Financial investments other than instruments classified as long-term business contracts

(i)
Investment classification

The Group holds financial investments in accordance with IAS 39, whereby subject to specific criteria, financial instruments are required to be accounted for under one of the following categories:

Financial assets and liabilities at fair value through profit or loss this comprises assets and liabilities designated by management as fair value through profit or loss on inception and derivatives that are held for trading. These investments are measured at fair value with all changes thereon being recognised in investment return in the income statement;

Financial investments on an available-for-sale basis this comprises assets that are designated by management as available-for-sale and/or do not fall into any of the other categories. These assets are initially recognised at fair value plus attributable transaction costs. Available-for-sale assets are subsequently measured at fair value. Interest income is recognised on an effective interest basis in the income statement. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. Except for foreign exchange gains and losses on debt securities, which are included in the income statement, unrealised gains and losses are recognised in other comprehensive income. Upon disposal or impairment, accumulated unrealised gains and losses are transferred from other comprehensive income to the income statement as realised gains or losses; and

Loans and receivables except for those designated as at fair value through profit or loss or available-for-sale, these instruments comprise non-quoted investments that have fixed or determinable payments. These instruments include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially

Table of Contents

recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.

The Group uses the trade date method to account for regular purchases and sales of financial assets. See note A3.1 for further details of valuation of financial investments.

(ii)

Derivatives and hedge accounting

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes.

The Group may designate certain derivatives as hedges.

For hedges of net investments in foreign operations, the effective portion of any change in fair value of derivatives or other financial instruments designated as net investment hedges is recognised in other comprehensive income. The ineffective portion of changes in the fair value of the hedging instrument is recorded in the income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39. The Group has no fair value and cash flows hedges under IAS 39 at 31 December 2017 and 2016.

All derivatives that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded in the income statement.

The primary areas of the Group's continuing operations where derivative instruments are held are the UK with-profits funds and annuity business, and Jackson.

For UK with-profits funds the derivative programme is used for the purposes of efficient portfolio management or reduction in investment risk.

For shareholder-backed UK annuity business the derivatives are held to contribute to the matching as far as practical, of asset returns and duration with those of liabilities to policyholders. The carrying value of these liabilities is sensitive to the return on the matching financial assets including derivatives held.

For Jackson's derivative programme see note A3.1.

(iii)

Embedded derivatives

Embedded derivatives are present in host contracts issued by various Group companies, in particular Jackson. They are embedded within other non-derivative host financial instruments and insurance contracts to create hybrid instruments. Embedded derivatives meeting the definition of an insurance contract are accounted for under IFRS 4. Where economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with the changes in fair value recognised in the income statement, the embedded derivative is bifurcated and carried at fair value as a derivative measured in accordance with IAS 39.

In addition, the Group applies the option under IFRS 4 to not separate and fair value surrender options embedded in host contracts and with-profits investment contracts whose strike price is either a fixed amount or a fixed amount plus interest.

(iv)

Securities lending and reverse repurchase agreements

The Group is party to various securities lending agreements (including repurchase agreements) under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100 per cent of the fair value of securities loaned is

Table of Contents

required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending programme, the collateral, and corresponding obligation to return such collateral, are recognised in the consolidated statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments in the statement of financial position.

(v)
Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

(vi)
Financial liabilities designated at fair value through profit or loss

Consistent with the Group's risk management and investment strategy and the nature of the products concerned, the Group has designated under IAS 39 classification certain financial liabilities at fair value through profit or loss as these instruments are managed and their performance evaluated on a fair value basis. These instruments include liabilities related to consolidated collateralised debt obligations and net assets attributable to unit holders of consolidated unit trusts and similar funds.

(f)
Segments

Under IFRS 8 'Operating Segments', the Group determines and presents operating segments based on the information that is internally provided to the Group Executive Committee which is the Group's chief operating decision maker.

The operating segments identified by the Group reflect the Group's organisational structure, which, following a reorganisation during the year, is by business units Asia, US and UK and Europe. All business units contain both insurance and asset management operations.

Further information on the Group's operating segments is provided in note B1.3.

(g)
Borrowings

Although initially recognised at fair value, net of transaction costs, borrowings, excluding liabilities of consolidated collateralised debt obligations, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

(h)
Investment properties

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment properties, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors valuation standards. Each property is externally valued at least once every three years.

Table of Contents

Leases of investment property where the Group has substantially all the risks and rewards of ownership are classified as finance leases (leasehold property). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

(i)

Pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position. By contrast, if the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group. These assets are excluded from plan assets in determining the pension surplus or deficit recognised in the consolidated statement of financial position.

The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit liability (asset) at the start of the period, is charged to the income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income.

Contributions to the Group's defined contribution schemes are expensed when due.

(j)

Share-based payments and related movements in own shares

The Group offers share award and option plans for certain key employees and a Save As You Earn plan for all UK and certain overseas employees. Shares held in trust relating to these plans are conditionally gifted to employees.

The compensation expense charged to the income statement is primarily based upon the fair value of the options granted, the vesting period and the vesting conditions.

The Company has established trusts to facilitate the delivery of Prudential plc shares under employee incentive plans and savings-related share option schemes. The cost to the Company of acquiring these treasury shares held in trusts is shown as a deduction from shareholders' equity.

(k)

Tax

Prudential is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 'Income Taxes' does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

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

(l)

Business acquisitions and disposals

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the acquisition consideration over the fair value of the assets and liabilities of the acquired entity is recorded as goodwill. Expenses related to acquiring new subsidiaries are charged to the income statement in the period in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

Income and expenses of entities sold during the period are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21.

(m)

Goodwill

Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the Group statement of financial position as an intangible asset at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash generating units. For further details see note C5(a).

(n)

Intangible assets

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are measured at fair value on acquisition. Deferred acquisition costs are accounted for as described in note A3.1(c). Other intangible assets, such as distribution rights and software, are valued initially at the price paid to acquire them and are subsequently carried at cost less amortisation and any accumulated impairment losses. Distribution rights relate to fees paid under bancassurance partnership arrangements for bank distribution of products for the term of the contract. Amounts for distribution rights are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels. The same principles apply to determining the amortisation method for other intangible assets unless the pattern cannot be determined reliably, in which case a straight line method is applied. Amortisation of intangible assets is charged to the 'acquisition costs and other expenditure' line in the consolidated income statement. Impairment testing is conducted when there is an indication of impairment.

(o)

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

(p)

Shareholders' dividends

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders.

(q)

Share capital

Shares are classified as equity when their terms do not create an obligation to transfer assets. The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued, is credited to share premium. Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from retained earnings. Upon issue or sale any consideration received is credited to retained earnings net of related costs.

(r)

Foreign exchange

The Group's consolidated financial statements are presented in pounds sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries must be translated into the presentation currency of the Group from their functional currencies, ie the currency of the primary economic environment in which the entity operates. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income.

Foreign currency borrowings that are used to provide a hedge against Group equity investments in overseas subsidiaries are translated at year end exchange rates and movements recognised in other comprehensive income. Other foreign currency monetary items are translated at year end exchange rates with changes recognised in the income statement.

Foreign currency transactions are translated at the spot rate prevailing at the time.

(s)

Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated unit trusts and OEICs, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

Table of Contents

Index to the Condensed Financial Information of Registrant Prudential plc

Table of Contents

Schedule II

Condensed Financial Information of Registrant Prudential plc

Profit and Loss Accounts (FRS 101 Basis)

Years ended 31 December	**2017**	**2016**	**2015**
	£m	**£m**	**£m**
Investment income, including dividends received from subsidiary undertakings	**1,757**	1,413	1,363
Investment expenses and charges	**(414)**	(479)	(311)
Other charges:			
Corporate expenditure	**(217)**	(212)	(230)
Foreign currency exchange gains	**(10)**	3	2
Profit on ordinary activities before tax	**1,116**	725	824
Tax credit on profit on ordinary activities	**119**	115	96
Profit for the financial year	**1,235**	840	920
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains recognised in respect of the defined benefit pension scheme	**34**	4	4
Related tax	**(6)**		
	28	4	4
Total comprehensive income for the year	**1,263**	844	924

The accompanying notes are an integral part of this condensed financial information

Table of Contents

Schedule II
Condensed Financial Information of Registrant Prudential plc
Statements of Financial Position (FRS 101 Basis)

31 December	2017	2016
	£m	£m
Fixed assets		
Investments in subsidiary undertakings	**10,798**	10,859
Current assets		
Debtors:		
Amounts owed by subsidiary undertakings	**4,732**	5,798
Other debtors	**5**	11
Tax recoverable	**40**	44
Derivative assets	**5**	4
Pension asset	**71**	48
Cash at bank and in hand	**143**	24
	4,996	5,929
Liabilities: amounts falling due within one year		
Commercial paper	**(485)**	(1,052)
Other borrowings	**(600)**	
Derivative liabilities	**(443)**	(447)
Amounts owed to subsidiary undertakings	**(715)**	(773)
Tax payable	**(10)**	(10)
Deferred tax liability	**(12)**	(9)
Accruals and deferred income	**(79)**	(72)
	(2,344)	(2,363)
Net current assets	**2,652**	3,566
Total assets less current liabilities	**13,450**	14,425
Liabilities: amounts falling due after more than one year		
Subordinated liabilities	**(5,272)**	(5,772)
Debenture loans	**(549)**	(549)
Other borrowings		(599)
	(5,821)	(6,920)
Total net assets	**7,629**	7,505
Capital and reserves		
Share capital	**129**	129
Share premium	**1,948**	1,927
Profit and loss account	**5,552**	5,449
Shareholders' funds	**7,629**	7,505

The accompanying notes are an integral part of this condensed financial information

Table of Contents

Schedule II
Condensed Financial Information of Registrant Prudential plc
Statements of Changes in Equity (FRS 101 basis)

	Share capital	Share premium	Profit and loss account	Total equity
	£m	£m	£m	£m
Balance at 1 January 2015	128	1,908	5,909	7,945
Total comprehensive income for the year				
Profit for the year			920	920
Actuarial gains recognised in respect of the defined benefit pension scheme			4	4
Total comprehensive income for the year			924	924
Transactions with owners, recorded directly in equity				
New share capital subscribed		7		7
Share based payment transactions			7	7
Dividends			(974)	(974)
Total contributions by and distributions to owners		7	(967)	(960)
Balance at 31 December 2015	**128**	**1,915**	**5,866**	**7,909**
Balance at 1 January 2016	128	1,915	5,866	7,909
Total comprehensive income for the year				
Profit for the year			840	840
Actuarial gains recognised in respect of the defined benefit pension scheme			4	4
Total comprehensive income for the year			844	844
Transactions with owners, recorded directly in equity				
New share capital subscribed	1	12		13
Share based payment transactions			6	6
Dividends			(1,267)	(1,267)
Total contributions by and distributions to owners	1	12	(1,261)	(1,248)
Balance at 31 December 2016	**129**	**1,927**	**5,449**	**7,505**
Balance at 1 January 2017	129	1,927	5,449	7,505
Total comprehensive income for the year				
Profit for the year			1,235	1,235
Actuarial gains recognised in respect of the defined benefit pension scheme			28	28
Total comprehensive income for the year			1,263	1,263
Transactions with owners, recorded directly in equity				
New share capital subscribed		21		21
Share based payment transactions			(1)	(1)
Dividends			(1,159)	(1,159)

Total contributions by and distributions to owners		21	(1,160)	(1,139)
Balance at 31 December 2017	**129**	**1,948**	**5,552**	**7,629**

The accompanying notes are an integral part of this condensed financial information

Table of Contents

Schedule II
Condensed Financial Information of Registrant Prudential plc
Statements of Cash Flows (FRS 101 Basis)

Years ended 31 December	2017	2016	2015
	£m	£m	£m
Operations			
Net cash inflow from operating activities before interest and tax	**1,534**	1,621	1,335
Interest paid	**(409)**	(339)	(289)
Taxes received	**121**	105	41
Equity dividends paid	**(1,159)**	(1,267)	(974)
Net cash inflow before financing	**87**	120	113
Financing			
Issue of ordinary share capital	**21**	13	7
Issue of borrowings	**565**	1,227	590
Repayment of borrowings	**(751)**		
Movement in commercial paper and other borrowings to support a short-term fixed income securities program	**(567)**	(255)	(299)
Movement in net amount owed by subsidiary undertakings	**764**	(1,185)	(314)
Net cash inflow (outflow) from financing	**32**	(200)	(16)
Net cash inflow (outflow) for the year	**119**	(80)	97
Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities			
Profit on ordinary activities before tax	**1,116**	725	824
Add back: interest charged	**424**	371	318
Adjustments for non-cash items:			
Fair value adjustments on derivatives	**(4)**	122	7
Pension scheme	**11**	6	(7)
Foreign currency exchange and other movements	**(27)**	404	196
Decrease (increase) in debtors	**6**	(8)	
Increase (decrease) in creditors	**8**	1	(3)
Net cash inflow from operating activities	**1,534**	1,621	1,335

The accompanying notes are an integral part of this condensed financial information

Table of Contents

Schedule II

Condensed Financial Information of Registrant Prudential plc

Notes to the Condensed Financial Statement Schedule

31 December 2017

1 Basis of preparation

The financial statements of the parent company are prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these financial statements, the Company applies the recognition and measurement requirements in International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and endorsed by the EU but makes amendments where necessary in order to comply with the Companies Act 2006.

2 Significant accounting policies

Investments in subsidiary undertakings

Investments in subsidiary undertakings are shown at cost less impairment.

Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are shown at cost, less provisions.

Derivatives

Derivative financial instruments are held to manage certain macro-economic exposures. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds, net of transaction costs, is amortised through the profit and loss account to the date of maturity or, for subordinated debt, over the expected life of the instrument.

Dividends

Interim dividends are recorded in the period in which they are paid.

Share premium

The difference between the proceeds received on issue of shares and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

Assets and liabilities denominated in foreign currencies, including borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, are translated at year end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Table of Contents

Schedule II

Condensed Financial Information of Registrant Prudential plc

Notes to the Condensed Financial Statement Schedule (Continued)

31 December 2017

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of IAS 12, 'Income Taxes'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that future taxable profits will be available against which these losses can be utilised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

Pensions

The Company assumes a portion of the pension surplus or deficit of the Group's main pension scheme, the Prudential Staff Pension Scheme ('PSPS'). The Company applies the requirements of IAS 19 'Employee Benefit' (as revised in 2011) for the accounting of its interest in the PSPS surplus or deficit.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets. The Company's share of pension surplus is recognised to the extent that the Company is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The assets and liabilities of the defined benefit pension schemes of the Prudential Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cash flows are then discounted at a high quality corporate bond yield, adjusted to allow for the difference in duration between the bond index and the pension liabilities, where appropriate, to determine their present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the net income (interest) on the net scheme assets (liabilities) at the start of the period, is recognised in the profit or loss account. Actuarial gains and losses as a result of the changes in assumptions, experience variances or the return on scheme assets excluding amounts included in the net deferred benefit asset (liability) are recorded in other comprehensive income.

Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn ('SAYE') plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled plans with a few cash-settled plans.

Table of Contents

Schedule II

Condensed Financial Information of Registrant Prudential plc

Notes to the Condensed Financial Statement Schedule (Continued)

31 December 2017

Under IFRS 2 'Share-based payment', where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions.

3 Dividends received from subsidiary undertakings

The parent company received dividends totalling £1,685 million from its consolidated subsidiary undertakings in 2017 (2016: £1,318 million; 2015: £985 million).

4 Reconciliation from the FRS 101 parent company results to the IFRS Group results

The parent company financial statements are prepared in accordance with FRS 101 and the Group financial statements are prepared in accordance with IFRS as issued by the IASB and endorsed by the EU. At 31 December 2017, there were no differences between FRS 101 and IFRS as issued by the IASB and endorsed by the EU in terms of their application to the parent company.

The tables below provide a reconciliation between the FRS 101 parent company results and the IFRS Group results.

	2017	2016	2015
	£m	£m	£m
Profit after tax			
Profit for the financial year of the Company (including dividends from subsidiaries) in accordance with FRS 101 and IFRS	**1,235**	840	920
Share in the IFRS result of the Group, net of distributions to the Company*	**1,155**	1,081	1,659
Profit after tax of the Group attributable to shareholders in accordance with IFRS	**2,390**	1,921	2,579

	2017	2016
	£m	£m
Net equity		
Shareholders' equity of the Company in accordance with FRS 101 and IFRS	**7,629**	7,505
Share in the IFRS net equity of the Group*	**8,458**	7,161
Shareholders' equity of the Group in accordance with IFRS	**16,087**	14,666

* The 'share in the IFRS result and net equity of the Group' lines represent the parent company's equity in the earnings and net assets of its subsidiaries and associates.

Schedule II

Condensed Financial Information of Registrant Prudential plc

Notes to the Condensed Financial Statement Schedule (Continued)

31 December 2017

The profit for the financial year of the parent company in accordance with IFRS includes dividends received in the year from subsidiary undertakings (note 3).

As stated in note 2, under FRS 101, the parent company accounts for its investments in subsidiary undertakings at cost less impairment. For the purpose of this reconciliation, no adjustment is made to the parent company in respect of any valuation adjustments to shares in subsidiary undertakings that would be eliminated on consolidation.

5 Guarantees provided by the parent company

In certain instances the parent company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

6 Post balance sheet events

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

Intention to demerge the Group's UK businesses

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

Sale of £12.0 billion* UK annuity portfolio

In March 2018, M&G Prudential also announced the sale of £12.0 billion* of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion* of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. Further details are set out in the 'Corporate Transactions' section within 'Explanation of Performance and Other Financial Measures'.

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

Table of Contents

Additional Unaudited IFRS Financial Information

Index to the additional unaudited financial information

Table of Contents

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

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

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

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

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

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

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

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

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

Analysis of pre-tax operating profit by source and margin analysis of Group long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other relevant drivers. Details on the calculation of the Group's average policyholder liability balances are given in note (iv) at the end of this section.

Table of Contents

The reconciliation for the operating profit based on longer-term investment returns by segment to profit before tax attributable to shareholders is provided in the 'Basis of performance measures' section.

	2017					
	Asia	US	UK and Europe	Total	Average liability note (iv)	Total bps note (ii)
	£m	£m	£m	£m	£m	bps
Spread income	220	751	137	1,108	88,908	125
Fee income	199	2,343	61	2,603	166,839	156
With-profits	59		288	347	136,474	25
Insurance margin	1,310	906	55	2,271		
Margin on revenues	2,097		189	2,286		
Expenses:						
Acquisition costs[note(i)]	(1,489)	(876)	(68)	(2,433)	6,958	(35)%
Administration expenses	(959)	(1,174)	(164)	(2,297)	261,114	(88)
DAC adjustments[note(v)]	241	260	4	505		
Expected return on shareholder assets	121	4	104	229		
	1,799	2,214	606	4,619		
Longevity reinsurance and other management actions to improve solvency			276	276		
Changes in longevity assumption basis			204	204		
Provision for review of past annuity sales			(225)	(225)		
Long-term business operating profit based on longer-term investment returns	1,799	2,214	861	4,874		

See notes at the end of this section.

Table of Contents

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

See notes at the end of this section.

Table of Contents

	2016 CER** note (iii)					
	Asia	US	UK and Europe	Total	Average liability note (iv)	Total bps note (ii)
	£m	£m	£m	£m	£m	bps
Spread income	201	837	177	1,215	85,266	142
Fee income	181	2,040	59	2,280	145,826	156
With-profits	50		269	319	119,170	27
Insurance margin	1,087	933	63	2,083		
Margin on revenues	2,004		207	2,211		
Expenses:						
Acquisition costs note(i)	(1,343)	(921)	(89)	(2,353)	6,574	(36)%
Administration expenses	(866)	(1,007)	(152)	(2,025)	238,392	(85)
DAC adjustments note(v)	153	260	(2)	411		
Expected return on shareholder assets	104	13	110	227		
	1,571	2,155	642	4,368		
Longevity reinsurance and other management actions to improve solvency			332	332		
Provision for review of past annuity sales			(175)	(175)		
Long-term business operating profit based on longer-term investment returns	1,571	2,155	799	4,525		

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

See notes at the end of this section.

Table of Contents

	2015 AER					
	Asia	US	UK & Europe	Total	Average liability note (iv)	Margin bps note (ii)
	£m	£m	£m	£m	£m	bps
Spread income	149	746	258	1,153	72,900	158
Fee income	154	1,672	62	1,888	123,232	153
With-profits	45		269	314	106,749	29
Insurance margin	756	796	119	1,671		
Margin on revenues	1,643		179	1,822		
Expenses:						
Acquisition costs[note(i)]	(1,075)	(939)	(86)	(2,100)	5,466	(38)%
Administration expenses	(669)	(828)	(159)	(1,656)	203,664	(81)
DAC adjustments[note(v)]	97	218	(2)	313		
Expected return on shareholder assets	71	26	127	224		
	1,171	1,691	767	3,629		
Longevity reinsurance and other management actions to improve solvency			400	400		
Long-term business operating profit based on longer-term investment returns	1,171	1,691	1,167	4,029		

See notes at the end of this section.

	2015 CER** note (iii)					
	Asia	US	UK & Europe	Total	Average Liability note (iv)	Total bps note (ii)
	£m	£m	£m	£m	£m	bps
Spread income	164	845	258	1,267	78,026	162
Fee income	170	1,886	62	2,118	135,717	156
With-profits	50		269	319	108,551	29
Insurance margin	841	898	119	1,858		
Margin on revenues	1,821		179	2,000		
Expenses:						
Acquisition costs[note(i)]	(1,194)	(1,059)	(86)	(2,339)	5,995	(39)%
Administration expenses	(736)	(934)	(159)	(1,829)	222,250	(82)
DAC adjustments[note(v)]	108	246	(2)	352		
Expected return on shareholder assets	79	26	127	232		
	1,303	1,908	767	3,978		
Longevity reinsurance and other management actions to improve solvency			400	400		
Long-term business operating profit based on longer-term investment returns	1,303	1,908	1,167	4,378		

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

See notes at the end of this section.

494

Table of Contents

Margin analysis of long-term insurance business Asia

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

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

	Asia					
	2015 AER note (ii)			**2015 CER****		
Long-term business	**Profit**	**Average liability note (iv)**	**Margin note (ii)**	**Profit**	**Average liability note (iv)**	**Margin note (ii)**
	£m	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	149	10,428	143	164	11,466	143
Fee income	154	13,940	110	170	14,944	114
With-profits	45	17,446	26	50	19,247	26
Insurance margin	756			841		
Margin on revenues	1,643			1,821		
Expenses:						
Acquisition costs[note(i)]	(1,075)	2,712	(40)%	(1,194)	3,020	(40)%
Administration expenses	(669)	24,368	(274)	(736)	26,410	(279)
DAC adjustments[note(vi)]	97			108		
Expected return on shareholder assets	71			79		

Operating profit based on longer-term investment returns	1,171	1,303

**

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

See notes at the end of this section.

Analysis of Asia operating profit drivers:

2017 compared to 2016 (CER unless otherwise stated)

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

Table of Contents

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

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

Margin on revenues has increased by £93 million on a constant exchange rate basis from £2,004 million in 2016 to £2,097 million in 2017, primarily reflecting growth of the in-force book and higher regular premium income recognised in the year. (AER: increase by £178 million).

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

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

2016 (AER) compared to 2015 (CER based on 2016 exchange rates, unless otherwise stated)

Spread income increased on a constant exchange rate basis by 17 per cent to £192 million in 2016 (AER: 29 per cent), predominantly reflecting the growth of the Asia non-linked policyholder liabilities.

Fee income increased by 2 per cent on a constant exchange rate basis to £174 million in 2016 (AER: 13 per cent), broadly in line with the increase in movement in average unit-linked liabilities.

Insurance margin increased on a constant exchange rate basis by 24 per cent to £1,040 million in 2016 (AER: 38 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. Insurance margin includes non-recurring items of £49 million (2015: £17 million on CER basis; £15 million on AER basis).

Margin on revenues increased by £98 million on a constant exchange rate basis from £1,821 million to £1,919 million in 2016, primarily reflecting higher regular premium income recognised in the year (AER: increase by £276 million).

Acquisition costs increased on a constant exchange rate basis by 8 per cent to £1,285 million in 2016, (AER: 19 per cent) compared to the 19 per cent increase in APE sales (AER: 33 per cent increase), resulting in a decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE sales. If with-profits APE sales were excluded from the denominator the acquisition cost ratio would become 70 per cent, which is broadly in line with the 69 per cent on a constant exchange rate basis in 2015.

Administration expenses increased on a constant exchange rate basis by 13 per cent to £832 million in 2016 (AER: 24 per cent) as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has increased from 279 basis points in 2015 to 287 basis points in 2016, the result of changes in country and product mix.

Table of Contents

Margin analysis of long-term insurance business US

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

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

	US					
	2015 AER			2015 CER**		
Long-term business	**Profit**	**Average liability note (ii)**	**Margin**	**Profit**	**Average liability note (ii)**	**Margin**
	£m	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	746	30,927	241	845	35,015	241
Fee income	1,672	86,921	192	1,886	98,402	192
Insurance margin	796			898		
Expenses						
Acquisition costsnote(i)	(939)	1,729	(54)%	(1,059)	1,950	(54)%
Administration expenses	(828)	125,380	(66)	(934)	141,924	(66)
DAC adjustments	218			246		
Expected return on shareholder assets	26			26		
Operating profit based on longer-term investment returns	1,691			1,908		

**

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

See notes at the end of this section.

Analysis of US operating profit drivers:

2017 Compared to 2016 (CER unless otherwise stated)

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

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

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin decreased to £906 million in 2017 from £933 million in 2016 on a constant exchange rate basis, with higher income from the variable

Table of Contents

annuity guarantees being more than offset by a decline in the contribution from the closed books of business.

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

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

2016 (AER) compared to 2015 (CER based on 2016 exchange rates, unless otherwise stated)

Spread income declined on a constant exchange rate basis by 5 per cent to £802 million in 2016 (AER increased by 8 per cent). The reported spread margin decreased to 217 basis points from 241 basis points in 2015, primarily due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 153 basis points (2015 CER: 167 basis points and AER: 166 basis points).

Fee income increased on a constant exchange rate basis by 3 per cent to £1,942 million in 2016 (AER: 16 per cent), primarily due to positive net inflows from variable annuity business and fund appreciation during the second half of the year. Fee income margin has remained broadly in line with the prior year at 190 basis points (2015 CER and AER: 192 basis points).

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin of £888 million in 2016 was broadly in line with last year on a constant exchange rate basis, with higher income from the variable annuity guarantees offset by a decline in the contribution from the closed books of acquired business.

Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 17 per cent at a constant exchange rate basis, largely due to lower sales in 2016.

Administration expenses increased to £959 million in 2016 compared to £934 million for 2015 at constant exchange rates (AER £828 million), primarily as a result of higher asset-based commissions. These are paid on policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be 34 basis points (2015 CER and AER: 36 basis points).

Table of Contents

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

	2017	Acquisition costs			2016 AER	Acquisition costs			2016 CER* note (iii)	Acquisition costs		
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total operating profit before acquisition costs and DAC adjustments	**2,830**			**2,830**	2,685			2,685	2,816			2,816
Less new business strain		**(876)**	**663**	**(213)**		(877)	678	(199)		(921)	716	(205)
Other DAC adjustments amortisation of previously deferred acquisition costs:												
Normal			**(489)**	**(489)**			(527)	(527)			(554)	(554)
(Accelerated)/Decelerated (acceleration)			**86**	**86**			93	93			98	98
Total	**2,830**	**(876)**	**260**	**2,214**	2,685	(877)	244	2,052	2,816	(921)	260	2,155

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

	2015 AER	Acquisition costs			2015 CER**	Acquisition costs		
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Total operating profit before acquisition costs and DAC adjustments	2,412			2,412	2,721			2,721
Less new business strain		(939)	734	(205)		(1,059)	828	(231)
Other DAC adjustments amortisation of previously deferred acquisition costs:								
Normal			(514)	(514)			(580)	(580)
(Accelerated) / Decelerated (acceleration)			(2)	(2)			(2)	(2)
Total	2,412	(939)	218	1,691	2,721	(1,059)	246	1,908

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

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

	2017	2016		%		2015
				2017 vs 2016	2017 vs 2016	
		AER	CER	AER	CER	AER
	£m	£m	£m			£m
Spread business[note(a)]	**317**	323	339	(2)%	(6)%	380
Fee business[note(b)]	**1,788**	1,523	1,601	17%	12%	1,114
Life and other business[note(c)]	**109**	206	216	(47)%	(50)%	197
Total insurance operations	**2,214**	2,052	2,156	8%	3%	1,691
US asset management and broker-dealer	**10**	(4)	(4)	350%	350%	11
Total US operations	**2,224**	2,048	2,152	9%	3%	1,702

Table of Contents

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

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

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

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

Margin analysis of long-term insurance business UK and Europe

	UK and Europe								
	2017			2016			2015		
Long-term business	**Profit**	**Average liability note (iv)**	**Margin note (ii)**	**Profit**	**Average liability note (iv)**	**Margin note (ii)**	**Profit**	**Average liability note (iv)**	**Margin note (ii)**
	£m	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**137**	**33,631**	**41**	177	32,711	54	258	31,545	82
Fee income	**61**	**22,632**	**27**	59	21,781	27	62	22,371	28
With-profits	**288**	**106,359**	**27**	269	95,511	28	269	89,303	30
Insurance margin	**55**			63			119		
Margin on revenues	**189**			207			179		
Expenses:									
Acquisition costsnote(i)	**(68)**	**1,491**	**(5)%**	(89)	1,160	(8)%	(86)	1,025	(8)%
Administration expenses	**(164)**	**56,263**	**(29)**	(152)	54,492	(28)	(159)	53,916	(29)
DAC adjustments	**4**			(2)			(2)		
Expected return on shareholder assets	**104**			110			127		
	606			642			767		
Longevity reinsurance and other management actions to improve solvency	**276**			332			400		
Changes in longevity assumption basis	**204**								
Provision for review of past annuity sales	**(225)**			(175)					
Operating profit based on longer-term investment returns	**861**			799			1,167		

See notes at the end of this section.

***Analysis of UK and Europe operating profit drivers*:**

2017 compared to 2016

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

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

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

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

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

Table of Contents

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

The contribution from longevity reinsurance and other management actions to improve solvency during 2017 was £276 million (2016: £332 million). Further explanation and analysis is provided in "Contribution to the UK life IFRS metrics from specific management actions undertaken to position the balance sheet more efficiently under the new Solvency II regime" section below.

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

The 2017 increase in the provision for the cost of undertaking a review of past non-advised annuity sales and related potential redress of £225 million (2016: £175 million) is explained in note C11, 'Provisions'.

2016 compared to 2015

Spread income reduced from £258 million in 2015 to £177 million in 2016, mainly due to lower annuity sales. Spread income has two components:

- A contribution from new annuity business which was lower at £41 million in 2016 compared to £123 million in 2015, as we withdrew our participation from this business. IFRS accounting (based on grandfathered GAAP) permits upfront recognition of a considerable proportion of the spread to be earned over the entire term of the new contracts.

- A contribution from in-force annuity and other business, which was broadly in line with last year at £136 million (2015: £135 million), equivalent to 42 basis points of average reserves (2015: 43 basis points).

Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arises within our UK asset management business. Excluding these schemes, the fee margin on the remaining balances was 40 bps (2015: 43 bps).

The lower 2016 insurance margin mainly reflects the more positive experience variance seen in 2015 compared to 2016 together with the fall in annual mortality profits following the extension of our longevity reinsurance programme in 2015 and 2016.

Margin on revenues represents premium charges for expenses and other sundry net income received by the UK

Acquisition costs incurred were broadly consistent with 2015 at £89 million, equivalent to 8 per cent of total APE sales in 2016 (2015: 8 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. The year on year comparison of the ratio is therefore impacted by the level of with-profits business (where acquisition costs are funded by the estate) in the year and the contribution from the bulk annuities transactions in the prior year. Acquisition costs expressed as a percentage of shareholder-backed APE sales (excluding the bulk annuity transactions) were 37 per cent (2015: 36 per cent).

The contribution from longevity reinsurance and other management actions to improve solvency during 2016 was £332 million (2015: £400 million). Further explanation and analysis is provided in

501

Table of Contents

'Contribution to the UK life IFRS metrics from specific management actions undertaken to position the balance sheet more efficiently under the new Solvency II regime' section below.

The 2016 provision for the cost of undertaking a review of past non-advised annuity sales and potential redress of £175 million is explained in note C11, 'Provisions'.

Notes to sources of earnings tables

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. APE is defined under the section "EEV Basis, New Business Results and Free Surplus Generation" in Item 3 of this annual report.

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

(iii) The 2016 comparative information has been presented at AER and CER so as to eliminate the impact of exchange translation. The 2016 CER results as shown above are calculated by translating the 2016 results using the current year foreign exchange rates except where stated otherwise. All CER profit figures have been translated at current year average rates. For Asia CER average liability calculations, the policyholder liabilities have been translated using current year opening and closing exchange rates. For the US CER average liability calculations, the policyholder liabilities have been translated at the current year month end closing exchange rates. See also note A1.The 2015 CER results as shown above were as published in the 2016 20-F and were calculated by translating the 2015 results using 2016 foreign exchange rates.

(iv) For UK and Europe and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for Jackson is generally derived from month end balances throughout the year, as opposed to opening and closing balances only. The average liabilities for fee income in Jackson have been calculated using daily balances instead of month end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. The 2015 average liabilities for fee income in Jackson have been calculated based on average of month end balances. The alternative use of the daily balances to calculate the average would have resulted in no change to the margin on the CER basis. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the year.

(v) The DAC adjustments contain a credit of £43 million in respect of joint ventures and an associate in 2017 (2016: AER credit of £28 million; 2015: AER credit of £3 million).

Table of Contents

I(b) Asia operations analysis of IFRS operating profit by business unit

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

	2017	AER 2016	CER 2016**	2016 AER vs 2017	2016 CER vs 2017	AER 2015	CER 2015
	£m	£m	£m			£m	£m
Hong Kong	**346**	238	250	45%	38%	150	170
Indonesia	**457**	428	447	7%	2%	356	404
Malaysia	**171**	147	149	16%	15%	120	128
Philippines	**41**	38	37	8%	11%	32	35
Singapore	**272**	235	247	16%	10%	204	229
Thailand	**107**	92	100	16%	7%	70	76
Vietnam	**135**	114	117	18%	15%	86	94
South-east Asia Operations including Hong Kong	**1,529**	1,292	1,347	18%	14%	1,018	1,136
China	**91**	64	66	42%	38%	32	35
Taiwan	**43**	35	39	23%	10%	25	28
Other	**64**	49	53	31%	21%	38	42
Non-recurrent items[note(ii)]	**75**	67	70	12%	7%	62	66
Total insurance operations[note(i)]	**1,802**	1,507	1,575	20%	14%	1,175	1,307
Development expenses	**(3)**	(4)	(4)	25%	25%	(4)	(4)
Total long-term business operating profit	**1,799**	1,503	1,571	20%	15%	1,171	1,303
Asset management (Eastspring Investments)	**176**	141	149	25%	18%	115	128
Total Asia operations[note(iii)]	**1,975**	1,644	1,720	20%	15%	1,286	1,431

Notes

(i)

Analysis of operating profit between new and in-force business

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

	2017	2016 AER	2016 CER**	2015 AER	2015 CER
	£m	£m	£m	£m	£m
New business*	**16**	(29)	(30)	5	7
Business in force	**1,711**	1,469	1,535	1,108	1,234
Non-recurrent itemsnote(ii)	**75**	67	70	62	66

Total	**1,802**	1,507	1,575	1,175	1,307

*

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

**

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

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

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

(ii)

In 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £75 million (2016: £67 million; 2015: £62 million) representing a small number of individually minor items.

Table of Contents

I(c) Analysis of asset management operating profit based on longer-term investment returns

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

	2016	
	M&G Prudential asset management note (ii)	Eastspring Investments note (ii)
	£m	£m
Operating income before performance-related fees	923	353
Performance-related fees	33	7
Operating income (net of commission)note(i)	956	360
Operating expensenote(i)	(544)	(198)
Share of associate's results	13	
Group's share of tax on joint ventures' operating profit		(21)
Operating profit based on longer-term investment returns	425	141
Average funds under management	£250.4bn	£109.0bn
Margin based on operating income*	37bps	32bps

Cost/income ratio**	59%	56%

Table of Contents

	2015	
	M&G Prudential asset management note (ii)	Eastspring Investments note (ii)
	£m	£m
Operating income before performance-related fees	939	304
Performance-related fees	22	3
Operating income (net of commision)[note(i)]	961	307
Operating expense	(533)	(176)
Share of associate's results	14	
Group's share of tax on joint ventures' operating profit		(16)
Operating profit based on longer-term investment returns	442	115
Average funds under management	£252.5bn	£85.1bn
Margin based on operating income*	37bps	36bps
Cost/income ratio**	57%	58%

Notes

(i)

Operating income and expense includes the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in note B1.6 of the IFRS financial statements, these amounts are netted and tax deducted and shown as a single amount.

(ii)

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

	M&G Prudential asset management Operating income before performance related fees							Eastspring Investments Operating income before performance related fees					
	Retail	Margin of FUM*	Institutional+	Margin of FUM*	Total	Margin of FUM*		Retail	Margin of FUM*	Institutional+	Margin of FUM*	Total	Margin of FUM*
	£m	bps	£m	bps	£m	bps		£m	bps	£m	bps	£m	bps
2017	**604**	**85**	**430**	**21**	**1,034**	**37**	**2017**	**249**	**57**	**172**	**20**	**421**	**33**
2016	504	86	419	22	923	37	2016	211	58	142	20	353	32
2015	582	87	357	19	939	37	2015	188	61	116	21	304	36

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

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

Institutional includes internal funds.

I(d) Contribution to UK life IFRS metrics from specific management actions undertaken to position the balance sheet more efficiently under the Solvency II regime

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

Table of Contents

The effect of these actions on the UK's long-term IFRS operating profit based on longer-term investment returns, is shown in the tables below.

Operating profit based on longer-term investment returns of UK long term business

	2017	2016	2015
	£m	**£m**	**£m**
Shareholder-backed annuity new business:			
Retail	**9**	41	34
Bulks			89
	9	41	123
In-force business:			
Longevity reinsurance transactions	**31**	197	231
Other management actions to improve solvency	**245**	135	169
Changes in longevity assumption basis	**204**		
Provision for the review of past annuity sales	**(225)**	(175)	
	255	157	400
With-profits and other in-force	**597**	601	644
Total	**861**	799	1,167

II Other Information

II(a)

Funds under management

(a)

Summary

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

Table of Contents

Group held in the statement of financial position and the external funds that are managed by Prudential's asset management operations.

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

Note

Total funds under management comprise:

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

(b)

Investment products external funds under management

	2017					2016				
	At 1 Jan 2017	Market gross inflows	Redemptions	Market and other movements	At 31 Dec 2017	At 1 Jan 2016	Market gross inflows	Redemptions	Market and other movements	At 31 Dec 2016
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
M&G Prudential Wholesale/Direct	**64,209**	**30,949**	**(19,906)**	**4,445**	**79,697**	60,801	15,785	(22,038)	9,661	64,209

M&G Prudential Institutional	**72,554**	**15,220**	**(8,926)**	**5,310**	**84,158**	65,604	7,056	(8,893)	8,787	72,554
Total M&G Prudential(1)	**136,763**	**46,169**	**(28,832)**	**9,755**	**163,855**	126,405	22,841	(30,931)	18,448	136,763
Eastspring Investments	**45,756**	**215,907**	**(211,271)**	**5,493**	**55,885**	36,287	164,004	(161,766)	7,231	45,756
Total(2)	**182,519**	**262,076**	**(240,103)**	**15,248**	**219,740**	162,692	186,845	(192,697)	25,679	182,519

Notes

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

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

(c) M&G and Eastspring Investments total funds under management

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

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

Note

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

II(b)

Return on IFRS shareholders' funds

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

	Note	2017	2016
		£m	£m
Operating profit based on longer-term investment returns, net of tax and non-controlling interests	B5	**3,727**	3,362
Opening shareholders' funds		**14,666**	12,955
Return on shareholders' funds		**25%**	26%

II(c)

IFRS gearing ratio

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

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

Table of Contents

II(d) IFRS shareholders' funds per share

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

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

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

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

Estimated Group shareholder Solvency II capital position*	**31 Dec 2017**	**31 Dec 2016**
	£bn	**£bn**
Own Funds	26.4	24.8
Solvency Capital Requirement	13.1	12.3
Surplus	**13.3**	**12.5**
Solvency ratio	202%	201%

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

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

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

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

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

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

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

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

Table of Contents

The Group shareholder Solvency II capital position excludes:

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

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

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

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

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

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

Analysis of movement in Group capital position

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

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

510

Table of Contents

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

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

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

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

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

Analysis of Group Solvency Capital Requirements

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

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

Table of Contents

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

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

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

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

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

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

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

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

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

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

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

Table of Contents

Sensitivity analysis

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

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

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

(2) Subject to a floor of zero.

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

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

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

UK Solvency II capital position[1,2]

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

Estimated UK shareholder Solvency II capital position*	31 Dec 2017	31 Dec 2016
	£bn	£bn
Own Funds	14.0	12.0
Solvency Capital Requirement	7.9	7.4
Surplus	**6.1**	**4.6**
Solvency ratio	178%	163%

* The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The solvency positions include management's estimate of UK transitional measures reflecting operating and market conditions at each

valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

While there is a large surplus in the UK with-profits funds, this is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK shareholder Solvency II

Table of Contents

surplus results. The estimated UK with-profits funds Solvency II surplus at 31 December 2017 was £4.8 billion, after allowing for recalculation of transitional measures as at 31 December 2017.

Estimated UK with-profits Solvency II capital position*	**31 Dec 2017**	**31 Dec 2016**
	£bn	**£bn**
Own Funds	9.6	8.4
Solvency Capital Requirement	4.8	4.7
Surplus	**4.8**	**3.7**
Solvency ratio	201%	179%

*

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

Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II Own Funds[1]

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

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

Annual regulatory reporting

The Group will publish its Solvency and Financial Condition Report and related quantitative templates no later than 17 June 2018. The templates will require us to combine the Group shareholder solvency position with those of all other ring-fenced funds across the Group. In combining these solvency positions, the contribution to own funds from these ring-fenced funds will be set equal to their aggregate Solvency Capital Requirements, estimated at £6.6 billion (ie the solvency surplus in these ring-fenced funds will not be captured in the templates). There will be no impact on the reported Group Solvency II surplus.

Notes

1

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

2

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

Table of Contents

II(f) Foreign currency source of key metrics

The table below shows the Group's key IFRS metrics analysis by contribution by currency group:

	Group IFRS pre-tax operating profit %notes(2)(3)	Group IFRS shareholders' funds %notes(2)(3)
US dollar linked[note(1)]	**24%**	**21%**
Other Asia currencies	**18%**	**16%**
Total Asia	**42%**	**37%**
UK sterling[notes(2)(3)]	**11%**	**50%**
US dollar[note(3)]	**47%**	**13%**
Total	**100%**	**100%**

Notes

(1) US dollar linked comprise the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.

(2) For operating profit and shareholders' funds, UK sterling includes amounts in respect of M&G Prudential and other operations (including central operations, Africa operations and Prudential Capital). Operating profit for central operations includes amounts for corporate expenditure for Group Head Office as well as Asia Regional Head Office which is incurred in HK dollars.

(3) For shareholders' funds, the US dollar grouping includes US dollar denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

Table of Contents

Exhibits

Documents filed as exhibits to this Form 20-F:

Exhibit Number	Description
1.	Memorandum[4] and Articles of Association of Prudential.[5]
2.1	Form of Deposit Agreement among Prudential, Morgan Guaranty Trust Company of New York, as depositary, and holders and beneficial owners from time to time of ADRs issued there under, including the form of ADR.[1]
2.2	The total amount of long-term debt securities of Prudential plc authorised under any instrument does not exceed 10 per cent of the total assets of the Company on a consolidated basis. Prudential plc hereby agrees to furnish to the Securities and Exchange Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Prudential plc or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.
4.1	M&G Executive Long-Term Incentive Plan[3], Prudential Long-Term Incentive plan[9], Prudential Deferred Annual Incentive Plan[9], Prudential plc 2016 Recruitment Plan.
4.2	Executive Directors' Service Contracts: Mark FitzPatrick John Foley[6] Nic Nicandrou[5] Anne Richards[10] Barry Stowe[2] James Turner Michael Wells[10]
4.3	Other benefits between Prudential Group and Executive Directors: Mark FitzPatrick John Foley[6] Nic Nicandrou[5] Anne Richards[11] Barry Stowe[2] James Turner Michael Wells[6]
4.4	Chairman's Letter of Appointment[8] / Extension[10]
4.5	Other benefits between Prudential and the Chairman[8]
4.6	Non-executive Directors' Letters of Appointment: Sir Howard Davies David Law Kaikhushru Nargolwala Anthony Nightingale Philip Remnant Alice Schroeder Lord Turner Thomas Watjen

Table of Contents

Exhibit Number	Description
4.7	Other benefits between the Prudential Group and the Non-executive Directors Sir Howard Davies[6] David Law[10] Kaikhushru Nargolwala[7] Anthony Nightingale[9] Philip Remnant[8] Alice Schroeder[9] Lord Turner[10] Thomas Watjen
6.	Statement re computation of per share earnings (set forth in Note B5 to the consolidated financial statements included in this Form 20-F).
8.	Subsidiaries of Prudential (set forth in Note D6 to the consolidated financial statements included in this Form 20-F).
12.1	Certification of Prudential plc's Group Chief Executive pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.2	Certification of Prudential plc's Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.1	Annual certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
14.1	Consent of KPMG LLP.
15.1	Prudential's Code of Business Conduct.[6]

(1) As previously filed with the Securities and Exchange Commission on 22 June 2000 as an exhibit to Prudential's Form F-6 (in paper format).

(2) As previously filed with the Securities and Exchange Commission on 28 June 2007 as an exhibit to Prudential's Form 20-F.

(3) As previously filed with the Securities and Exchange Commission on 15 May 2008 as an exhibit to Prudential's Form 20-F.

(4) As previously filed with the Securities and Exchange Commission on 18 May 2009 as an exhibit to Prudential's Form 20-F.

(5) As previously filed with the Securities and Exchange Commission on 22 June 2010 as an exhibit to Prudential's Form 20-F.

(6) As previously filed with the Securities and Exchange Commission on 11 May 2011 as an exhibit to Prudential's Form 20-F.

(7) As previously filed with the Securities and Exchange Commission on 30 March 2012 as an exhibit to Prudential's Form 20-F.

(8)

As previously filed with the Securities and Exchange Commission on 16 April 2013 as an exhibit to Prudential's Form 20-F.

(9)

As previously filed with the Securities and Exchange Commission on 8 April 2014 as an exhibit to Prudential's Form 20-F.

(10)

As previously filed with the Securities and Exchange Commission on 7 April 2016 as an exhibit to Prudential's Form 20-F.

(11)

As previously filed with the Securities and Exchange Commission on 24 March 2017 as an exhibit to Prudential's Form 20-F.

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

	PRUDENTIAL PLC	
22 March 2018	By:	/s/ MIKE WELLS
	Name:	Mike Wells
	Title:	Group Chief Executive