PRUDENTIAL PLC
Form 6-K
March 13, 2019

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of March, 2019

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

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

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

Form 20-F X Form 40-F

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

Yes No X

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated income statement

	Note	2018 £m	2017 £m
Gross premiums earned		47,224	44,005
Outward reinsurance premiumsnote (i)		(14,023)	(2,062)
Earned premiums, net of reinsurance		33,201	41,943

Investment return		(10,263)	42,189
Other incomenote (ii)		1,993	2,258
Total revenue, net of reinsurance		24,931	86,390
Benefits and claimsnote (i)		(27,411)	(71,854)
Outward reinsurers' share of benefit and claimsnote (i)		13,554	2,193
Movement in unallocated surplus of with-profits funds		1,289	(2,871)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(12,568)	(72,532)
Acquisition costs and other expenditurenote (ii)	B2	(8,855)	(9,993)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		(410)	(425)
(Loss) gain on disposal of businesses and corporate transactions	D1.1	(80)	223
Remeasurement of the sold Korea life business		–	5
Total charges, net of reinsurance and (loss) gain on disposal of businesses		(21,913)	(82,722)
Share of profits from joint ventures and associates, net of related tax		291	302
Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (iii)		3,309	3,970
Less tax credit (charge) attributable to policyholders' returns		326	(674)
Profit before tax attributable to shareholders	B1.1	3,635	3,296
Total tax charge attributable to policyholders and shareholders	B4	(296)	(1,580)
Adjustment to remove tax (credit) charge attributable to policyholders' returns		(326)	674
Tax charge attributable to shareholders' returns	B4	(622)	(906)
Profit for the year		3,013	2,390
Attributable to:			
Equity holders of the Company		3,010	2,389
Non-controlling interests		3	1
Profit for the year		3,013	2,390

Earnings per share (in pence)	Note	2018	2017
Based on profit attributable to the equity holders of the Company:	B5		
Basic		116.9p	93.1p
Diluted		116.8p	93.0p

Dividends per share (in pence)	Note	2018	2017
Dividends relating to reporting year:	B6		
First interim ordinary dividend		15.67p	14.50p
Second interim ordinary dividend		33.68p	32.50p
Total		49.35p	47.00p
Dividends paid in reporting year:	B6		
Current year first interim dividend		15.67p	14.50p
Second interim ordinary dividend for prior year		32.50p	30.57p
Total		48.17p	45.07p

Notes

(i)

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

(ii)

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

(iii)

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of comprehensive income

	Note	2018 £m	2017 £m
Profit for the year		3,013	2,390
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year	A1	344	(404)
Cumulative exchange gain of sold Korea life business recycled through profit or loss		–	(61)
Related tax		5	(5)
		349	(470)
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding (losses) gains arising in the year		(1,606)	591
(Deduct net gains) add back net losses included in the income statement on disposal and impairment		(11)	26
Total	C3.2(c)	(1,617)	617
Related change in amortisation of deferred acquisition costs	C5.2	246	(76)
Related tax	C8.1	288	(55)
		(1,083)	486
Total		(734)	16
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Actuarial gains and losses on defined benefit pension schemes		134	200
Related tax		(23)	(33)
		111	167
Deduct amount attributable to UK with-profit funds transferred to unallocated surplus of with-profit funds, net of related tax		(38)	(78)
		73	89
Other comprehensive (loss) income for the year, net of related tax		(661)	105
Total comprehensive income for the year		2,352	2,495
Attributable to:			
Equity holders of the Company		2,348	2,494
Non-controlling interests		4	1
Total comprehensive income for the year		2,352	2,495

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of changes in equity

	Year ended 31 December 2018 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity

	Note	C10	C10						
Reserves									
Profit for the year		–	–	3,010	–	–	3,010	3	3,013
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		–	–	–	348	–	348	1	349
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	(1,083)	(1,083)	–	(1,083)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of related tax		–	–	73	–	–	73	–	73
Total other comprehensive income (loss)		–	–	73	348	(1,083)	(662)	1	(661)
Total comprehensive income for the year		–	–	3,083	348	(1,083)	2,348	4	2,352
Dividends	B6	–	–	(1,244)	–	–	(1,244)	–	(1,244)
Reserve movements in respect of share-based payments		–	–	69	–	–	69	–	69
Change in non-controlling interests	D1.2	–	–	–	–	–	–	7	7
Movements in respect of option to acquire non-controlling interests	D1.2	–	–	(109)	–	–	(109)	–	(109)
Share capital and share premium									
New share capital subscribed	C10	1	16	–	–	–	17	–	17
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	29	–	–	29	–	29
Movement in Prudential plc shares purchased by unit trusts consolidated		–	–	52	–	–	52	–	52

under IFRS									
Net increase (decrease) in equity		1	16	1,880	348	(1,083)	1,162	11	1,173
At beginning of year		129	1,948	12,326	840	844	16,087	7	16,094
At end of year		130	1,964	14,206	1,188	(239)	17,249	18	17,267

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of changes in equity

		Year ended 31 December 2017 £m							
		Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
	Note	C10	C10						
Reserves									
Profit for the year		–	–	2,389	–	–	2,389	1	2,390
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		–	–	–	(470)	–	(470)	–	(470)
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	486	486	–	486
Shareholders’ share of actuarial gains and losses on defined benefit pension schemes, net of related tax		–	–	89	–	–	89	–	89
Total other comprehensive income (loss)		–	–	89	(470)	486	105	–	105
Total comprehensive income for the year		–	–	2,478	(470)	486	2,494	1	2,495
Dividends	B6	–	–	(1,159)	–	–	(1,159)	–	(1,159)
Reserve movements in respect of share-based payments		–	–	89	–	–	89	–	89
Change in non-controlling interests		–	–	–	–	–	–	5	5

Share capital and share premium									
New share capital subscribed	C10	–	21	–	–	–	21	–	21
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	(15)	–	–	(15)	–	(15)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	(9)	–	–	(9)	–	(9)
Net increase (decrease) in equity		–	21	1,384	(470)	486	1,421	6	1,427
At beginning of year		129	1,927	10,942	1,310	358	14,666	1	14,667
At end of year		129	1,948	12,326	840	844	16,087	7	16,094

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of financial position

	Note	31 Dec 2018 £m	31 Dec 2017 £m
Assets			
Goodwill	C5.1	1,857	1,482
Deferred acquisition costs and other intangible assets	C5.2	11,923	11,011
Property, plant and equipment		1,409	789
Reinsurers' share of insurance contract liabilities		11,144	9,673
Deferred tax assets	C8	2,595	2,627
Current tax recoverable		618	613
Accrued investment income		2,749	2,676
Other debtors		4,088	2,963
Investment properties		17,925	16,497
Investment in joint ventures and associates accounted for using the equity method		1,733	1,416
Loans	C3.3	18,010	17,042
Equity securities and portfolio holdings in unit trustsnote (i)		214,733	223,391
Debt securitiesnote (i)	C3.2	175,356	171,374
Derivative assets		3,494	4,801
Other investmentsnote (i)		6,512	5,622
Deposits		11,796	11,236
Assets held for salenote (ii)		10,578	38
Cash and cash equivalents	C1	12,125	10,690
Total assets	C1	508,645	493,941
Equity			
Shareholders' equity		17,249	16,087
Non-controlling interests		18	7
Total equity		17,267	16,094

Liabilities			
Insurance contract liabilities	C4.1	322,666	328,172
Investment contract liabilities with discretionary participation features	C4.1	67,413	62,677
Investment contract liabilities without discretionary participation features	C4.1	19,222	20,394
Unallocated surplus of with-profits funds	C4.1	15,845	16,951
Core structural borrowings of shareholder-financed businesses	C6.1	7,664	6,280
Operational borrowings attributable to shareholder-financed businesses	C6.2	998	1,791
Borrowings attributable to with-profits businesses	C6.2	3,940	3,716
Obligations under funding, securities lending and sale and repurchase agreements		6,989	5,662
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		11,651	8,889
Deferred tax liabilities	C8	4,022	4,715
Current tax liabilities		568	537
Accruals, deferred income and other liabilities	C1	15,248	14,185
Provisions		1,078	1,123
Derivative liabilities		3,506	2,755
Liabilities held for salenote (ii)		10,568	–
Total liabilities	C1	491,378	477,847
Total equity and liabilities		508,645	493,941

Notes

(i)

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,278 million (31 December 2017: £8,232 million) of lent securities and assets subject to repurchase agreements.

(ii)

Assets held for sale of £10,578 million include £10,568 million in respect of the reinsured UK annuity business. A corresponding amount is reflected in liabilities held for sale. See note D1.1 for further details.

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of cash flows

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i)		3,309	3,970
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:			
Investments		15,456	(49,771)
Other non-investment and non-cash assets		(3,503)	(968)
Policyholder liabilities (including unallocated surplus)		(17,392)	44,877
Other liabilities (including operational borrowings)		4,344	3,360
Interest income and expense and dividend income included in result before tax		(7,861)	(8,994)
Operating cash items:			
Interest receipts and payments		5,793	6,900
Dividend receipts		2,361	2,612
Tax paidnote (iv)		(625)	(915)

Other non-cash items		582	549
Net cash flows from operating activities		2,464	1,620
Cash flows from investing activities			
Purchases of property, plant and equipment		(289)	(134)
Proceeds from disposal of property, plant and equipment		4	–
Acquisition of businesses and intangiblesnote (v)		(504)	(351)
Sale of businessesnote (v)		–	1,301
Net cash flows from investing activities		(789)	816
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed businesses:note (ii)	C6.1		
Issue of subordinated debt, net of costs		1,630	565
Redemption of subordinated debt		(434)	(751)
Fees paid to modify terms and conditions of senior debtnote (ii)		(33)	–
Interest paid		(376)	(369)
With-profits businesses:note (iii)	C6.2		
Redemption of subordinated debt		(100)	–
Interest paid		(4)	(9)
Equity capital:			
Issues of ordinary share capital		17	21
Dividends paid		(1,244)	(1,159)
Net cash flows from financing activities		(544)	(1,702)
Net increase in cash and cash equivalents		1,131	734
Cash and cash equivalents at beginning of year		10,690	10,065
Effect of exchange rate changes on cash and cash equivalents		304	(109)
Cash and cash equivalents at end of year		12,125	10,690

Notes

(i)

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

(ii)

Structural borrowings of shareholder-financed businesses exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed businesses and other borrowings of shareholder-financed businesses. Cash flows in respect of these borrowings are included within cash flows from operating activities. The changes in the carrying value of the structural borrowings of shareholder-financed businesses during 2018 are analysed as follows:

	Cash movements £m				Non-cash movements £m		
	Balance at beginning of year	Issue of debt	Redemption of debt	Modification of debt*	Foreign exchange movement	Other movements	Balance at end of year
2018	6,280	1,630	(434)	(33)	210	11	7,664
2017	6,798	565	(751)	–	(341)	9	6,280

*

The amount in 2018 relates to fees paid to bondholders who participated in the voting process in respect of certain modifications to the terms and conditions of the senior debt. Other than these fees, the modification did not result in an adjustment to the carrying value of the senior debt.

(iii)

Interest paid on structural borrowings of with-profits businesses relates solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund

(SAIF), a ring-fenced sub-fund of the UK with-profits fund. These bonds were redeemed in full on 30 June 2018. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
(iv)
Tax paid includes £134 million (2017: £298 million) paid on profits taxable at policyholder rather than shareholder rates.
(v)
Cash flows arising from the 'acquisition of businesses and intangibles' and 'sale of businesses' include amounts paid for distribution rights and cash flows arising from the acquisitions and disposals of businesses (including subsidiaries acquired and disposed by with-profits funds for investment purposes).

International Financial Reporting Standards (IFRS) Basis Results

Notes

A
Background

A1
Basis of preparation and exchange rates

These statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS Standards may differ from IFRS Standards issued by the IASB if, at any point in time, new or amended IFRS Standards have not been endorsed by the EU. At 31 December 2018, there were no unendorsed standards effective for the two years ended 31 December 2018 which impact the consolidated financial information of the Group. There were no differences between IFRS Standards endorsed by the EU and IFRS Standards issued by the IASB in terms of their application to the Group.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2017 with the exception of the adoption of the new and amended accounting standards as described in note A2.

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

Local currency: £	Closing rate at 31 Dec 2018	Average rate for 2018	Closing rate at 31 Dec 2017	Average rate for 2017
Hong Kong	9.97	10.46	10.57	10.04
Indonesia	18,314.37	18,987.65	18,353.44	17,249.38
Malaysia	5.26	5.38	5.47	5.54
Singapore	1.74	1.80	1.81	1.78
China	8.74	8.82	8.81	8.71
India	88.92	91.25	86.34	83.90
Vietnam	29,541.15	30,732.53	30,719.60	29,279.71
Thailand	41.47	43.13	44.09	43.71
US	1.27	1.34	1.35	1.29

Certain notes to the financial statements present 2017 comparative information at constant exchange rates (CER), in addition to the reporting at actual exchange rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. CER results are calculated by translating prior period results using the current period foreign exchange rate, ie current period average rates for the income statement and current period closing rates for the balance sheet.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. The auditors have reported on the 2018 statutory accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered following the Company’s Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

A2
New accounting pronouncements in 2018

IFRS 15, ‘Revenue from Contracts with Customers’
The Group has adopted IFRS 15, ‘Revenue from Contracts with Customers’ from 1 January 2018. This standard provides a single framework to recognise revenue for contracts with different characteristics and overrides the revenue recognition requirements previously provided in other standards. The contracts excluded from the scope of this standard include:

– Lease contracts within the scope of IAS 17, ’Leases’;
– Insurance contracts within the scope of IFRS 4, ‘Insurance Contracts’; and
– Financial instruments within the scope of IAS 39, ‘Financial Instruments’.

The main impacts of IFRS 15 for Prudential are to revenue recognition for asset management contracts and investment contracts that do not contain discretionary participating features but do include investment management services.

In accordance with the transition provisions in IFRS 15, the Group has adopted the standard using the full retrospective method for all periods presented. The only impact on the prior periods presented is a minor reclassification in the consolidated income statement to present certain expenses (such as rebates to clients of asset management fees) as a deduction against revenue. Revenue has been reduced by £234 million in 2018 (2017: £172 million) with a corresponding deduction in expenses.

IFRS 9, ‘Financial Instruments’ and amendments to IFRS 4, ‘Insurance Contracts’
The IASB published a complete version of IFRS 9 in July 2014 with the exception of macro hedge accounting and the standard is mandatorily effective for annual periods beginning on or after 1 January 2018.

In September 2016, the IASB published amendments to IFRS 4, ‘Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts’ to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17, ‘Insurance Contracts’. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect in 2021. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments.

The Group met the eligibility criteria for temporary exemption under the amendments to IFRS 4 from applying IFRS 9 and has accordingly deferred the adoption of IFRS 9. See note A3.2 for further details on IFRS 9, including the disclosures associated with the temporary exemption.

In November 2018, the IASB tentatively decided that the effective date of IFRS 17 should be delayed by one year from periods ending on or after 1 January 2021 to 1 January 2022. The IASB also tentatively decided that IFRS 9 could be delayed for insurers by an additional year to keep the effective date of IFRS 9 and IFRS 17 aligned. These changes are yet to be finalised and the Group continues to monitor developments.

Other new accounting pronouncements
In addition to the above, the following new accounting pronouncements are also effective from 1 January 2018:

—
IFRIC 22, 'Foreign Currency Transactions and Advance Consideration';
—
Classification and measurement of share-based payment transactions (amendments to IFRS 2, 'Share-based payment');
—
Transfers of Investment Property (amendments to IAS 40, 'Investment property'); and
—
Annual Improvements to IFRSs 2014–2016 Cycle.

These pronouncements have had no effect on the Group's financial statements.

B
Earnings performance

B1
Analysis of performance by segment

B1.1
Segment results – profit before tax

	Note	2018 £m	2017 £m		2018 vs 2017 %	
			AER	CER	AER	CER
			note (iv)	note (iv)	note (iv)	note (iv)
Asia:						
Insurance operations	B3(i)	1,982	1,799	1,727	10%	15%
Asset management		182	176	171	3%	6%
Total Asia		2,164	1,975	1,898	10%	14%
US:						
Jackson (US insurance operations)		1,911	2,214	2,137	(14)%	(11)%
Asset management		8	10	9	(20)%	(11)%
Total US		1,919	2,224	2,146	(14)%	(11)%
UK and Europe:						
UK and Europe insurance operations:	B3(iii)					
Long-term business		1,138	861	861	32%	32%
General insurance commissionnote (i)		19	17	17	12%	12%

Total UK and Europe insurance operations		1,157	878	878	32%	32%
UK and Europe asset managementnote (v)	B2	477	500	500	(5)%	(5)%
Total UK and Europe		1,634	1,378	1,378	19%	19%
Total segment profit		5,717	5,577	5,422	3%	5%
Other income and expenditure:						
Investment return and other income		52	11	11	373%	373%
Interest payable on core structural borrowings		(410)	(425)	(425)	4%	4%
Corporate expenditurenote (ii)		(367)	(361)	(355)	(2)%	(3)%
Total other income and expenditure		(725)	(775)	(769)	6%	6%
Restructuring costs		(165)	(103)	(103)	(60)%	(60)%
Adjusted IFRS operating profit based on longer-term investment returns		4,827	4,699	4,550	3%	6%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(558)	(1,563)	(1,514)	64%	63%
Amortisation of acquisition accounting adjustmentsnote (iii)		(46)	(63)	(61)	27%	25%
(Loss) gain on disposal of businesses and corporate transactions	D1.1	(588)	223	218	n/a	n/a
Profit before tax		3,635	3,296	3,193	10%	14%
Tax charge attributable to shareholders' returns	B4	(622)	(906)	(876)	31%	29%
Profit for the year		3,013	2,390	2,317	26%	30%
Attributable to:						
Equity holders of the Company		3,010	2,389	2,316	26%	30%
Non-controlling interests		3	1	1	200%	200%

	Note	2018	2017		2018 vs 2017 %	
			AER	CER	AER	CER
Basic earnings per share (in pence)			note (iv)	note (iv)	note (iv)	note (iv)
Based on adjusted IFRS operating profit based on longer-term investment returnsnote (vi)	B5	156.6p	145.2p	140.4p	8%	12%
Based on profit for the year	B5	116.9p	93.1p	90.0p	26%	30%

Notes

(i)

The majority of the general insurance commission is not expected to recur in future years.

(ii)

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

(iii)

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

(iv)

For definitions of AER and CER refer to note A1. The difference between 'Profit for the year attributable to shareholders' in the prior year on an AER basis and a CER basis is £73 million, arising from the retranslation of the prior year results of the Group's foreign subsidiaries into GBP using the exchange rates applied to the equivalent current year results.

(v)

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

	2018 £m	2017 £m
Asset management fee income	1,098	1,027

Other income	2	7
Staff costs*	(384)	(400)
Other costs*	(270)	(202)
Underlying profit before performance-related fees	446	432
Share of associate results	16	15
Performance-related fees	15	53
Total UK and Europe asset management adjusted IFRS operating profit based on longer-term investment returns	477	500

*
Staff and other costs include £27 million of charges incurred preparing for Brexit.

(vi)
Tax charges have been reflected as operating and non-operating in the same way as for the pre-tax items. Further details on tax charges are provided in note B4.

B1.2
Short-term fluctuations in investment returns on shareholder-backed business

	2018 £m	2017 £m
Asia operations	(512)	(1)
US operations	(100)	(1,568)
UK and Europe operations	34	(14)
Other operations	20	20
Total	(558)	(1,563)

(i)
Asia operations
In Asia, the negative short-term fluctuations of £(512) million (2017: negative £(1) million) principally reflect net value movements on assets and related liabilities following increases in bond yields and falls in equity markets during the year, especially in those countries where policyholder liabilities use a valuation interest rate which does not reflect all movements in interest rates in the period.

(ii)
US operations
The short-term fluctuations in investment returns for US insurance operations are reported net of the related charge for amortisation of deferred acquisition costs of £(114) million as shown in note C5.2(a) (2017: credit of £462 million) and comprise amounts in respect of the following items:

	2018 £m	2017 £m
Net equity hedge resultnote (a)	(58)	(1,490)
Other than equity-related	(64)	(36)

derivativesnote (b)		
Debt securitiesnote (c)	(31)	(73)
Equity-type investments: actual less longer-term return	38	12
Other items	15	19
Total	(100)	(1,568)

Notes
(a)
Net equity hedge result

The net equity hedge result relates to the accounting effect of market movements on both the value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. The level of fees recognised in non-operating profit is determined by reference to that allowed for within the reserving basis. The variable annuity guarantees are valued in accordance with either Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (formerly FAS 157) or ASC Topic 944, Financial Services – Insurance (formerly SOP 03-01) depending on the type of guarantee. Both approaches require an entity to determine the total fee ('the fee assessment') that is expected to fund future projected benefit payments arising using the assumptions applicable for that method. The method under FAS 157 requires this fee assessment to be fixed at the time of issue. As the fees included within the initial fee assessment are earned, they are included in non-operating profit to match the corresponding movement in the guarantee liability. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.3(c) below.

The net equity hedge result therefore includes significant accounting mismatches and other factors that do not represent the economic result. These other factors include:

– The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP as described in note B1.3(c);

– The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and

– Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

The net equity hedge result (net of related DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins) can be summarised as follows:

	2018 £m	2017 £m
Fair value movements on equity hedge instruments*	299	(1,871)
Accounting value movements on the variable and fixed index annuity guarantee liabilities†	(894)	(99)
Fee assessments net of claim payments	537	480
Total	(58)	(1,490)

*

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

†

The accounting value movements on the variable and fixed index annuity guarantee liabilities reflect the impact of market movements and changes in economic and actuarial assumptions. Actuarial assumptions include consideration of persistency, mortality and the expected utilisation of certain features attaching to variable annuity contracts. Assumptions are updated annually via a comparison to experience and after applying expert judgement for how experience may change in the future. Routine updates in 2018 reduced profit before tax (after allowing related changed to DAC amortisation) by £143 million (2017: £382 million).

(b)

Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

–

Fair value movements on free-standing, other than equity-related derivatives;

–

Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued as explained in note B1.3; and

–

Related amortisation of DAC.

The free-standing, other than equity-related derivatives are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

(c)

Short-term fluctuations related to debt securities

	2018 £m	2017 £m
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(4)	(3)
Bond write-downs	(4)	(2)
Recoveries/reversals	19	10
Total credits in the year	11	5
Risk margin allowance deducted from adjusted IFRS operating profit based on longer-term investment returns*	77	86
	88	91
Interest-related realised (losses) gains:		
Losses arising in the year	(8)	(43)
Less: Amortisation of gains and losses arising in current and prior years to adjusted IFRS operating profit based on longer-term investment returns	(116)	(140)
	(124)	(183)
Related amortisation of deferred acquisition costs	5	19
Total short-term fluctuations related to debt securities	(31)	(73)

*

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in adjusted IFRS operating profit based on longer-term investment returns with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in adjusted IFRS operating profit based on longer-term investment returns of Jackson for 2018 is based on an average annual risk margin reserve of 18 basis points (2017: 21 basis points) on average book values of US$57.1 billion (2017: US$55.3 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	2018				2017			
	Average book value	RMR	Annual expected loss		Average book value	RMR	Annual expected loss	
	US$m	%	US$m	£m	US$m	%	US$m	£m
A3 or higher	29,982	0.10	(31)	(23)	27,277	0.12	(33)	(25)
Baa1, 2 or 3	25,814	0.21	(55)	(40)	26,626	0.22	(58)	(45)
Ba1, 2 or 3	1,042	0.98	(10)	(8)	1,046	1.03	(11)	(8)
B1, 2 or 3	289	2.64	(8)	(6)	318	2.70	(9)	(7)
Below B3	11	3.69	–	–	23	3.78	(1)	(1)
Total	57,138	0.18	(104)	(77)	55,290	0.21	(112)	(86)
Related amortisation of deferred acquisition costs (see below)			22	15			21	15
Risk margin reserve charge to adjusted IFRS operating profit for longer-term credit-related losses			(82)	(62)			(91)	(71)

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax charge of £(1,371) million for net unrealised losses on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2017: credit of £541 million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(iii)
UK and Europe operations
The positive short-term fluctuations in investment returns for the UK and Europe operations of £34 million (2017: negative £14 million) mainly arises from unrealised gains on equity options held to hedge the value of future shareholder transfers from the with-profits fund partially offset by losses on corporate bonds backing capital to support the remaining annuity business, given the increase in interest rates and credit spreads in 2018.

(iv)
Other operations
The positive short-term fluctuations in investment returns for other operations of £20 million (2017: positive £20 million) include unrealised value movements on financial instruments held outside of the main life operations.

B1.3 Determining operating segments and performance measure of operating segments

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

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

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

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

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

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

(a)
General principles
(i)
UK-style with-profits business
The adjusted IFRS operating profit based on longer-term investment returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of adjusted IFRS operating profit based on longer-term investment returns.

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

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

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

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

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

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

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

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

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

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

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

Equity-type securities

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

Derivative value movements

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

(b)

Asia insurance operations

(i)

Business where policyholder liabilities are sensitive to market conditions

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

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

(ii)

Other Asia shareholder-financed business

Debt securities

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

Equity-type securities

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

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

(c)
US insurance operations
(i)
Separate account business
For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the adjusted IFRS operating profit based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

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

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

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

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

(iii)

Other derivative value movements

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

(iv)

Other US shareholder-financed business

Debt securities

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

Equity-type securities

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

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

(d)

UK and Europe insurance operations

(i)

Shareholder-backed annuity business

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

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

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

–
Credit experience compared with assumptions; and

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

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

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

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

B2
Acquisition costs and other expenditure

	2018 £m	2017 £m
Acquisition costs incurred for insurance policies	(3,438)	(3,712)
Acquisition costs deferred less amortisation of acquisition costs	59	911
Administration costs and other expenditure*	(5,380)	(6,208)
Movements in amounts attributable to external unit holders of consolidated investment funds	(96)	(984)
Total acquisition costs and other expenditure	(8,855)	(9,993)

*
Following the adoption of IFRS 15, the 2017 comparative results have been re-presented as described in note A2. The 2018 administration costs and other expenditure includes a credit of £0.4 billion for the negative ceding commissions arising from the group payout annuity business reinsurance agreement entered into by Jackson with John Hancock Life during the year.

B3
Effect of changes and other accounting matters on insurance assets and liabilities

The following matters are relevant to the determination of the 2018 results:

(i)
Asia insurance operations
In 2018, the adjusted IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £94 million (2017: £75 million) representing a small number of items that are not expected to

reoccur, including the non-recurring impact of a refinement to the run-off of the allowance for prudence within technical provisions within Singapore.

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

(iii)
UK and Europe insurance operations

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

The IFRS credit risk allowance made for the UK shareholder-backed fixed and linked annuity business equated to 40 basis points at 31 December 2018 (31 December 2017: 42 basis points). The allowance represented 22 per cent of the bond spread over swap rates (31 December 2017: 28 per cent).

The reserves for credit risk allowance at 31 December 2018 for the UK shareholder-backed business were £0.9 billion (31 December 2017: £1.6 billion). The 2018 credit risk allowance information is after reflecting the impact of the reinsurance of £12.0 billion of the UK shareholder-backed annuity portfolio to Rothesay Life entered into in March 2018. See note D1.1 for further details.

Other assumption changes
For the shareholder-backed business, in addition to the movement in the credit risk allowance discussed above, the net effect of routine changes to assumptions in 2018 was a credit of £437 million (2017: credit of £173 million).This included, among other items, a benefit to adjusted IFRS operating profit based on longer-term investment returns of £441 million (2017: £204 million), relating to changes to annuitant mortality assumptions to reflect current mortality experience, which has shown a slowdown in life expectancy improvements in recent periods, and the adoption of the Continuous Mortality Investigation (CMI) 2016 model (2017: adoption of 2015 model).

Longevity reinsurance and other management actions
Aside from the aforementioned reinsurance agreement with Rothesay Life, no new longevity reinsurance transactions were undertaken in 2018 (2017: longevity reinsurance transactions covering £0.6 billion of IFRS annuity liabilities contributed £31 million to profit). Other management actions generated profits of £58 million (2017: £245 million).

Review of past annuity sales
Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. A gross provision of £400 million, before costs incurred, was established at 31 December 2017 to cover the costs of undertaking the review and any related redress and following a reassessment, no change has been made in 2018. The majority of the provision will be utilised in 2019. The ultimate amount that will be expended by the Group on the review will remain uncertain until the project is completed. If the population subject to redress increased or decreased by 10 per cent, then the provision would be expected to increase or decrease by circa 7 per cent accordingly. Additionally, in 2018, the Group agreed with its professional indemnity insurers that they will meet £166 million of the Group’s claims costs, which will be paid as the Group incurs costs/redress. This has been recognised on

the Group's balance sheet within 'Other debtors' at 31 December 2018.

B4
Tax charge

(a)
Total tax charge by nature of expense
The total tax charge in the income statement is as follows:

	2018 £m			2017 £m
Tax charge	Current tax	Deferred tax	Total	Total
Attributable to shareholders:				
Asia operations	(199)	(78)	(277)	(253)
US operations	(87)	(168)	(255)	(508)
UK and Europe	(255)	39	(216)	(267)
Other operations	125	1	126	122
Tax charge attributable to shareholders' returns	(416)	(206)	(622)	(906)
Attributable to policyholders:				
Asia operations	(92)	12	(80)	(249)
UK and Europe	(188)	594	406	(425)
Tax (charge) credit attributable to policyholders' returns	(280)	606	326	(674)
Total tax charge	(696)	400	(296)	(1,580)

The principal reason for the decrease in the tax charge attributable to shareholders' returns is the inclusion in 2017 of a £445 million deferred tax charge arising on the remeasurement of the US net deferred tax assets from 35 per cent to 21 per cent following the enactment of the US tax reform package, the Tax Cuts and Jobs Act. The movement from a charge of £674 million to a credit of £326 million in the tax charge attributable to policyholders' returns mainly reflects a decrease in the deferred tax liabilities on unrealised gains on investments in the with-profits funds of the UK and Europe and of Asia compared to 2017.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in (b) below. The tax credit attributable to policyholders of £326 million above is equal to the loss before tax attributable to policyholders of £326 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after-tax basis.

In 2018, a tax charge of £270 million (2017: charge of £93 million) has been taken through other comprehensive income.

(b)
Reconciliation of shareholder effective tax rate

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

	2018 £m					
	Asia operations	US operations note (i)	UK and Europe	Other* operations	Total attributable to shareholders	Percentage impact on ETR
Adjusted IFRS operating profit (loss) based on longer-term investment returns	2,164	1,919	1,634	(890)	4,827	
Non-operating loss	(527)	(180)	(474)	(11)	(1,192)	
Profit (loss) before tax	1,637	1,739	1,160	(901)	3,635	
Expected tax rate	22%	21%	19%	19%	21%	
Tax at the expected rate	360	365	220	(171)	774	21.3%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(34)	(17)	(6)	(2)	(59)	(1.6)%
Deductions not allowable for tax purposes	39	3	15	10	67	1.8%
Items related to taxation of life insurance businessesnote (ii)	(13)	(83)	(2)	–	(98)	(2.7)%
Deferred tax adjustments	(11)	–	2	(30)	(39)	(1.1)%
Effect of results of joint ventures and associatesnote (iii)	(63)	–	(3)	2	(64)	(1.8)%
Irrecoverable withholding taxesnote (iv)	–	–	–	47	47	1.3%
Other	(3)	–	3	3	3	0.1%
Total	(85)	(97)	9	30	(143)	(4.0)%
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	–	(17)	(11)	14	(14)	(0.4)%
Movements in provisions for open tax mattersnote (v)	2	4	(2)	1	5	0.2%
Total	2	(13)	(13)	15	(9)	(0.2)%
Total actual tax charge (credit)	277	255	216	(126)	622	17.1%
Analysed into:						
Tax on adjusted IFRS operating profit based on longer-term investment returns	308	301	313	(130)	792	
Tax on non-operating profit	(31)	(46)	(97)	4	(170)	
Actual tax rate:						
Adjusted IFRS operating profit based on longer-term investment returns:	14%	16%	19%	15%	16%	

Including non-recurring tax reconciling items					
Excluding non-recurring tax reconciling items	14%	16%	20%	16%	16%
Total profit	17%	15%	19%	14%	17%

*
Other operations include restructuring costs.

Notes

(i)
Impact of US tax reform

The 2018 tax charge for US operations reflects the full impact of the US tax reform package, the Tax Cuts and Jobs Act, which was enacted in December 2017 and took effect from 1 January 2018. The expected tax rate of 21 per cent reflects the reduced US corporate income tax rate compared to 35 per cent for 2017. The benefit of the dividend received deduction (shown in Items related to the taxation of life insurance businesses) is lower in 2018 than 2017 reflecting the changes to how this deduction is computed. In 2017, the reduction in the US corporate income tax rate gave rise to a £445 million unfavourable reconciling item in US operations relating to the remeasurement of the net deferred tax asset attributable to shareholders and a £134 million benefit recognised in other comprehensive income.

(ii)
Items related to taxation of life insurance businesses

The £83 million (2017: £238 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. The principal reason for the reduction in the Asia operations reconciling items from £92 million at 2017 to £13 million at 2018 reflects non-operating investment losses in Hong Kong which do not attract tax relief offsetting the benefit of operating profits due to the taxable profit being computed as 5 per cent of net insurance premiums.

(iii)
Effects of results of joint ventures and associates

Profit before tax includes Prudential's share of profits after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item in the table above.

(iv)
Irrecoverable withholding taxes

The £47 million (2017: £54 million) adverse reconciling items reflects local withholding taxes on dividends paid by certain non-UK subsidiaries, principally Indonesia, to the UK. The dividends are exempt from UK tax and consequently the withholding tax cannot be offset against UK tax payments.

(v)
Movements in provisions for open tax matters

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

	£m
At 31 December 2017	(139)
Movements in the current period included in:	
Tax charge attributable to shareholders	(5)

Other movements*	(5)
At 31 December 2018	(149)

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

	2017 £m					
	Asia operations	US operations	UK and Europe	Other operations*	Total attributable to shareholders	Percentage impact on ETR
Adjusted IFRS operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	(878)	4,699	
Non-operating profit (loss)	53	(1,462)	(14)	20	(1,403)	
Profit (loss) before tax	2,028	762	1,364	(858)	3,296	
Expected tax rate	21%	35%	19%	19%	24%	
Tax at the expected rate	426	267	259	(163)	789	23.9%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(64)	(11)	(2)	(14)	(91)	(2.8)%
Deductions not allowable for tax purposes	26	6	13	10	55	1.7%
Items related to taxation of life insurance businesses	(92)	(238)	(2)	-	(332)	(10.1)%
Deferred tax adjustments	11	17	(1)	(5)	22	0.7%
Effect of results of joint ventures and associates	(52)	-	(3)	-	(55)	(1.7)%
Irrecoverable withholding taxes	-	-	-	54	54	1.6%
Other	(10)	-	6	(1)	(5)	(0.1)%
Total	(181)	(226)	11	44	(352)	(10.7)%
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	(3)	(15)	(3)	(3)	(24)	(0.7)%
Movements in provisions for open tax matters	19	25	-	-	44	1.3%
Impact of US tax reform	-	445	-	-	445	13.5%
Adjustments in relation to business disposals	(8)	12	-	-	4	0.1%
Total	8	467	(3)	(3)	469	14.2%
Total actual tax charge (credit)	253	508	267	(122)	906	27.4%
Analysed into:						
Tax on adjusted IFRS operating profit based on longer-term investment returns	276	548	268	(121)	971	
Tax on non-operating profit	(23)	(40)	(1)	(1)	(65)	
Actual tax rate:						

Adjusted IFRS operating profit based on longer-term investment returns:					
Including non-recurring tax reconciling items	14%	25%	19%	14%	21%
Excluding non-recurring tax reconciling items	13%	24%	20%	13%	20%
Total profit	12%	67%	20%	14%	27%

*
Other operations include restructuring costs.

B5
Earnings per share

		2018					
		Before tax	Tax	Non-controlling interests	Net of tax and non-controlling interests	Basic earnings per share	Diluted earnings per share
		£m	£m	£m	£m	Pence	Pence
	Note	B1.1	B4				
Based on adjusted IFRS operating profit based on longer-term investment returns		4,827	(792)	(3)	4,032	156.6p	156.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(558)	53	–	(505)	(19.7)p	(19.7)p
Amortisation of acquisition accounting adjustments		(46)	9	–	(37)	(1.4)p	(1.4)p
Loss on disposal of businesses and corporate transactions	D1.1	(588)	108	–	(480)	(18.6)p	(18.6)p
Based on profit for the year		3,635	(622)	(3)	3,010	116.9p	116.8p

		2017					
		Before tax	Tax	Non-controlling interests	Net of tax and non-controlling interests	Basic earnings per share	Diluted earnings per share
		£m	£m	£m	£m	Pence	Pence
	Note	B1.1	B4				
		4,699	(971)	(1)	3,727	145.2p	145.1p

Based on adjusted IFRS operating profit based on longer-term investment returns							
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,563)	572	–	(991)	(38.6)p	(38.6)p
Amortisation of acquisition accounting adjustments		(63)	20	–	(43)	(1.7)p	(1.7)p
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income		61	–	–	61	2.4p	2.4p
Profit attaching to the disposal of businesses	D1.1	162	(82)	–	80	3.1p	3.1p
Impact of US tax reform	B4	–	(445)	–	(445)	(17.3)p	(17.3)p
Based on profit for the year		3,296	(906)	(1)	2,389	93.1p	93.0p

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

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

	2018	2017
Weighted average number (in millions) of shares for calculation of:		
Basic earnings per share	2,575	2,567
Shares under option at end of year	5	6
Number of shares that would have been issued at fair value on assumed option price	(4)	(5)
Diluted earnings per share	2,576	2,568

B6
Dividends

	2018		2017	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
First interim ordinary dividend	15.67p	406	14.50p	375

Second interim ordinary dividend	33.68p	873	32.50p	841
Total	49.35p	1,279	47.00p	1,216
Dividends paid in reporting year:				
Current year first interim ordinary dividend	15.67p	404	14.50p	373
Second interim ordinary dividend for prior year	32.50p	840	30.57p	786
Total	48.17p	1,244	45.07p	1,159

Dividend per share

For the year ended 31 December 2017 the second interim ordinary dividend of 32.50 pence per ordinary share was paid to eligible shareholders on 18 May 2018. The 2018 first interim ordinary dividend of 15.67 pence per ordinary share was paid to eligible shareholders on 27 September 2018.

The second interim ordinary dividend for the year ended 31 December 2018 of 33.68 pence per ordinary share will be paid on 17 May 2019 in sterling to shareholders on the UK register and the Irish branch register on 29 March 2019 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 24 May 2019. The second interim ordinary dividend will be paid on or about 24 May 2019 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 12 March 2019. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore dollars, will be determined by CDP.

Shareholders on the UK register and Irish branch register are eligible to participate in a Dividend Reinvestment Plan.

C
Balance sheet notes

C1
Analysis of Group statement of financial position by segment

		31 Dec 2018 £m						31 Dec 2017 £m
		Asia	US	UK and Europe	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	Group total	Group total
By operating segment	Note	C2.1	C2.2	C2.3	note			
Assets								
Goodwill	C5.1	498	–	1,359	–	–	1,857	1,482
Deferred acquisition costs and other intangible assets	C5.2	2,937	8,747	195	44	–	11,923	11,011
Property, plant and equipment		129	246	1,031	3	–	1,409	789
Reinsurers' share of insurance contract liabilities		2,777	6,662	2,812	2	(1,109)	11,144	9,673

Deferred tax assets	C8	119	2,295	126	55	–	2,595	2,627
Current tax recoverable		26	311	244	118	(81)	618	613
Accrued investment income		664	498	1,511	76	–	2,749	2,676
Other debtors		2,978	238	4,189	1,968	(5,285)	4,088	2,963
Investment properties		5	6	17,914	–	–	17,925	16,497
Investment in joint ventures and associates accounted for using the equity method		991	–	742	–	–	1,733	1,416
Loans	C3.3	1,377	11,066	5,567	–	–	18,010	17,042
Equity securities and portfolio holdings in unit trusts		32,150	128,657	53,810	116	–	214,733	223,391
Debt securities	C3.2	45,839	41,594	85,956	1,967	–	175,356	171,374
Derivative assets		296	574	2,513	111	–	3,494	4,801
Other investments		–	927	5,585	–	–	6,512	5,622
Deposits		1,224	92	10,320	160	–	11,796	11,236
Assets held for sale*		–	–	10,578	–	–	10,578	38
Cash and cash equivalents		2,189	3,005	4,749	2,182	–	12,125	10,690
Total assets		94,199	204,918	209,201	6,802	(6,475)	508,645	493,941
Total equity		6,428	5,624	8,700	(3,485)	–	17,267	16,094
Liabilities								
Insurance contract liabilities	C4.1	72,349	182,432	68,957	37	(1,109)	322,666	328,172
Investment contract liabilities with discretionary participation features	C4.1	375	–	67,038	–	–	67,413	62,677
Investment contract liabilities without discretionary participation features	C4.1	492	3,168	15,560	2	–	19,222	20,394
Unallocated surplus of with-profits funds	C4.1	2,511	–	13,334	–	–	15,845	16,951
Core structural borrowings of shareholder-financed businesses	C6.1	–	196	–	7,468	–	7,664	6,280
Operational borrowings attributable to shareholder-financed businesses	C6.2	61	328	106	503	–	998	1,791
Borrowings attributable to with-profits	C6.2	19	–	3,921	–	–	3,940	3,716

businesses								
Obligations under funding, securities lending and sale and repurchase agreements		–	5,765	1,224	–	–	6,989	5,662
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,617	–	9,013	21	–	11,651	8,889
Deferred tax liabilities	C8	1,257	1,688	1,061	16	–	4,022	4,715
Current tax liabilities		133	115	326	75	(81)	568	537
Accruals, deferred income and other liabilities		7,641	5,324	6,442	1,126	(5,285)	15,248	14,185
Provisions		251	23	743	61	–	1,078	1,123
Derivative liabilities		65	255	2,208	978	–	3,506	2,755
Liabilities held for sale*		–	–	10,568	–	–	10,568	–
Total liabilities		87,771	199,294	200,501	10,287	(6,475)	491,378	477,847
Total equity and liabilities		94,199	204,918	209,201	6,802	(6,475)	508,645	493,941

*
Assets held for sale of £10,578 million includes £10,568 million in respect of the reinsured UK annuity business. The corresponding policyholder and other liabilities of £10,568 million is reflected in liabilities held for sale (see note D1.1).

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

C2
Analysis of segment statement of financial position by business type

C2.1
Asia

		31 Dec 2018 £m							31 Dec 2017 £m
		Insurance							
	Note	With-profits business*	Unit-linked assets and liabilities	Other business	Total	Asset management	Eliminations	Total	Total
Assets									
Goodwill		–	–	251	251	247	–	498	305
Deferred acquisition costs and other intangible		56	–	2,870	2,926	11	–	2,937	2,540

assets									
Property, plant and equipment		90	–	34	124	5	–	129	125
Reinsurers' share of insurance contract liabilities		63	–	2,714	2,777	–	–	2,777	1,960
Deferred tax assets		–	1	108	109	10	–	119	112
Current tax recoverable		–	2	23	25	1	–	26	58
Accrued investment income		254	51	327	632	32	–	664	595
Other debtors		1,676	730	535	2,941	77	(40)	2,978	2,675
Investment properties		–	–	5	5	–	–	5	5
Investment in joint ventures and associates accounted for using the equity method		–	–	827	827	164	–	991	912
Loans	C3.3	792	–	585	1,377	–	–	1,377	1,317
Equity securities and portfolio holdings in unit trusts		17,165	12,804	2,146	32,115	35	–	32,150	29,976
Debt securities	C3.2	27,204	3,981	14,583	45,768	71	–	45,839	40,982
Derivative assets		201	4	91	296	–	–	296	113
Deposits		250	455	458	1,163	61	–	1,224	1,291
Cash and cash equivalents		870	326	874	2,070	119	–	2,189	1,934
Total assets		48,621	18,354	26,431	93,406	833	(40)	94,199	84,900
Total equity		–	–	5,868	5,868	560	–	6,428	5,926
Liabilities									
Insurance contract liabilities		40,389	15,876	16,084	72,349	–	–	72,349	63,468
Investment contract liabilities with discretionary participation features	C4.1(b)	375	–	–	375	–	–	375	337
Investment contract liabilities	C4.1(b)	–	492	–	492	–	–	492	328

without discretionary participation features								
Unallocated surplus of with-profits funds	2,511	–	–	2,511	–	–	2,511	3,474
Operational borrowings attributable to shareholder-financed businesses	–	50	11	61	–	–	61	50
Borrowings attributable to with-profits businesses	19	–	–	19	–	–	19	10
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	1,242	1,024	351	2,617	–	–	2,617	3,631
Deferred tax liabilities	812	21	422	1,255	2	–	1,257	1,152
Current tax liabilities	27	–	93	120	13	–	133	122
Accruals, deferred income and other liabilities	3,138	889	3,475	7,502	179	(40)	7,641	6,069
Provisions	57	–	115	172	79	–	251	254
Derivative liabilities	51	2	12	65	–	–	65	79
Total liabilities	48,621	18,354	20,563	87,538	273	(40)	87,771	78,974
Total equity and liabilities	48,621	18,354	26,431	93,406	833	(40)	94,199	84,900

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

C2.2
US

		31 Dec 2018 £m						31 Dec 2017 £m
		Insurance						
	Note	Variable annuity separate account assets and	Fixed annuity, GICs and other	Total	Asset management	Eliminations	Total	Total

		liabilities	business					
Assets								
Goodwill		–	–	–	–	–	–	–
Deferred acquisition costs and other intangible assets		–	8,747	8,747	–	–	8,747	8,219
Property, plant and equipment		–	243	243	3	–	246	214
Reinsurers' share of insurance contract liabilities		–	6,662	6,662	–	–	6,662	6,424
Deferred tax assets		–	2,271	2,271	24	–	2,295	2,300
Current tax recoverable		–	309	309	2	–	311	298
Accrued investment income		–	493	493	5	–	498	492
Other debtors		–	230	230	76	(68)	238	248
Investment properties		–	6	6	–	–	6	5
Loans	C3.3	–	11,066	11,066	–	–	11,066	9,630
Equity securities and portfolio holdings in unit trusts		128,220	433	128,653	4	–	128,657	130,630
Debt securities	C3.2	–	41,594	41,594	–	–	41,594	35,378
Derivative assets		–	574	574	–	–	574	1,611
Other investments		–	926	926	1	–	927	848
Deposits		–	–	–	92	–	92	43
Cash and cash equivalents		–	2,976	2,976	29	–	3,005	1,658
Total assets		128,220	76,530	204,750	236	(68)	204,918	197,998
Total equity		–	5,584	5,584	40	–	5,624	5,248
Liabilities								
Insurance contract liabilities		128,220	54,212	182,432	–	–	182,432	177,728
Investment contract liabilities without discretionary participation	C4.1(c)	–	3,168	3,168	–	–	3,168	2,996

features							
Core structural borrowings of shareholder-financed businesses	–	196	196	–	–	196	184
Operational borrowings attributable to shareholder-financed businesses	–	328	328	–	–	328	508
Obligations under funding, securities lending and sale and repurchase agreements	–	5,765	5,765	–	–	5,765	4,304
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	–	–	–	–	–	–	–
Deferred tax liabilities	–	1,688	1,688	–	–	1,688	1,845
Current tax liabilities	–	114	114	1	–	115	47
Accruals, deferred income and other liabilities	–	5,197	5,197	195	(68)	5,324	5,109
Provisions	–	23	23	–	–	23	24
Derivative liabilities	–	255	255	–	–	255	5
Total liabilities	128,220	70,946	199,166	196	(68)	199,294	192,750
Total equity and liabilities	128,220	76,530	204,750	236	(68)	204,918	197,998

C2.3
UK and Europe

		31 Dec 2018 £m							31 Dec 2017 £m
		Insurance							
			Other funds and subsidiaries						
	Note	With-profits business*	Unit-linked assets and liabilities	Annuity and other long-term business	Total	Asset management	Eliminations	Total	Total

Assets									
Goodwill		206	–	–	206	1,153	–	1,359	1,177
Deferred acquisition costs and other intangible assets		83	–	94	177	18	–	195	210
Property, plant and equipment		895	–	39	934	97	–	1,031	447
Reinsurers' share of insurance contract liabilities		1,131	115	1,566	2,812	–	–	2,812	2,521
Deferred tax assets		61	–	45	106	20	–	126	157
Current tax recoverable		58	6	174	238	6	–	244	244
Accrued investment income		1,010	116	378	1,504	7	–	1,511	1,558
Other debtors		2,102	575	641	3,318	1,011	(140)	4,189	3,118
Investment properties		15,635	618	1,661	17,914	–	–	17,914	16,487
Investment in joint ventures and associates accounted for using the equity method		705	–	–	705	37	–	742	504
Loans	C3.3	3,853	–	1,714	5,567	–	–	5,567	5,986
Equity securities and portfolio holdings in unit trusts		41,090	12,477	20	53,587	223	–	53,810	62,670
Debt securities	C3.2	53,798	10,512	21,646	85,956	–	–	85,956	92,707
Derivative assets		1,957	1	555	2,513	–	–	2,513	2,954
Other investments		5,573	10	1	5,584	1	–	5,585	4,774

Deposits		8,530	1,101	689	10,320	–	–	10,320	9,540
Assets held for sale		10	–	10,568	10,578	–	–	10,578	38
Cash and cash equivalents		3,520	190	688	4,398	351	–	4,749	5,808
Total assets		140,217	25,721	40,479	206,417	2,924	(140)	209,201	210,900
Total equity		–	–	6,540	6,540	2,160	–	8,700	8,245
Liabilities									
Insurance contract liabilities	C4.1(d)	43,775	5,219	19,963	68,957	–	–	68,957	88,180
Investment contract liabilities with discretionary participation features	C4.1(d)	67,018	–	20	67,038	–	–	67,038	62,340
Investment contract liabilities without discretionary participation features	C4.1(d)	2	15,498	60	15,560	–	–	15,560	17,069
Unallocated surplus of with-profits funds		13,334	–	–	13,334	–	–	13,334	13,477
Operational borrowings attributable to shareholder-financed businesses		–	4	102	106	–	–	106	148
Borrowings attributable to with-profits businesses		3,921	–	–	3,921	–	–	3,921	3,706
Obligations under funding, securities lending and sale and		999	–	225	1,224	–	–	1,224	1,358

repurchase agreements								
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	4,349	4,643	21	9,013	–	–	9,013	5,243
Deferred tax liabilities	892	–	147	1,039	22	–	1,061	1,703
Current tax liabilities	29	–	269	298	28	–	326	377
Accruals deferred income and other liabilities	4,601	354	1,141	6,096	486	(140)	6,442	6,609
Provisions	32	–	484	516	227	–	743	784
Derivative liabilities	1,265	3	939	2,207	1	–	2,208	1,661
Liabilities held for sale	–	–	10,568	10,568	–	–	10,568	–
Total liabilities	140,217	25,721	33,939	199,877	764	(140)	200,501	202,655
Total equity and liabilities	140,217	25,721	40,479	206,417	2,924	(140)	209,201	210,900

*
Includes the Scottish Amicable Insurance Fund which, at 31 December 2018, had total assets and liabilities of £4,844 million (2017: £5,768 million). The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The UK with-profits fund includes £9.5 billion (2017: £10.6 billion) of non-profits annuities liabilities.

C3
Assets and liabilities

C3.1
Group assets and liabilities – measurement

(a)
Determination of fair value

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

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

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

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

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

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

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

Financial instruments at fair value

	31 Dec 2018 £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	–	–	1,703	1,703
Equity securities and portfolio holdings in unit trusts	52,320	5,447	488	58,255
Debt securities	31,210	48,981	811	81,002
Other investments (including derivative assets)	143	3,263	4,325	7,731
Derivative liabilities	(85)	(1,231)	–	(1,316)

Total financial investments, net of derivative liabilities	83,588	56,460	7,327	147,375
Percentage of total	57%	38%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	152,987	505	9	153,501
Debt securities	4,766	9,727	–	14,493
Other investments (including derivative assets)	6	3	6	15
Derivative liabilities	(2)	(3)	–	(5)
Total financial investments, net of derivative liabilities	157,757	10,232	15	168,004
Percentage of total	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	–	–	3,050	3,050
Equity securities and portfolio holdings in unit trusts	2,957	2	18	2,977
Debt securities	17,687	61,803	371	79,861
Other investments (including derivative assets)	61	1,258	941	2,260
Derivative liabilities	(2)	(1,760)	(423)	(2,185)
Total financial investments, net of derivative liabilities	20,703	61,303	3,957	85,963
Percentage of total	24%	71%	5%	100%
Group total analysis, including other financial liabilities held at fair value				
Loans	–	–	4,753	4,753
Equity securities and portfolio holdings in unit trusts	208,264	5,954	515	214,733
Debt securities	53,663	120,511	1,182	175,356
	210	4,524	5,272	10,006

Other investments (including derivative assets)				
Derivative liabilities	(89)	(2,994)	(423)	(3,506)
Total financial investments, net of derivative liabilities	262,048	127,995	11,299	401,342
Investment contract liabilities without discretionary participation features held at fair value	–	(16,054)	–	(16,054)
Borrowings attributable to with-profits businesses	–	–	(1,606)	(1,606)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(6,852)	(3,811)	(988)	(11,651)
Other financial liabilities held at fair value	–	(2)	(3,404)	(3,406)
Total financial instruments at fair value	255,196	108,128	5,301	368,625
Percentage of total	70%	29%	1%	100%

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

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

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

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £40,849 million (31 December 2017: £35,293 million) of debt securities classified as available-for-sale.

Investment properties at fair value

	31 Dec £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
2018	–	–	17,925	17,925
2017	–	–	16,497	16,497

(c)
Valuation approach for level 2 fair valued assets and liabilities
A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using a designated independent pricing service or quote from third-party brokers. These valuations are subject to a number of monitoring controls, such as comparison to multiple pricing sources where available, monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

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

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

Of the total level 2 debt securities of £120,511 million at 31 December 2018 (31 December 2017: £115,141 million), £15,425 million are valued internally (31 December 2017: £13,910 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d)
Fair value measurements for level 3 fair valued assets and liabilities

Valuation approach for level 3 fair valued assets and liabilities
Financial instruments at fair value
Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity. The valuation techniques used include comparison to recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement

date.

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

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

At 31 December 2018, the Group held £5,301 million (31 December 2017: £4,443 million) of net financial instruments at fair value within level 3. This represents 1 per cent (31 December 2017: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities. The principal financial assets, net of corresponding liabilities, classified as fair value within level 3 as of 31 December 2018 are described below:

(i)
£1,702 million of loans (31 December 2017: £1,983 million) and a corresponding £1,606 million (31 December 2017: £1,887 million) of borrowings are held by a subsidiary of the Group's UK with-profits fund, attaching to a portfolio of buy-to-let mortgages and other loans financed largely by external third-party (non-recourse) borrowings. See note C3.3(c) for further details. The Group's exposure is limited to the investment held by the UK with-profits fund, rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

(ii)
Loans of £2,783 million at 31 December 2018 (31 December 2017: £2,512 million), measured as the loan outstanding balance, plus accrued investment income, attached to acquired REALIC business and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,941 million at 31 December 2018 (31 December 2017: £2,664 million) is also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

(iii)
Excluding the above, the level 3 fair valued financial assets net of financial liabilities are £5,363 million (31 December 2017: £4,499 million). Of this amount, a net liability of £(298) million (31 December 2017: net liability of £(117) million) is internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (31 December 2017: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset/liability are:

a)
Debt securities of £582 million (31 December 2017: £500 million), which are either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
b)
Private equity and venture investments in both debt and equity securities of £512 million (31 December 2017: £217 million) which are valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association Valuation guidelines. These investments are principally held by consolidated investment funds

that are managed on behalf of third parties.
c)
Equity release mortgage loan investments of £268 million and a corresponding loan liability backed by these investments of £(354) million (31 December 2017: £302 million loan investments and a corresponding liability of £(385) million) which are valued internally using the discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values.
d)
Liabilities of £(898) million (31 December 2017: £(403) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
e)
Derivative liabilities of £(423) million (31 December 2017: £(512) million) which are valued internally using the discounted cash flow method in line with standard market practices but are subject to independent assessment against external counterparties' valuations.
f)
Other sundry individual financial investments of £15 million (31 December 2017: £164 million).
Of the internally valued net liability referred to above of £(298) million (31 December 2017: net liability of £(117) million):
–
A net liability of £(53) million (31 December 2017: net asset £67 million) is held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments; and

A net liability of £(245) million (31 December 2017: £(184) million) is held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally decreased by 10 per cent, the change in valuation would be £24 million (31 December 2017: £18 million), which would reduce shareholders' equity by this amount before tax. All this amount passes through the income statement substantially as part of short-term fluctuations in investment returns outside of adjusted IFRS operating profit based on longer-term investment returns.

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

(e)
Transfers into and transfers out of levels
The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

During the year, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £908 million and transfers from level 2 to level 1 of £976 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs and in certain cases, the change in the level of trading activities of the securities.

In addition, the transfers into level 3 during the year were £8 million and the transfers out of level 3 were £30 million. These transfers were primarily between levels 3 and 2 for derivative liabilities.

(f)

Valuation processes applied by the Group

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

C3.2

Debt securities

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

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

(a)

Credit rating

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

	31 Dec 2018 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	2,873	12,379	4,142	3,760	1,747	2,303	27,204
Unit-linked	817	100	492	1,431	426	715	3,981
Non-linked shareholder-backed	1,034	3,552	3,717	2,934	2,202	1,144	14,583
Asset management	11	-	60	-	-	-	71
US							
Non-linked shareholder-backed	678	7,383	10,286	14,657	1,429	7,161	41,594
UK and Europe							
With-profits	6,890	9,332	11,779	14,712	2,891	8,194	53,798
Unit-linked	1,041	2,459	2,215	3,501	395	901	10,512
Non-linked shareholder-backed	3,007	6,413	4,651	1,515	158	5,902	21,646
Other operations	619	1,089	151	41	49	18	1,967
Total debt securities	16,970	42,707	37,493	42,551	9,297	26,338	175,356

31 Dec 2017 £m

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

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

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

	31 Dec 2018 £m	31 Dec 2017 £m
Asia – non-linked shareholder-backed		
Internally rated:		
Government bonds	36	25
Corporate bonds – rated as investment grade by local external ratings agencies	978	959
Other	130	69
Total Asia non-linked shareholder-backed	1,144	1,053

	31 Dec 2018 £m			31 Dec 2017 £m
	Mortgage -backed securities	Other securities	Total	Total
US				
Implicit ratings of other US debt securities based on NAIC* valuations (see below)				
NAIC 1	2,148	2,858	5,006	3,918

NAIC 2	2	2,116	2,118	1,794
NAIC 3-6	2	35	37	57
Total US†	2,152	5,009	7,161	5,769

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

†
Mortgage-backed securities totalling £1,947 million at 31 December 2018 have credit ratings issued by Standard & Poor's of BBB- or above and hence are designated as investment grade. Other securities totalling £4,974 million at 31 December 2018 with NAIC ratings 1 or 2 are also designated as investment grade.

	31 Dec 2018 £m	31 Dec 2017 £m
UK and Europe		
Internal ratings or unrated		
AAA to A-	8,150	7,994
BBB to B-	3,034	3,141
Below B- or unrated	3,813	2,436
Total UK and Europe	14,997	13,571

(b)
Additional analysis of US insurance operations debt securities

	31 Dec 2018 £m	31 Dec 2017 £m
Corporate and government security and commercial loans:		
Government	5,465	4,835
Publicly traded and SEC Rule 144A securities*	26,196	22,849
Non-SEC Rule 144A securities	6,329	4,468
Asset-backed securities (see note (e))	3,604	3,226
Total US debt securities†	41,594	35,378

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

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

	31 Dec 2018 £m	31 Dec 2017 £m
Available-for-sale	40,849	35,293
Fair value through profit or loss	745	85
Total US debt securities	41,594	35,378

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

(c)

Movements in unrealised gains and losses on Jackson available-for-sale securities
The movement in the statement of financial position value for debt securities classified as available-for-sale was from a net unrealised gain of £1,205 million to a net unrealised loss of £414 million as analysed in the table below.

	2018	Reflected as part of movement in other comprehensive income Foreign exchange translation	Changes in unrealised appreciation†	2017
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	25,330			6,325
Unrealised gain (loss)	(925)	(43)	(776)	(106)
Fair value (as included in statement of financial position)	24,405			6,219
Assets fair valued at or above book value				
Book value*	15,933			27,763
Unrealised gain (loss)	511	41	(841)	1,311
Fair value (as included in statement of financial position)	16,444			29,074
Total				
Book value*	41,263			34,088
Net unrealised gain (loss)	(414)	(2)	(1,617)	1,205
Fair value (as included in the footnote above in the overview table and the statement of financial position)	40,849			35,293

*
Book value represents cost/amortised cost of the debt securities.
†
Translated at the average rate of US$1.3352:£1.00.

(d)
US debt securities classified as available-for-sale in an unrealised loss position
(i)
Fair value of securities as a percentage of book value
The fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	31 Dec 2018 £m		31 Dec 2017 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	23,662	(809)	6,170	(95)
Between 80% and 90%	707	(104)	36	(6)
Below 80%:				
Other asset-backed securities	–	–	10	(4)
Corporate bonds	36	(12)	3	(1)
	36	(12)	13	(5)
Total	24,405	(925)	6,219	(106)

(ii)
Unrealised losses by maturity of security

	31 Dec 2018 £m	31 Dec 2017 £m
1 year to 5 years	(72)	(7)

5 years to 10 years	(436)	(41)
More than 10 years	(372)	(39)
Mortgage-backed and other debt securities	(45)	(19)
Total	(925)	(106)

(iii)
Age analysis of unrealised losses for the periods indicated
The age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	31 Dec 2018 £m			31 Dec 2017 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(20)	(141)	(161)	(4)	(31)	(35)
6 months to 1 year	(22)	(440)	(462)	(1)	(4)	(5)
1 year to 2 years	(10)	(142)	(152)	–	(49)	(49)
2 years to 3 years	–	(123)	(123)	(1)	(6)	(7)
More than 3 years	(2)	(25)	(27)	–	(10)	(10)
Total	(54)	(871)	(925)	(6)	(100)	(106)

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

	31 Dec 2018 £m		31 Dec 2017 £m	
Age analysis	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	32	(10)	2	–
3 months to 6 months	2	(1)	1	(1)
More than 6 months	2	(1)	10	(4)
Total	36	(12)	13	(5)

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

	31 Dec 2018 £m	31 Dec 2017 £m
Shareholder-backed business		
Asia operationsnote (i)	121	118
US operationsnote (ii)	3,604	3,226
UK and Europe operations (2018: 42% AAA, 13% AA)note (iii)	1,406	1,070
Other operationsnote (iv)	445	589
	5,576	5,003
With-profits business		
Asia operationsnote (i)	235	233
UK and Europe operations (2018: 66% AAA, 12% AA)note (iii)	5,270	5,658
	5,505	5,891
Total	11,081	10,894

Notes

(i)

Asia operations

The Asia operations' exposure to asset-backed securities is primarily held by the with-profits businesses. Of the £235 million (31 December 2017: £233 million), 99.8 per cent (2017: 98.2 per cent) are investment grade.

(ii)

US operations

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

	31 Dec 2018 £m	31 Dec 2017 £m
RMBS		
Sub-prime (2018: 1% AAA, 6% AA, 2% A)	96	112
Alt-A (2018: 3% AAA, 42% A)	105	126
Prime including agency (2018: 14% AAA, 62% AA, 10% A)	441	440
CMBS (2018: 80% AAA, 15% AA, 2% A)	1,945	1,579
CDO funds (2018: 13% AA, 24% A), including £nil exposure to sub-prime	13	28
Other ABS (2018: 20% AAA, 14% AA, 49% A), including £77 million exposure to sub-prime	1,004	941
Total	3,604	3,226

(iii)

UK and Europe operations

The majority of holdings of the shareholder-backed business are UK securities and relate to PAC's annuity business. Of the holdings of the with-profits businesses, £1,823 million (31 December 2017: £1,913 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(iv)

Other operations

Other operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £445 million, 99 per cent (31 December 2017: 96 per cent) are graded AAA.

(f)

Group sovereign debt and bank debt exposure

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

Exposure to sovereign debts

	31 Dec 2018 £m		31 Dec 2017 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	–	57	58	63
Spain	36	18	34	18
France	–	50	23	38
Germany*	239	281	693	301
Other Eurozone	103	34	82	31
Total Eurozone	378	440	890	451
United Kingdom	3,226	3,013	5,918	3,287
United States†	5,647	11,858	5,078	10,156

Other, including Asia	5,142	2,745	4,638	2,143
Total	14,393	18,056	16,524	16,037

*
Including bonds guaranteed by the federal government.
†
The exposure to the United States sovereign debt comprises holdings of the US, the UK and Europe and Asia insurance operations.

Exposure to bank debt securities

	31 Dec 2018 £m							31 Dec 2017 £m
	Senior debt			Subordinated debt				
Shareholder-backed business	Covered	Senior	Total	Tier 1	Tier 2	Total	Total	Total
Spain	42	64	106	–	–	–	106	68
France	20	119	139	14	3	17	156	86
Germany	30	–	30	6	89	95	125	117
Netherlands	–	69	69	3	1	4	73	71
Other Eurozone	15	2	17	–	–	–	17	15
Total Eurozone	107	254	361	23	93	116	477	357
United Kingdom	550	623	1,173	9	164	173	1,346	1,382
United States	–	2,614	2,614	1	52	53	2,667	2,619
Other, including Asia	–	759	759	109	369	478	1,237	1,163
Total	657	4,250	4,907	142	678	820	5,727	5,521
With-profits funds								
Italy	–	38	38	–	–	–	38	31
Spain	–	17	17	–	–	–	17	16
France	6	250	256	1	95	96	352	286
Germany	140	46	186	14	29	43	229	180
Netherlands	–	253	253	12	1	13	266	199
Other Eurozone	–	74	74	–	–	–	74	27
Total Eurozone	146	678	824	27	125	152	976	739
United Kingdom	909	850	1,759	2	433	435	2,194	1,938
United States	–	2,418	2,418	1	311	312	2,730	2,518
Other, including Asia	575	1,459	2,034	339	452	791	2,825	2,531
Total	1,630	5,405	7,035	369	1,321	1,690	8,725	7,726

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

C3.3
Loans portfolio

(a)
Overview of loans portfolio
Loans are accounted for at amortised cost net of impairment except for:

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

–

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

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

	31 Dec 2018 £m				31 Dec 2017 £m			
	Mortgage loans*	Policy loans†	Other loans‡	Total	Mortgage loans*	Policy loans†	Other loans‡	Total
Asia								
With-profits	–	727	65	792	–	613	112	725
Non-linked shareholder-backed	156	226	203	585	177	216	199	592
US								
Non-linked shareholder-backed	7,385	3,681	–	11,066	6,236	3,394	–	9,630
UK and Europe								
With-profits	2,461	3	1,389	3,853	2,441	4	1,823	4,268
Non-linked shareholder-backed	1,655	–	59	1,714	1,681	–	37	1,718
Other operations	–	–	–	–	–	–	109	109
Total loans securities	11,657	4,637	1,716	18,010	10,535	4,227	2,280	17,042

*

All mortgage loans are secured by properties.

†

In the US £2,783 million (31 December 2017: £2,512 million) policy loans are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

‡

Other loans held in UK with-profits funds are commercial loans and comprise mainly syndicated loans.

(b)

Additional information on US mortgage loans

In the US, mortgage loans are all commercial mortgage loans that are secured by the following property types: industrial, multi-family residential, suburban office, retail or hotel. The average loan size is £14.0 million (2017: £12.6 million). The portfolio has a current estimated average loan to value of 53 per cent (2017: 55 per cent).

Jackson had no mortgage loans where the contractual terms of the agreements had been restructured at the end of both 2018 and 2017.

(c)

Additional information on UK mortgage loans

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

By carrying value, £1,237 million of the £1,655 million (31 December 2017: £1,267 million of £1,681 million) mortgage loans held by the UK shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 33 per cent (31 December 2017: 31 per cent).

C4
Policyholder liabilities and unallocated surplus

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

C4.1
Movement and duration of liabilities

C4.1(a)
Group overview
(i)
Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Asia	US	UK and Europe	Total
	£m	£m	£m	£m
	note C4.1(b)	note C4.1(c)	note C4.1(d)	
At 1 January 2017	62,784	177,626	169,304	409,714
Comprising:				
– Policyholder liabilities on the consolidated statement of financial positionnote (i)	53,716	177,626	157,654	388,996
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	–	11,650	14,317
– Group's share of policyholder liabilities of joint ventures and associatenote (ii)	6,401	–	–	6,401
Premiums	11,863	15,219	14,810	41,892
Surrenders	(3,079)	(10,017)	(6,939)	(20,035)
Maturities/deaths	(1,909)	(2,065)	(7,135)	(11,109)
Net flows	6,875	3,137	736	10,748
Shareholders' transfers post-tax	(54)	–	(233)	(287)
Investment-related items and other movements	8,182	16,251	11,146	35,579
Foreign exchange translation differences	(3,948)	(16,290)	113	(20,125)
At 31 December 2017/1 January 2018	73,839	180,724	181,066	435,629
Comprising:				
– Policyholder liabilities on the consolidated statement of financial positionnote (i) (excludes £32 million classified as unallocated to a segment)	62,898	180,724	167,589	411,211
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,474	–	13,477	16,951
– Group's share of policyholder liabilities of joint ventures and associatenote (ii)	7,467	–	–	7,467
Reclassification of reinsured UK annuity contracts as held for salenote (iii)	–	–	(10,858)	(10,858)
Premiums	13,187	13,940	14,011	41,138
Surrenders	(2,793)	(12,141)	(6,780)	(21,714)
Maturities/deaths	(1,978)	(2,012)	(6,796)	(10,786)

Net flows	8,416	(213)	435	8,638
Addition for closed block of group payout annuities in the USnote (iv)	–	4,143	–	4,143
Shareholders' transfers post-tax	(65)	–	(259)	(324)
Investment-related items and other movements	(2,784)	(9,999)	(5,481)	(18,264)
Foreign exchange translation differences	3,357	10,945	(14)	14,288
At 31 December 2018	82,763	185,600	164,889	433,252
Comprising:				
– Policyholder liabilities on the consolidated statement of financial positionnote (i) (excludes £39 million classified as unallocated to a segment)	72,107	185,600	151,555	409,262
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,511	–	13,334	15,845
– Group's share of policyholder liabilities of joint ventures and associatenote (ii)	8,145	–	–	8,145
Average policyholder liability balancesnote (v)				
2018	75,309	182,126	162,287	419,722
2017	65,241	179,175	162,622	407,038

Notes

(i)

The policyholder liabilities of the Asia insurance operations of £72,107 million (31 December 2017: £62,898 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,109 million (31 December 2017: £1,235 million) to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £73,216 million (31 December 2017: £64,133 million).

(ii)

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

(iii)

The reclassification as held for sale of the reinsured UK annuity business that will be transferred to Rothesay life once the Part VII process is complete reflects the value of policyholder liabilities held at 1 January 2018.

(iv)

In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group payout annuity business. The transaction resulted in an increase to policyholder liabilities of Jackson £4.1 billion at the inception of the contract.

(v)

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

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

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

(ii)

Analysis of movements in policyholder liabilities for shareholder-backed business

	Asia	US	UK and Europe	Total
	£m	£m	£m	£m
At 1 January 2017	32,851	177,626	56,158	266,635
Premiums	6,064	15,219	2,283	23,566
Surrenders	(2,755)	(10,017)	(2,433)	(15,205)
Maturities/deaths	(1,008)	(2,065)	(2,571)	(5,644)
Net flowsnote (i)	2,301	3,137	(2,721)	2,717
Investment-related items and other movements	3,797	16,251	2,930	22,978
Foreign exchange translation differences	(1,547)	(16,290)	–	(17,837)
At 31 December 2017/1 January 2018	37,402	180,724	56,367	274,493
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position (excludes £32 million classified as unallocated to a segment)	29,935	180,724	56,367	267,026
- Group's share of policyholder liabilities relating to joint ventures and associate	7,467	–	–	7,467
Reclassification of reinsured UK annuity contracts as held for salenote (ii)	–	–	(10,858)	(10,858)
Premiums	6,752	13,940	1,486	22,178
Surrenders	(2,455)	(12,141)	(2,016)	(16,612)
Maturities/deaths	(1,046)	(2,012)	(2,244)	(5,302)
Net flowsnote (i)	3,251	(213)	(2,774)	264
Addition for closed block of group payout annuities in the USnote (iii)	–	4,143	–	4,143
Investment-related items and other movements	(1,204)	(9,999)	(1,975)	(13,178)
Foreign exchange translation differences	1,148	10,945	–	12,093
At 31 December 2018	40,597	185,600	40,760	266,957
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position (excludes £39 million classified as unallocated to a segment)	32,452	185,600	40,760	258,812
- Group's share of policyholder liabilities relating to joint ventures and associate	8,145	–	–	8,145

Notes

(i)

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

(ii)

The reclassification as held for sale of the reinsured UK annuity business that will be transferred to Rothesay life once the Part VII process is complete reflects those policyholder liabilities held at 1 January 2018.

(iii)

In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group payout annuity business. The transaction resulted in an increase to policyholder liabilities of Jackson £4.1 billion at the inception of the contract.

C4.1(b)

Asia insurance operations

(i)

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

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

	With-profits business £m note (vi)	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2017	29,933	17,507	15,344	62,784
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	27,266	14,289	12,161	53,716
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	-	-	2,667
– Group's share of policyholder liabilities relating to joint ventures and associatenote (i)	-	3,218	3,183	6,401
Premiums				
New business	1,143	1,298	999	3,440
In-force	4,656	1,637	2,130	8,423
	5,799	2,935	3,129	11,863
Surrenders note (ii)	(324)	(2,288)	(467)	(3,079)
Maturities/deaths	(901)	(150)	(858)	(1,909)
Net flowsnote (iii)	4,574	497	1,804	6,875
Shareholders' transfers post-tax	(54)	–	–	(54)
Investment-related items and other movements	4,385	2,830	967	8,182
Foreign exchange translation differencesnote (v)	(2,401)	(807)	(740)	(3,948)
At 31 December 2017/1 January 2018	36,437	20,027	17,375	73,839
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	32,963	16,263	13,672	62,898
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,474	–	–	3,474
– Group's share of policyholder liabilities relating to joint ventures and associatenote (i)	–	3,764	3,703	7,467
Premiums				
New business	1,155	1,426	1,085	3,666
In-force	5,280	1,767	2,474	9,521
	6,435	3,193	3,559	13,187
Surrenders note (ii)	(338)	(1,904)	(551)	(2,793)
Maturities/deaths	(932)	(140)	(906)	(1,978)
Net flowsnote (iii)	5,165	1,149	2,102	8,416
Shareholders' transfers post-tax	(65)	–	–	(65)
Investment-related items and other movementsnote (iv)	(1,580)	(1,425)	221	(2,784)
Foreign exchange translation differencesnote (v)	2,209	431	717	3,357
At 31 December 2018	42,166	20,182	20,415	82,763
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	39,655	16,368	16,084	72,107
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,511	–	–	2,511

– Group's share of policyholder liabilities relating to joint ventures and associatenote (i)	–	3,814	4,331	8,145
Average policyholder liability balancesnote (vii)				
2018	36,309	20,105	18,895	75,309
2017	30,115	18,767	16,359	65,241

Notes

(i)
The Group’s investment in joint ventures are accounted for on an equity method and the Group’s share of the policyholder liabilities as shown above relate to the life business in China, India and of the Takaful business in Malaysia.
(ii)
The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 6.6 per cent in 2018 (2017: 8.4 per cent).
(iii)
Net flows have increased by £1,541 million to £8,416 million in 2018 predominantly reflecting continued growth of the in-force book.
(iv)
Investment-related items and other movements for 2018 primarily represent unrealised investments losses following unfavourable equity markets in the year and rising interest rates.
(v)
Movements in the year have been translated at the average exchange rates for the year. The closing balance has been translated at the closing spot rates as at the end of the year. Differences upon retranslation are included in foreign exchange translation differences.
(vi)
The policyholder liabilities of the with-profits business of £39,655 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,109 million to the Hong Kong with-profits business (31 December 2017: £1,235 million). Including this amount the Asia with-profits policyholder liabilities are £40,764 million (31 December 2017: £34,198 million).
(vii)
Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

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

	31 Dec 2018 £m	31 Dec 2017 £m
Policyholder liabilities	72,107	62,898

Expected maturity:	31 Dec 2018 %	31 Dec 2017 %
0 to 5 years	20	21
5 to 10 years	19	19
10 to 15 years	15	16
15 to 20 years	12	12
20 to 25 years	10	10
Over 25 years	24	22

C4.1(c)
US insurance operations

(i)
Analysis of movements in policyholder liabilities

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

US insurance operations

	Variable annuity separate account liabilities	Fixed annuity, GICs and other business	Total
	£m	£m	£m
At 1 January 2017	120,411	57,215	177,626
Premiums	11,529	3,690	15,219
Surrenders	(6,997)	(3,020)	(10,017)
Maturities/deaths	(1,026)	(1,039)	(2,065)
Net flows note (ii)	3,506	(369)	3,137
Transfers from general to separate account	2,096	(2,096)	–
Investment-related items and other movements	15,956	295	16,251
Foreign exchange translation differences note (i)	(11,441)	(4,849)	(16,290)
At 31 December 2017/1 January 2018	130,528	50,196	180,724
Premiums	10,969	2,971	13,940
Surrenders	(8,797)	(3,344)	(12,141)
Maturities/deaths	(1,085)	(927)	(2,012)
	1,087	(1,300)	(213)

Net flowsnote (ii)			
Addition for closed block of group payout annuities in the USnote (iii)	–	4,143	4,143
Transfers from general to separate account	530	(530)	–
Investment-related items and other movementsnote (iv)	(11,561)	1,562	(9,999)
Foreign exchange translation differencesnote (i)	7,636	3,309	10,945
At 31 December 2018	128,220	57,380	185,600
Average policyholder liability balancesnote (v)			
2018	129,374	52,752	182,126
2017	125,469	53,706	179,175

Notes

(i)

Movements in the year have been translated at an average rate of US$1.34: £1.00 (2017: US$1.29: £1.00). The closing balances have been translated at closing rate of US$1.27: £1.00 (2017: US$1.35: £1.00). Differences upon retranslation are included in foreign exchange translation differences.

(ii)

Net outflows were £213 million (2017: inflows £3,137 million), with positive inflows to variable annuities business as new business exceeds withdrawals and surrenders offset by outflows from fixed annuity, GICs and other business as the portfolio matures.

(iii)
In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group payout annuity business. The transaction resulted in an increase to policyholder liabilities of Jackson £4.1 billion at the inception of the contract.

(iv)
Negative investment-related items and other movements in variable annuity separate account liabilities of £(11,561) million for 2018 primarily reflects the decrease in equity and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £1,562 million primarily reflect the interest credited to the policyholder accounts and increase in the guarantee reserves in the year.

(v)
Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions arising in the year.

(ii)
Duration of liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis for 2018 and 2017:

	31 Dec 2018			31 Dec 2017		
	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity separate account liabilities	Total	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity separate account liabilities	Total
	£m	£m	£m	£m	£m	£m
Policyholder liabilities	57,380	128,220	185,600	50,196	130,528	180,724
Expected maturity:	%	%	%	%	%	%
0 to 5 years	51	40	43	50	42	44
5 to 10 years	24	28	27	25	29	28
10 to 15 years	12	16	15	12	15	14
15 to 20 years	7	9	8	7	8	8
20 to 25 years	3	4	4	3	4	4
Over 25 years	3	3	3	3	2	2

C4.1(d)
UK and Europe insurance operations

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

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

		Shareholder-backed funds and subsidiaries		
	With-profits sub-funds	Unit-linked liabilities	Annuity and other long-term business	Total

	£m note (v)	£m	£m	£m
At 1 January 2017	113,146	22,119	34,039	169,304
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	101,496	22,119	34,039	157,654
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	11,650	–	–	11,650
Premiums	12,527	1,923	360	14,810
Surrenders	(4,506)	(2,342)	(91)	(6,939)
Maturities/deaths	(4,564)	(612)	(1,959)	(7,135)
Net flowsnote (i)	3,457	(1,031)	(1,690)	736
Shareholders' transfers post-tax	(233)	–	–	(233)
Switches	(192)	192	–	–
Investment-related items and other movements	8,408	1,865	873	11,146
Foreign exchange translation differences	113	–	–	113
At 31 December 2017/1 January 2018	124,699	23,145	33,222	181,066
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	111,222	23,145	33,222	167,589
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	13,477	–	–	13,477
Reclassification of reinsured UK annuity contracts as held for salenote (ii)	–	–	(10,858)	(10,858)
Premiums	12,525	1,147	339	14,011
Surrenders	(4,764)	(1,950)	(66)	(6,780)
Maturities/deaths	(4,552)	(619)	(1,625)	(6,796)
Net flowsnote (i)	3,209	(1,422)	(1,352)	435
Shareholders' transfers post-tax	(259)	–	–	(259)
Switches	(165)	165	–	–
Investment-related items and other movementsnote (iii)	(3,341)	(1,171)	(969)	(5,481)
Foreign exchange translation differences	(14)	–	–	(14)
At 31 December 2018	124,129	20,717	20,043	164,889
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	110,795	20,717	20,043	151,555
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	13,334	–	–	13,334
Average policyholder liability balancesnote (iv)				
2018	111,009	21,931	29,347	162,287
2017	106,359	22,632	33,631	162,622

Notes

(i)

Net inflows were £435 million (31 December 2017: net inflows of £736 million). Inflows into the with-profits business were offset by outflows from both the annuity business, as the closed book matures, and the unit-linked business. The levels of inflows/outflows for the unit-linked business is driven by corporate pension schemes with transfers in or out from only a small number of schemes influencing the level of flows in the year.

(ii)

The reclassification as held for sale of the reinsured UK annuity business that will be transferred to Rothesay life once the Part VII process is complete reflects the value policyholder liabilities held at 1 January 2018.

(iii)

Investment-related items and other movements for with-profits business principally comprise investment return attributable to policyholders reflecting falling equity markets in the later quarter of the year. For shareholder-backed annuity and other long-term business, investment-related items and other movements include the effect of movements in interest rates and credit spreads.

(iv)

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

(v)

Includes the Scottish Amicable Insurance Fund.

(ii)

Duration of liabilities

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

	31 Dec 2018 £m									
	With-profits business			Annuity business (insurance contracts)			Other			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder -backed annuity	Total	Insurance contracts	Investments contracts	Total	
Policyholder liabilities	34,242	67,020	101,262	9,533	19,119	28,652	6,063	15,578	21,641	151,555
	31 Dec 2018 %									
Expected maturity:										
0 to 5 years	34	37	36	33	27	29	44	32	36	35
5 to 10 years	23	27	26	26	23	24	25	24	24	25
10 to 15 years	16	17	17	17	19	18	15	18	17	17
15 to 20 years	11	9	10	11	14	13	8	12	11	10
20 to 25 years	7	4	5	6	9	8	4	7	6	6
over 25 years	9	6	6	7	8	8	4	7	6	7

	31 Dec 2017 £m									
Policyholder liabilities	38,285	62,328	100,613	10,609	32,572	43,181	6,714	17,081	23,795	167,589
	31 Dec 2017 %									
Expected maturity:										
0 to 5 years	33	37	36	31	26	27	41	31	34	34
5 to 10 years	23	27	25	24	23	23	26	22	23	25
	16									

10 to 15
years