PRUDENTIAL PLC
Form 6-K
March 14, 2018

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, 2018

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-

IFRS Disclosure and Additional Unaudited Financial Information
Prudential plc 2017 results

International Financial Reporting Standards (IFRS) basis results

Consolidated income statement

Year ended 31 December	Note	2017 £m	2016 £m

Gross premiums earned		44,005	38,981
Outward reinsurance premiums		(2,062)	(2,020)
Earned premiums, net of reinsurance		41,943	36,961
Investment return		42,189	32,511
Other income		2,430	2,370
Total revenue, net of reinsurance		86,562	71,842
Benefits and claims		(71,854)	(60,948)
Outward reinsurers' share of benefit and claims		2,193	2,412
Movement in unallocated surplus of with-profits funds		(2,871)	(830)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(72,532)	(59,366)
Acquisition costs and other expenditure	B2	(10,165)	(8,848)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(425)	(360)
Disposal of Korea life business:	D1		
Cumulative exchange gain recycled from other comprehensive income		61	-
Remeasurement adjustments		5	(238)
Gain on disposal of other businesses	D1	162	-
Total charges, net of reinsurance and gain (loss) on disposal of businesses		(82,894)	(68,812)
Share of profits from joint ventures and associates, net of related tax		302	182
Profit before tax (being tax attributable to shareholders' and policyholders' returns)*		3,970	3,212
Less tax charge attributable to policyholders' returns		(674)	(937)
Profit before tax attributable to shareholders	B1.1	3,296	2,275
Total tax charge attributable to policyholders and shareholders	B4	(1,580)	(1,291)
Adjustment to remove tax charge attributable to policyholders' returns		674	937
Tax charge attributable to shareholders' returns	B4	(906)	(354)
Profit for the year		2,390	1,921
Attributable to:			
Equity holders of the Company		2,389	1,921
Non-controlling interests		1	-
Profit for the year		2,390	1,921

Earnings per share (in pence)		2017	2016
Based on profit attributable to the equity holders of the Company:	B5		
Basic		93.1p	75.0p
Diluted		93.0p	75.0p

Dividends per share (in pence)		2017	2016
Dividends relating to reporting year:	B6		
First interim ordinary dividend		14.50p	12.93p
Second interim ordinary dividend		32.50p	30.57p
Total		47.00p	43.50p
Dividends paid in reporting year:	B6		
Current year first interim dividend		14.50p	12.93p
Second interim ordinary dividend for prior year		30.57p	26.47p
Special dividend		-	10.00p
Total		45.07p	49.40p

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of comprehensive income

Year ended 31 December	Note	2017 £m	2016 £m
Profit for the year		2,390	1,921
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		(404)	1,148
Cumulative exchange gain of sold Korea life business recycled through profit or loss		(61)	-
Related tax		(5)	13
		(470)	1,161
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding gains arising during the year		591	241
Net gains (losses) included in the income statement on disposal and impairment		26	(269)
Total	C3.2(c)	617	(28)
Related change in amortisation of deferred acquisition costs	C5 (b)	(76)	76
Related tax	C8	(55)	(17)
		486	31
Total		16	1,192
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			

Gross	104	(107)
Related tax	(15)	14
	89	(93)
Other comprehensive income for the year, net of related tax	105	1,099
Total comprehensive income for the year	2,495	3,020
Attributable to:		
Equity holders of the Company	2,494	3,020
Non-controlling interests	1	-
Total comprehensive income for the year	2,495	3,020

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	note C10	note 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 tax		-	-	89	-	-	89	-	89
Total other comprehensive income		-	-	89	(470)	486	105	-	105

(loss)									
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

*Arising from the acquisition of the majority stake in Zenith Life of Nigeria in 2017.

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of changes in equity

		Year ended 31 December 2016 £m							
		Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
	Note	note C10	note C10						
Reserves									
Profit for the year		-	-	1,921	-	-	1,921	-	1,921
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related		-	-	-	1,161	-	1,161	-	1,161

tax									
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	31	31	-	31
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax		-	-	(93)	-	-	(93)	-	(93)
Total other comprehensive income (loss)		-	-	(93)	1,161	31	1,099	-	1,099
Total comprehensive income for the year		-	-	1,828	1,161	31	3,020	-	3,020
Dividends	B6	-	-	(1,267)	-	-	(1,267)	-	(1,267)
Reserve movements in respect of share-based payments		-	-	(51)	-	-	(51)	-	(51)
Share capital and share premium									
New share capital subscribed	C10	1	12	-	-	-	13	-	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	2	-	-	2	-	2
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	(6)	-	-	(6)	-	(6)
Net increase in equity		1	12	506	1,161	31	1,711	-	1,711
At beginning of year		128	1,915	10,436	149	327	12,955	1	12,956
At end of year		129	1,927	10,942	1,310	358	14,666	1	14,667

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of financial position

31 December	Note	2017 £m	2016 £m
Assets			

Goodwill	C5(a)	1,482	1,628
Deferred acquisition costs and other intangible assets	C5(b)	11,011	10,807
Property, plant and equipment		789	743
Reinsurers' share of insurance contract liabilities		9,673	10,051
Deferred tax assets	C8	2,627	4,315
Current tax recoverable		613	440
Accrued investment income		2,676	3,153
Other debtors		2,963	3,019
Investment properties		16,497	14,646
Investment in joint ventures and associates accounted for using the equity method		1,416	1,273
Loans	C3.3	17,042	15,173
Equity securities and portfolio holdings in unit trusts		223,391	198,552
Debt securities	C3.2	171,374	170,458
Derivative assets		4,801	3,936
Other investments		5,622	5,465
Deposits		11,236	12,185
Assets held for sale		38	4,589
Cash and cash equivalents		10,690	10,065
Total assets	C1	493,941	470,498
Equity			
Shareholders' equity		16,087	14,666
Non-controlling interests		7	1
Total equity		16,094	14,667
Liabilities			
Insurance contract liabilities	C4.1	328,172	316,436
Investment contract liabilities with discretionary participation features	C4.1	62,677	52,837
Investment contract liabilities without discretionary participation features	C4.1	20,394	19,723

Unallocated surplus of with-profits funds	C4.1	16,951	14,317
Core structural borrowings of shareholder-financed operations	C6.1	6,280	6,798
Operational borrowings attributable to shareholder-financed operations	C6.2	1,791	2,317
Borrowings attributable to with-profits operations	C6.2	3,716	1,349
Obligations under funding, securities lending and sale and repurchase agreements		5,662	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		8,889	8,687
Deferred tax liabilities	C8	4,715	5,370
Current tax liabilities		537	649
Accruals, deferred income and other liabilities		14,185	13,825
Provisions		1,123	947
Derivative liabilities		2,755	3,252
Liabilities held for sale		-	4,293
Total liabilities	C1	477,847	455,831
Total equity and liabilities		493,941	470,498

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,232 million (2016: £8,545 million) of lent securities and assets subject to repurchase agreements.

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of cash flows

Year ended 31 December	Note	2017 £m	2016 £m
Cash flows from operating activities			
		3,970	3,212

Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i)			
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		(49,771)	(37,824)
Other non-investment and non-cash assets		(968)	(2,490)
Policyholder liabilities (including unallocated surplus)		44,877	31,135
Other liabilities (including operational borrowings)		3,360	7,861
Interest income and expense and dividend income included in result before tax		(8,994)	(9,749)
Other non-cash items		549	834
Operating cash items:			
Interest receipts		6,900	7,886
Dividend receipts		2,612	2,286
Tax paidnote (iv)		(915)	(950)
Net cash flows from operating activities		1,620	2,201
Cash flows from investing activities			
Purchases of property, plant and equipment		(134)	(348)
Proceeds from disposal of property, plant and equipment		-	102
Acquisition of subsidiaries and intangiblesnote (v)		(351)	(303)
Sale of businessesnote (v)		1,301	-
Net cash flows from investing activities		816	(549)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations:note (ii)	C6.1		
Issue of subordinated debt, net of costs		565	1,227
Redemption of subordinated debt		(751)	-
Interest paid		(369)	(335)
With-profits operations:note (iii)	C6.2		
Interest paid		(9)	(9)
Equity capital:			
Issues of ordinary share capital		21	13
Dividends paid		(1,159)	(1,267)
Net cash flows from financing activities		(1,702)	(371)
Net increase in cash and cash equivalents		734	1,281
Cash and cash equivalents at beginning of year		10,065	7,782
Effect of exchange rate changes on cash and cash equivalents		(109)	1,002
Cash and cash equivalents at end of year		10,690	10,065

Notes

(i)

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

(ii)

Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
The changes in the carrying value of the structural borrowings of shareholder-financed operations during 2017 are analysed as follows:

	Cash movements £m			Non-cash movements £m		
	Balance at 1 Jan 2017	Issue of debt	Redemption of debt	Foreign exchange movement	Other movements	Balance at 31 Dec 2017
Structural borrowings of shareholder-financed operations	6,798	565	(751)	(341)	9	6,280

(iii)
Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. There is no change in respect of the carrying value of the £100 million structural borrowings of the with-profits operations during 2017. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
(iv)
Tax paid includes £298 million (2016: £226 million) paid on profits taxable at policyholder rather than shareholder rates.
(v)
Net cash flows for corporate transactions are for distribution rights and acquisition and disposal of businesses (including private equity and other subsidiaries acquired by with-profits funds for investment purposes).

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 2017, there were no unendorsed standards effective for the two years ended 31 December 2017 which impact the consolidated financial information of the Group. There were no differences between IFRS Standards endorsed by the EU and IFRS Standards issued by the IASB in terms of their application to the Group.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2016 with the exception of the adoption of the new and amended accounting standards as described in note A2.

Exchange rates

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

	Closing rate at 31 Dec 2017	Average rate for 2017	Closing rate at 31 Dec 2016	Average rate for 2016
Local currency: £				
Hong Kong	10.57	10.04	9.58	10.52
Indonesia	18,353.44	17,249.38	16,647.30	18,026.11
Malaysia	5.47	5.54	5.54	5.61
Singapore	1.81	1.78	1.79	1.87
China	8.81	8.71	8.59	8.99
India	86.34	83.90	83.86	91.02
Vietnam	30,719.60	29,279.71	28,136.99	30,292.79
Thailand	44.09	43.71	44.25	47.80
US	1.35	1.29	1.24	1.35

Certain notes to the financial statements present 2016 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 2017 or 2016 but is derived from those accounts. The auditors have reported on the 2017 statutory accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 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 2017

The IASB has issued the following new accounting pronouncements to be effective for 1 January 2017:

–
Disclosure Initiative (Amendments to IAS 7, ‘Statement of Cash Flows’);
–
Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12, ‘Income Taxes’); and
–
Annual improvements to IFRSs 2014 – 2016 cycle.

Other than the additional disclosure of the changes in structural borrowings during the year in the statement of cash flows, these pronouncements have no effect on these financial statements.

B
Earnings performance

B1
Analysis of performance by segment

B1.1
Segment results – profit before tax

	Note	2017 £m	2016* £m		%	
			AER	CER	2017 vs 2016 AER	2017 vs 2016 CER
			note (v)	note (v)	note (v)	note (v)
Asia						
Insurance operations	B3(a)	1,799	1,503	1,571	20%	15%
Asset management		176	141	149	25%	18%
Total Asia		1,975	1,644	1,720	20%	15%
US						
Jackson (US insurance operations)	B3(b)	2,214	2,052	2,156	8%	3%
Asset management		10	(4)	(4)	350%	350%
Total US		2,224	2,048	2,152	9%	3%
UK and Europe						
UK and Europe insurance operations:	B3(c)					
Long-term business		861	799	799	8%	8%
General insurance commissionnote (i)		17	29	29	(41)%	(41)%
Total UK and Europe insurance operations		878	828	828	6%	6%
UK and Europe asset managementnote (vi)	B2	500	425	425	18%	18%
Total UK and Europe		1,378	1,253	1,253	10%	10%
Total segment profit		5,577	4,945	5,125	13%	9%
Restructuring costs note (iii)		(103)	(38)	(39)	(171)%	(164)%
Other income and expenditure:						
Investment return and other income		11	28	28	(61)%	(61)%
Interest payable on core structural borrowings		(425)	(360)	(360)	(18)%	(18)%
Corporate expenditurenote (ii)		(361)	(334)	(340)	(8)%	(6)%
Solvency II implementation costs		-	(28)	(28)	n/a	n/a
Total other income and expenditure		(775)	(694)	(700)	(12)%	(11)%
Interest received from tax settlement		-	43	43	n/a	n/a
Operating profit based on longer-term investment returns		4,699	4,256	4,429	10%	6%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,563)	(1,678)	(1,764)	7%	11%
Amortisation of acquisition accounting adjustmentsnote (iv)		(63)	(76)	(79)	17%	20%
Profit (loss) attaching to disposal of businesses	D1	162	(227)	(244)	n/a	n/a
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1	61	-	-	n/a	n/a
Profit before tax		3,296	2,275	2,342	45%	41%
Tax charge attributable to shareholders' returns	B4	(906)	(354)	(360)	(156)%	(152)%
Profit for the year		2,390	1,921	1,982	24%	21%

Attributable to:						
Equity holders of the Company		2,389	1,921	1,982	24%	21%
Non-controlling interests		1	-	-	N/A	N/A

		2017	2016		%	
			AER	CER	2017 vs 2016 AER	2017 vs 2016 CER
Basic earnings per share (in pence)	B5		note (v)	note (v)	note (v)	note (v)
Based on operating profit based on longer-term investment returnsnote (vii)		145.2p	131.3p	136.8p	11%	6%
Based on profit for the year		93.1p	75.0p	77.4p	24%	20%

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

Notes
(i)
General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.
(ii)
Corporate expenditure as shown above is primarily for Group Head Office and Asia Regional Head Office.
(iii)
Restructuring costs are incurred primarily in UK and Europe and Asia and represent business transformation and integration costs.
(iv)
Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.
(v)
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 £61 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.
(vi)
UK and Europe asset management operating profit based on longer-term investment returns:

	2017 £m	2016 £m
Asset management fee income	1,027	900
Other income	7	23
Staff costs	(400)	(332)
Other costs	(202)	(212)
Underlying profit before performance-related fees	432	379
Share of associate results	15	13
Performance-related fees	53	33
Total UK and Europe asset management operating profit based on longer-term investment returns	500	425

(vii)

Tax charges have been reflected as operating and non-operating in the same way as for the pre-tax items. In 2017 a significant US tax reform package was enacted, and the effects of which in the income statement have been treated as non-operating. Further details are provided in note B4.

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

	2017 £m	2016 £m
Asia	(1)	(225)
USnote (i)	(1,568)	(1,455)
UK and Europenote (ii)	(14)	206
Other operationsnote (iii)	20	(204)
Total	(1,563)	(1,678)

Notes
(i)
US operations
The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £462 million as shown in note C5(b) (2016: £565 million) and comprise amounts in respect of the following items:

	2017 £m	2016 £m
Net equity hedge resultnote (a)	(1,490)	(1,587)
Other than equity-related derivativesnote (b)	(36)	(126)
Debt securities note (c)	(73)	201
Equity-type investments: actual less longer-term return	12	35
Other items	19	22
Total	(1,568)	(1,455)

Notes
(a) Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the measured value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.3(c) below.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:

–
The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP as described in note B1.3 (c);
–
The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
–
Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

The net equity hedge result (net of related DAC) can be summarised as follows:

	2017 £m	2016 £m
Fair value movements on equity hedge instruments1	(1,871)	(1,786)
Accounting value movements on the variable and fixed index annuity guarantee liabilities2	(99)	(188)
Fee assessments net of claim payments	480	387
Total	(1,490)	(1,587)

1.
Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options.
2.
The accounting value movements on the variable and fixed index annuity guarantee liabilities reflect the impact of market movements and changes in economic and actuarial assumptions. These actuarial assumptions changes include, amongst other items, a charge (net of related DAC) of £359 million for strengthening policyholder utilisation and persistency rates offset by a benefit (net of related DAC) of £382 million from modelling refinements in the period, principally enhancements to how Jackson's own credit risk is incorporated in the fair valuation of these long-term liabilities.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

–
Fair value movements on free-standing, other than equity-related derivatives;
–
Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued as explained in note B1.3; and
–
Related amortisation of DAC.

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

(c) Short-term fluctuations related to debt securities

	2017 £m	2016 £m
Short-term fluctuations relating to debt securities		
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(3)	(94)
Defaults	-	(4)
Bond write-downs	(2)	(35)
Recoveries / reversals	10	15
Total credits (charges) in the year	5	(118)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returnsnote	86	89
	91	(29)
Interest-related realised (losses) gains:		
(Losses) gains arising in the year	(43)	376
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(140)	(135)
	(183)	241
Related amortisation of deferred acquisition costs	19	(11)
Total short-term fluctuations related to debt securities	(73)	201

Note

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2017 is based on an average annual risk margin reserve of 21 basis points (2016: 21 basis points) on average book values of US$55.3 billion (2016: US$56.4 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	2017 Average book value	RMR	Annual expected loss		2016 Average book value	RMR	Annual expected loss	
	US$m	%	US$m	£m	US$m	%	US$m	£m
A3 or higher	27,277	0.12	(33)	(25)	29,051	0.12	(36)	(27)
Baa1, 2 or 3	26,626	0.22	(58)	(45)	25,964	0.24	(62)	(46)
Ba1, 2 or 3	1,046	1.03	(11)	(8)	1,051	1.07	(11)	(8)
B1, 2 or 3	318	2.70	(9)	(7)	312	2.95	(9)	(7)
Below B3	23	3.78	(1)	(1)	40	3.81	(2)	(1)
Total	55,290	0.21	(112)	(86)	56,418	0.21	(120)	(89)
Related amortisation of deferred acquisition costs (see below)			21	15			23	17
Risk margin reserve charge to operating profit for longer-term credit-related losses			(91)	(71)			(97)	(72)

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit of £541 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2016: credit of £48 million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(ii)

UK and Europe operations

The negative short-term fluctuations in investment returns for UK and Europe operations of £(14) million (2016: positive £206 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

(iii)

Other operations

The positive short-term fluctuations in investment returns for other operations of £20 million (2016: negative £(204) million) include unrealised value movements on financial instruments.

B1.3

Determining operating segments and performance measure of operating segments

Operating segments

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

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

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

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

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

Performance measure

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

–

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

–

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

–

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

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

(a)

General principles

(i)

UK style with-profits business

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

(ii)

Unit-linked business

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

(iii)

US variable annuity and fixed index annuity business

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

(iv)

Business where policyholder liabilities are sensitive to market conditions

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

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

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

(v)
Other shareholder-financed business

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

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

Debt securities and loans

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

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

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

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

Equity-type securities

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

Derivative value movements

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

(b)
Asia insurance operations

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

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

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

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

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

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

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

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

–
Fair value movements for equity-based derivatives;
–
Fair value movements for embedded derivatives for the ‘not for life’ portion of Guaranteed Minimum Withdrawal Benefit (‘GMWB’) and fixed index annuity business, and Guaranteed Minimum Income Benefit (‘GMIB’) reinsurance (see below);
–
Movements in the accounts carrying value of Guaranteed Minimum Death Benefit (‘GMDB’), GMIB and the ‘for life’ portion of GMWB liabilities, (see below) for which, under the ‘grandfathered’ US GAAP applied under IFRS for Jackson’s insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements (ie they are relatively insensitive to the effect of current period equity market and interest rate changes);

–
A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
–
Related amortisation of deferred acquisition costs for each of the above items.

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

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

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

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

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

	2017	2016
	6.1% to 6.5%	5.5% to 6.5%

Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds		
Other equity-type securities such as investments in limited partnerships and private equity funds	8.1% to 8.5%	7.5% to 8.5%

(d)

UK and Europe insurance operations

(i)

Shareholder-backed annuity business

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

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

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

–
Credit experience compared with assumptions; and

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

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

(ii)

Non-linked shareholder-financed business

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

(e)

Fund management and other non-insurance businesses

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

B2

Acquisition costs and other expenditure

	2017 £m	2016 £m
Acquisition costs incurred for insurance policies	(3,712)	(3,687)
Acquisition costs deferred less amortisation of acquisition costs	911	923
Administration costs and other expenditure	(6,380)	(5,522)
Movements in amounts attributable to external unit holders of consolidated investment funds	(984)	(562)
Total acquisition costs and other expenditure	(10,165)	(8,848)

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

The following matters are relevant to the determination of the 2017 results:

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

(b)
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.

(c)
UK and Europe insurance operations
Annuity business
Allowance for credit risk
For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances 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 42 basis points at 31 December 2017 (2016: 43 basis points). The allowance represented 28 per cent of the bond spread over swap rates (2016: 26 per cent).

The reserves for credit risk allowance at 31 December 2017 for the UK shareholder-backed business were £1.6 billion (2016: £1.7 billion).

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 2017, was a credit of £173 million (2016: credit of £16 million).This included, amongst other items, a benefit to IFRS operating profit based on longer-term investment returns of £204 million, relating to changes to annuitant mortality assumptions primarily reflecting the adoption of the Continuous Mortality Investigation (CMI) 2015 model.

Longevity reinsurance and other management actions
A number of management actions were taken in 2017 to improve the solvency position of the UK and Europe insurance operations and further mitigate market risk, which have generated combined profits of £276 million. Similar

actions were also taken in 2016 and 2015.

Of this amount £31 million related to profit from an additional longevity reinsurance transactions covering £0.5 billion of annuity liabilities on an IFRS basis, with the balance of £245 million reflecting the effect of repositioning the fixed income portfolio and other actions. The contribution to profit from similar longevity reinsurance and other management actions in 2016 was £332 million (of which £197 million related to longevity reinsurance transactions covering £5.4 billion of IFRS annuity liabilities).

At 31 December 2017, longevity reinsurance covered £14.4 billion of IFRS annuity liabilities equivalent to 44 per cent of total annuity liabilities (2016: £14.4 billion, 42 per cent).

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 will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The FCA formally released its redress calculation methodology in early 2018 and accordingly Prudential reassessed the provision held to cover the costs of undertaking the review and any potential redress. At 31 December 2017, following this reassessment, the gross provision was increased to £400 million (2016: £175 million), excluding any utilisation during the year. The ultimate amount that will be expended by the Group on the review, which is currently expected to be completed in 2019, remains uncertain. Although the Group's professional indemnity insurance is expected to mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored in the provision, in accordance with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

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B4 Tax charge

On 22 December 2017, a significant US tax reform package, The Tax Cuts and Jobs Act, was enacted into law effective from 1 January 2018. The tax reform package as a whole, which includes a reduction in the corporate income tax rate from 35 per cent to 21 per cent, and a number of specific measures affecting US life insurers, is expected to be beneficial in the longer term. However in 2017 the changes have had an adverse impact on the tax charge attributable to shareholders in the Group's US operations and a benefit to policyholders in the with-profits fund of the UK and Europe operations, due to the requirement to remeasure deferred tax balances at the new 21 per cent rate. The 2017 impacts on the Group's income statement and on other comprehensive income of the US tax changes are set out below and the impact on the balance sheet are set out in note C8.

(a)

Total tax charge by nature of expense

The total tax charge in the income statement is as follows:

	2017 £m			2016 £m
Tax charge	Current tax	Deferred tax	Total	Total
Attributable to shareholders:				
Asia operations	(164)	(89)	(253)	(256)
US operations	56	(564)	(508)	66
UK and Europe	(302)	35	(267)	(275)
Other operations	122	-	122	111
Tax charge attributable to shareholders'	(288)	(618)	(906)	(354)

returns				
Attributable to policyholders:				
Asia operations	(92)	(157)	(249)	(155)
UK and Europe	(316)	(109)	(425)	(782)
Tax charge attributable to policyholders' returns	(408)	(266)	(674)	(937)
Total tax charge	(696)	(884)	(1,580)	(1,291)

The principal reason for the increase in the tax charge attributable to shareholders' returns is 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. The principal reason for the decrease in the tax charge attributable to policyholders' returns is a smaller increase in deferred tax liabilities on unrealised gains on investments in the with-profits fund of UK and Europe compared to 2016, combined with a £92 million credit following the remeasurement of US net deferred tax liabilities in the same with-profits fund.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in (b) below. The tax charge attributable to policyholders of £674 million above is equal to the profit before tax attributable to policyholders of £674 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 2017, a tax charge of £75 million (2016: credit of £10 million) attributable to shareholders has been taken through other comprehensive income. The 2017 charge includes a £190 million deferred tax charge primarily on unrealised gains on bonds held in the US operations partly offset by £134 million benefit relating to the remeasurement of US net deferred tax liabilities on the bonds

(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.

	2017 £m					
	Asia operations	US operations	UK and Europe	Other* operations	Total attributable to shareholders	Percentage impact on ETR
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%)
	26	6	13	10	55	1.7%

Deductions not allowable for tax purposes						
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 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:						
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.

The more significant reconciling items are explained below:

Income not taxable or taxable at concessionary rates
£26 million of the £64 million reconciling item in Asia operations is due to non-taxable gains on domestic securities in Taiwan (no equivalent amount in 2016) with the balance principally relating to income taxable at rates lower than the expected rates in Malaysia and Singapore.

Items related to taxation of life insurance businesses
The £92 million reconciling item in Asia operations reflects where the basis of tax is not the accounting profits, primarily in:
- Hong Kong where the taxable profit is based on the net insurance premiums;and

- Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

It is higher than the 2016 adjustment of £20 million due to a larger proportion of profits attributable to Hong Kong.

The £238 million (full year 2016: £159 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. US tax reform changes effective from 1 January 2018 are expected to reduce the level of this deduction from 2018 onwards.

Effects of results of joint ventures and associates

The £55 million reconciling item arises from the accounting requirement for inclusion in the profit before tax of Prudential's share of the profits after tax from the joint ventures and associates, with no equivalent item included in Prudential's tax charge.

Irrecoverable withholding taxes

The £54 million adverse reconciling items reflects 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.

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 1 January 2017	(89)
Movements in the current period included in:	
Tax charge attributable to shareholders	(44)
Other movements*	(6)
At 31 December 2017	(139)

*

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.

Impact of US tax reform

As noted earlier, the reduction in the US corporate income tax rate from 35 per cent to 21 per cent from 1 January 2018 was substantively enacted on 22 December 2017, giving rise to a £445 million unfavourable reconciling item in US operations relating to the remeasurement of the net deferred tax asset attributable to shareholders. Separately a £134 million benefit has been recognised in other comprehensive income. Further detail on the impact of US tax reform is provided in note C8.

	2016** £m					
	Asia operations	US operations	UK and Europe	Other* operations	Total attributable to shareholders	Percentage impact on ETR
Operating profit (loss) based on longer-term investment returns	1,644	2,048	1,253	(689)	4,256	
Non-operating (loss) profit	(460)	(1,523)	206	(204)	(1,981)	
Profit (loss) before tax	1,184	525	1,459	(893)	2,275	
Expected tax rate	22%	35%	20%	20%	24%	

Tax at the expected rate	260	184	292	(179)	557	24.4%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(31)	(18)	(13)	(5)	(67)	(2.9%)
Deductions not allowable for tax purposes	20	8	10	22	60	2.6%
Items related to taxation of life insurance businesses	(20)	(159)	(1)	-	(180)	(7.9%)
Deferred tax adjustments	(11)	-	2	(14)	(23)	(1.0%)
Effect of results of joint ventures and associates	(44)	-	(2)	-	(46)	(2.0%)
Irrecoverable withholding taxes	-	-	-	36	36	1.6%
Other	3	-	-	(7)	(4)	(0.1%)
Total	(83)	(169)	(4)	32	(224)	(9.7%)
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	1	(81)	(7)	5	(82)	(3.6%)
Movements in provisions for open tax matters	20	-	-	31	51	2.2%
Impact of changes in local statutory tax rates	-	-	(6)	-	(6)	(0.2%)
Write-down of Korea life business	58	-	-	-	58	2.5%
Total	79	(81)	(13)	36	21	0.9%
Total actual tax charge (credit)	256	(66)	275	(111)	354	15.6%
Analysed into:						
Tax on operating profit based on longer-term investment returns	271	467	244	(88)	894	
Tax on non-operating profit	(15)	(533)	31	(23)	(540)	
Actual tax rate:						
Operating profit based on longer-term investment returns:						
Including non-recurring tax reconciling items	16%	23%	19%	13%	21%	
Excluding non-recurring tax reconciling items	15%	27%	21%	18%	22%	
Total profit	22%	(13)%	19%	12%	16%	

*

Other operations include restructuring costs.

**

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

The 2016 expected and actual tax rates as shown include the impact of the re-measurement loss on the held for sale Korea life business. The 2016 tax rates for Asia operations and Group, excluding the impact of the held for sale Korea life business are as follows:

	Asia operations	Attributable to shareholders
Expected tax rate on total profit	22%	24%
Actual tax rate:		
Operating profit based on longer-term investment returns	16%	21%
Total profit	18%	14%

B5

Earnings per share

		2017					
		Before tax	Tax	Non-controlling interests	Net of tax and non-controlling interests	Basic earnings per share	Diluted earnings per share
	Note	B1.1	B4				
		£m	£m	£m	£m	Pence	Pence
Based on operating profit based on longer-term investment returns		4,699	(971)	(1)	3,727	145.2p	145.1p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,563)	572	-	(991)	(38.6)p	(38.6)p
Amortisation of acquisition accounting adjustments		(63)	20	-	(43)	(1.7)p	(1.7)p
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1	61	-	-	61	2.4p	2.4p
Profit attaching to disposal of businesses	D1	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

		2016					
		Before tax	Tax	Non-controlling interests	Net of tax and non-controlling interests	Basic earnings per share	Diluted earnings per share

	Note	B1.1	B4				
		£m	£m	£m	£m	Pence	Pence
Based on operating profit based on longer-term investment returns		4,256	(894)	-	3,362	131.3p	131.2p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,678)	519	-	(1,159)	(45.3)p	(45.2)p
Loss attaching to held for sale Korea life business	D1	(227)	(4)	-	(231)	(9.0)p	(9.0)p
Amortisation of acquisition accounting adjustments		(76)	25	-	(51)	(2.0)p	(2.0)p
Based on profit for the year		2,275	(354)	-	1,921	75.0p	75.0p

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:

Weighted average number of shares for calculation of:	2017 (millions)	2016 (millions)
Basic earnings per share	2,567	2,560
Shares under option at end of year	6	7
Number of shares that would have been issued at fair value on assumed option price	(5)	(5)
Diluted earnings per share	2,568	2,562

B6
Dividends

	2017		2016	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
First interim ordinary dividend	14.50p	375	12.93p	333
Second interim ordinary dividend	32.50p	841	30.57p	789
Total	47.00p	1,216	43.50p	1,122
Dividends paid in reporting year:				
Current year first interim ordinary dividend	14.50p	373	12.93p	332
Second interim ordinary dividend for prior year	30.57p	786	26.47p	679
Special dividend	-	-	10.00p	256
Total	45.07p	1,159	49.40p	1,267

Dividend per share
For the year ended 31 December 2016 the second interim ordinary dividend of 30.57 pence per ordinary share was paid to eligible shareholders on 19 May 2017. The 2017 first interim ordinary dividend of 14.50 pence per ordinary share was paid to eligible shareholders on 28 September 2017.

The second interim ordinary dividend for the year ended 31 December 2017 of 32.50 pence per ordinary share will be paid on 18 May 2018 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 3 April 2018 (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 25 May 2018. The second interim ordinary dividend will be paid on or about 25 May 2018 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 13 March 2018. 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 principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

C
Balance sheet notes

C1
Analysis of Group statement of financial position by segment
(a)
Position as at 31 December 2017

		2017 £m						2016 £m
	Note	Asia	US	UK and Europe	Unallocated to a segment (other operations)	Elimination of intra-group debtors and creditors	Group Total	Group Total
By operating segment		C2.1	C2.2	C2.3	note (i)			
Assets								
Goodwill	C5(a)	305	-	1,177	-	-	1,482	1,628
Deferred acquisition costs and other intangible assets	C5(b)	2,540	8,219	210	42	-	11,011	10,807
Property, plant and equipment		125	214	447	3	-	789	743
Reinsurers' share of insurance contract liabilities		1,960	6,424	2,521	3	(1,235)	9,673	10,051
Deferred tax assets	C8	112	2,300	157	58	-	2,627	4,315
Current tax recoverable		58	298	244	93	(80)	613	440
		595	492	1,558	31	-	2,676	3,153

Accrued investment income								
Other debtors		2,675	248	3,118	2,121	(5,199)	2,963	3,019
Investment properties		5	5	16,487	-	-	16,497	14,646
Investment in joint ventures and associates accounted for using the equity method		912	-	504	-	-	1,416	1,273
Loans	C3.3	1,317	9,630	5,986	109	-	17,042	15,173
Equity securities and portfolio holdings in unit trusts		29,976	130,630	62,670	115	-	223,391	198,552
Debt securities	C3.2	40,982	35,378	92,707	2,307	-	171,374	170,458
Derivative assets		113	1,611	2,954	123	-	4,801	3,936
Other investments		-	848	4,774	-	-	5,622	5,465
Deposits		1,291	43	9,540	362	-	11,236	12,185
Assets held for sale		-	-	38	-	-	38	4,589
Cash and cash equivalents		1,934	1,658	5,808	1,290	-	10,690	10,065
Total assets	C1	84,900	197,998	210,900	6,657	(6,514)	493,941	470,498
Total equity		5,926	5,248	8,245	(3,325)	-	16,094	14,667
Liabilities								
Insurance contract liabilities	C4.1	63,468	177,728	88,180	31	(1,235)	328,172	316,436
Investment contract liabilities with discretionary participation features	C4.1	337	-	62,340	-	-	62,677	52,837
Investment contract liabilities without discretionary participation features	C4.1	328	2,996	17,069	1	-	20,394	19,723
Unallocated surplus of with-profits funds	C4.1	3,474	-	13,477	-	-	16,951	14,317
Core structural borrowings of shareholder-financed operations	C6.1	-	184	-	6,096	-	6,280	6,798
Operational borrowings attributable to shareholder-financed operations	C6.2	50	508	148	1,085	-	1,791	2,317
Borrowings attributable to with-profits operations	C6.2	10	-	3,706	-	-	3,716	1,349
Obligations under funding, securities		-	4,304	1,358	-	-	5,662	5,031

lending and sale and repurchase agreements								
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,631	-	5,243	15	-	8,889	8,687
Deferred tax liabilities	C8	1,152	1,845	1,703	15	-	4,715	5,370
Current tax liabilities		122	47	377	71	(80)	537	649
Accruals deferred income and other liabilities		6,069	5,109	6,609	1,597	(5,199)	14,185	13,825
Provisions		254	24	784	61	-	1,123	947
Derivative liabilities		79	5	1,661	1,010	-	2,755	3,252
Liabilities held for sale	D1	-	-	-	-	-	-	4,293
Total liabilities	C1	78,974	192,750	202,655	9,982	(6,514)	477,847	455,831
Total equity and liabilities		84,900	197,998	210,900	6,657	(6,514)	493,941	470,498

Note
(i)
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 2017 £m							31 Dec 2016* £m
		Insurance							
		With-profits business	Unit-linked assets and liabilities	Other business	Total	Asset management	Eliminations	Total	Total
	Note								
Assets									
Goodwill		-	-	244	244	61	-	305	306
Deferred acquisition costs and other intangible assets		45	-	2,490	2,535	5	-	2,540	2,319
Property, plant and equipment		86	-	36	122	3	-	125	124
Reinsurers' share of insurance		76	-	1,884	1,960	-	-	1,960	1,539

contract liabilities									
Deferred tax assets		-	-	102	102	10	-	112	107
Current tax recoverable		1	2	55	58	-	-	58	29
Accrued investment income		230	53	277	560	35	-	595	549
Other debtors		1,823	169	648	2,640	67	(32)	2,675	2,662
Investment properties		-	-	5	5	-	-	5	5
Investment in joint ventures and associates accounted for using the equity method		-	-	768	768	144	-	912	825
Loans	C3.3	725	-	592	1,317	-	-	1,317	1,303
Equity securities and portfolio holdings in unit trusts		14,995	13,199	1,759	29,953	23	-	29,976	23,599
Debt securities	C3.2	24,432	3,507	13,043	40,982	-	-	40,982	36,546
Derivative assets		82	5	26	113	-	-	113	47
Deposits		246	511	499	1,256	35	-	1,291	1,425
Assets held for sale	D1	-	-	-	-	-	-	-	3,863
Cash and cash equivalents		632	287	822	1,741	193	-	1,934	2,157
Total assets		43,373	17,733	23,250	84,356	576	(32)	84,900	77,405
Total equity		-	-	5,525	5,525	401	-	5,926	5,376
Liabilities									
Insurance contract liabilities		33,861	15,935	13,672	63,468	-	-	63,468	54,417
Investment contract liabilities with discretionary participation features	C4.1	337	-	-	337	-	-	337	347
Investment contract liabilities without discretionary participation features	C4.1	-	328	-	328	-	-	328	254
		3,474	-	-	3,474	-	-	3,474	2,667

Unallocated surplus of with-profits funds									
Operational borrowings attributable to shareholder-financed operations		-	7	43	50	-	-	50	19
Borrowings attributable to with-profits operations		10	-	-	10	-	-	10	4
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,152	1,219	260	3,631	-	-	3,631	3,093
Deferred tax liabilities		774	38	340	1,152	-	-	1,152	935
Current tax liabilities		24	-	81	105	17	-	122	125
Accruals, deferred income and other liabilities		2,620	206	3,207	6,033	68	(32)	6,069	5,916
Provisions		62	-	102	164	90	-	254	229
Derivative liabilities		59	-	20	79	-	-	79	265
Liabilities held for sale	D1	-	-	-	-	-	-	-	3,758
Total liabilities		43,373	17,733	17,725	78,831	175	(32)	78,974	72,029
Total equity and liabilities		43,373	17,733	23,250	84,356	576	(32)	84,900	77,405

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

Note
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 2017 £m	31 Dec 2016* £m
	Insurance	

	Note	Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business	Total	Asset management	Eliminations	Total	Total
Assets								
Goodwill		-	-	-	-	-	-	16
Deferred acquisition costs and other intangible assets		-	8,216	8,216	3	-	8,219	8,327
Property, plant and equipment		-	209	209	5	-	214	247
Reinsurers' share of insurance contract liabilities		-	6,424	6,424	-	-	6,424	7,224
Deferred tax assets		-	2,218	2,218	82	-	2,300	3,979
Current tax recoverable		-	284	284	14	-	298	101
Accrued investment income		-	444	444	48	-	492	628
Other debtors		-	247	247	77	(76)	248	304
Investment properties		-	5	5	-	-	5	6
Loans	C3.3	-	9,630	9,630	-	-	9,630	9,735
Equity securities and portfolio holdings in unit trusts		130,528	102	130,630	-	-	130,630	120,747
Debt securities	C3.2	-	35,378	35,378	-	-	35,378	40,745
Derivative assets		-	1,611	1,611	-	-	1,611	834
Other investments		-	844	844	4	-	848	992
Deposits		-	-	-	43	-	43	49
Cash and cash equivalents		-	1,224	1,224	434	-	1,658	1,135
Total assets		130,528	66,836	197,364	710	(76)	197,998	195,069
Total equity		-	5,013	5,013	235	-	5,248	5,408
Liabilities								
Insurance contract liabilities		130,528	47,200	177,728	-	-	177,728	174,328
Investment contract liabilities without discretionary participation features	C4.1	-	2,996	2,996	-	-	2,996	3,298
Core structural borrowings of shareholder-financed		-	184	184	-	-	184	202

operations							
Operational borrowings attributable to shareholder-financed operations	-	508	508	-	-	508	480
Obligations under funding, securities lending and sale and repurchase agreements	-	4,304	4,304	-	-	4,304	3,534
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	-	-	-	-	-	-	-
Deferred tax liabilities	-	1,844	1,844	1	-	1,845	2,832
Current tax liabilities	-	46	46	1	-	47	-
Accruals, deferred income and other liabilities	-	4,728	4,728	457	(76)	5,109	4,920
Provisions	-	8	8	16	-	24	3
Derivative liabilities	-	5	5	-	-	5	64
Total liabilities	130,528	61,823	192,351	475	(76)	192,750	189,661
Total equity and liabilities	130,528	66,836	197,364	710	(76)	197,998	195,069

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

C2.3
UK and Europe

		31 Dec 2017 £m							31 Dec 2016* £m
		Insurance							
			Other funds and subsidiaries						
		With-profits sub-funds	Unit-linked assets and liabilities	Annuity and other long-term business	Total	Asset management	Eliminations	Total	Total
By operating segment	Note	note (i)							
Assets									

Goodwill		24	-	-	24	1,153	-	1,177	1,306
Deferred acquisition costs and other intangible assets		100	-	103	203	7	-	210	132
Property, plant and equipment		406	-	37	443	4	-	447	369
Reinsurers' share of insurance contract liabilities		1,269	133	1,119	2,521	-	-	2,521	2,590
Deferred tax assets		70	-	64	134	23	-	157	174
Current tax recoverable		63	-	181	244	-	-	244	308
Accrued investment income		892	107	553	1,552	6	-	1,558	1,939
Other debtors		1,553	76	624	2,253	941	(76)	3,118	3,233
Investment properties		14,153	682	1,652	16,487	-	-	16,487	14,635
Investment in joint ventures and associates accounted for using the equity method		464	-	-	464	40	-	504	448
Loans	C3.3	4,268	-	1,718	5,986	-	-	5,986	3,572
Equity securities and portfolio holdings in unit trusts		47,173	15,369	9	62,551	119	-	62,670	54,177
Debt securities	C3.2	50,661	6,711	35,335	92,707	-	-	92,707	90,796
Derivative assets		2,420	8	526	2,954	-	-	2,954	2,927
Other investments		4,744	11	1	4,756	18	-	4,774	4,473
Deposits		7,167	1,139	1,234	9,540	-	-	9,540	10,705
Assets held for salenote		38	-	-	38	-	-	38	726

(ii)

Cash and cash equivalents		4,096	693	576	5,365	443	-	5,808	5,064
Total assets		139,561	24,929	43,732	208,222	2,754	(76)	210,900	197,574
Total equity		-	-	6,344	6,344	1,901	-	8,245	7,832
Liabilities									
Insurance contract liabilities	C4.1	48,894	6,097	33,189	88,180	-	-	88,180	88,993
Investment contract liabilities with discretionary participation features	C4.1	62,323	-	17	62,340	-	-	62,340	52,490
Investment contract liabilities without discretionary participation features	C4.1	5	17,048	16	17,069	-	-	17,069	16,171
Unallocated surplus of with-profits funds	C4.1	13,477	-	-	13,477	-	-	13,477	11,650
Operational borrowings attributable to shareholder-financed operations		-	4	123	127	21	-	148	167
Borrowings attributable to with-profits operations		3,706	-	-	3,706	-	-	3,706	1,345
Obligations under funding, securities lending and sale and repurchase agreements		748	-	610	1,358	-	-	1,358	1,497
Net asset value attributable		3,409	1,667	167	5,243	-	-	5,243	5,594

to unit holders of consolidated unit trusts and similar funds								
Deferred tax liabilities	1,410	-	274	1,684	19	-	1,703	1,592
Current tax liabilities	119	76	138	333	44	-	377	513
Accruals deferred income and other liabilities	4,791	36	1,293	6,120	565	(76)	6,609	6,688
Provisions	55	-	525	580	204	-	784	647
Derivative liabilities	624	1	1,036	1,661	-	-	1,661	1,860
Liabilities held for salenote (ii)	-	-	-	-	-	-	-	535
Total liabilities	139,561	24,929	37,388	201,878	853	(76)	202,655	189,742
Total equity and liabilities	139,561	24,929	43,732	208,222	2,754	(76)	210,900	197,574

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

Note
(i)
Includes the Scottish Amicable Insurance Fund which, at 31 December 2017 have total assets and liabilities of £5,768 million (2016: £6,101 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 PAC with-profits fund includes £10.6 billion (2016: £11.2 billion) of non-profits annuities liabilities.
(ii)
The assets and liabilities held for sale for the UK and Europe insurance operations comprise the investment properties and consolidated venture investments of the PAC with-profits fund, for which the sales had been agreed but not yet completed at the year end.

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

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

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 operations	-	-	(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%

	31 Dec 2016 £m			
	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	-	-	27	27
Equity securities and portfolio holdings in unit trusts	45,181	3,669	690	49,540

Debt securities	26,227	43,880	690	70,797
Other investments (including derivative assets)	58	3,357	3,443	6,858
Derivative liabilities	(51)	(1,025)	-	(1,076)
Total financial investments, net of derivative liabilities	71,415	49,881	4,850	126,146
Percentage of total	56%	40%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	146,637	374	22	147,033
Debt securities	5,136	4,462	-	9,598
Other investments (including derivative assets)	6	8	5	19
Derivative liabilities	(4)	(24)	-	(28)
Total financial investments, net of derivative liabilities	151,775	4,820	27	156,622
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	-	276	2,672	2,948
Equity securities and portfolio holdings in unit trusts	1,966	3	10	1,979
Debt securities	21,896	67,915	252	90,063
Other investments (including derivative assets)	-	1,492	1,032	2,524
Derivative liabilities	(9)	(1,623)	(516)	(2,148)
Total financial investments, net of derivative liabilities	23,853	68,063	3,450	95,366
Percentage of total	25%	71%	4%	100%

Group total analysis, including other financial liabilities held at fair value

Group total

Loans	-	276	2,699	2,975
Equity securities and portfolio holdings in unit trusts	193,784	4,046	722	198,552
Debt securities	53,259	116,257	942	170,458
Other investments (including derivative assets)	64	4,857	4,480	9,401
Derivative liabilities	(64)	(2,672)	(516)	(3,252)
Total financial investments, net of derivative liabilities	247,043	122,764	8,327	378,134
Investment contract liabilities without discretionary participation features held at fair value	-	(16,425)	-	(16,425)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(4,217)	(3,587)	(883)	(8,687)
Other financial liabilities held at fair value	-	(385)	(2,851)	(3,236)
Total financial instruments at fair value	242,826	102,367	4,593	349,786
Percentage of total	70%	29%	1%	100%

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £35,293 million (2016: £40,645 million) of debt securities classified as available-for-sale.

The Korea life business was classified as held for sale in 2016, with the sale completed in May 2017. The assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a net financial instruments balance of £3,200 million, primarily for equity securities and debt securities. Of this amount, £2,763 million was classified as level 1 and £437 million as level 2.

Investment properties at fair value

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

2016	-	-	14,646	14,646

(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 independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing service providers are used, a single valuation is obtained and applied.

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 £115,141 million at 31 December 2017 (2016: £116,257 million), £13,910 million are valued internally (2016: £12,708 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 some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

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 2017, the Group held £4,443 million (2016: £4,593 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2016: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

The net financial instruments at fair value within level 3 at 31 December 2017 include £1,983 million of loans and a corresponding £1,887 million of borrowings 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.

Also included within these amounts are loans of £2,512 million at 31 December 2017 (2016: £2,672 million), measured as the loan outstanding balance, plus accrued investment income, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,664 million at 31 December 2017 (2016: £2,851 million) is also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(152) million (2016: £(179) million), the level 3 fair valued financial assets net of financial liabilities are £4,595 million (2016: £4,772 million). Of this amount, a net asset of £117 million (2016: net asset of £72 million) is internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2016: 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 £500 million (2016: £422 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 £217 million (2016: £956 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 were principally held by consolidated investment funds that are managed on behalf of third parties.

(c) Equity release mortgage loans of £366 million (2016: £276 million classified as level 2) 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. See below for the explanation of the transfer of these investments from level 2 into level 3 during the year.

(d) Liabilities of £(403) million (2016: £(883) 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 £(512) million (2016: £(516) 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 £81 million (2016: £93 million).

Of the internally valued net asset referred to above of £117 million (2016: net asset of £72 million):

(a) A net asset of £67 million (2016: £315 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.

(b) A net liability of £(184) million (2016: £(243) 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 £18 million (2016: £24 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 operating profit.

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.

During the year, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £1,389 million and transfers from level 2 to level 1 of £411 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, in 2017, the transfers into level 3 were a net liability of £80 million and the transfers out of level 3 were £92 million. The transfers into level 3 include a transfer from level 2 of a net liability of £83 million relating to the equity release mortgage loans of £302 million and a corresponding liability of £385 million held by the UK insurance operations that are carried at fair value through profit or loss. During 2017, the assumptions used within the discounted cash flow model used to value these loans were refined to reflect developing market practice, including consideration of the Prudential Regulation Authority's industry-wide review in this area and resulting guidance. This refinement incorporates inputs relevant to determining the discount rate that are not market observable. As a result, the loans were reclassified as level 3. There was no material difference in the fair value of these loans recognised in 2017, arising from this change in the valuation model.

(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 and Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. 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'.

	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

	2016 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total

Asia							
With-profits	3,183	8,522	3,560	2,996	1,887	1,713	21,861
Unit-linked	448	112	525	1,321	494	421	3,321
Non-linked shareholder-backed	1,082	2,435	2,864	2,388	1,680	915	11,364
US							
Non-linked shareholder-backed	445	7,932	10,609	13,950	1,009	6,800	40,745
UK and Europe							
With-profits	5,740	9,746	10,679	12,798	3,289	6,684	48,936
Unit-linked	461	2,660	1,158	1,699	212	87	6,277
Non-linked shareholder-backed	4,238	10,371	10,558	4,515	397	5,504	35,583
Other operations	830	1,190	242	97	10	2	2,371
Total debt securities	16,427	42,968	40,195	39,764	8,978	22,126	170,458

The credit ratings, information or data contained in this report which are attributed and specifically provided by S&P, 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 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:

	2017 £m	2016 £m
Asia - non-linked shareholder-backed		
Internally rated		
Government bonds	25	63
Corporate bonds – rated as investment grade by local external ratings agencies	959	757
Other	69	95
Total Asia non-linked shareholder-backed	1,053	915

US	£m Mortgage-backed securities	Other securities	2017 Total	2016 Total
Implicit ratings of other US debt securities based on NAIC* valuations (see below)				
NAIC 1	1,843	2,075	3,918	4,759
NAIC 2	22	1,772	1,794	1,909

NAIC 3-6	3	54	57	132
Total US	1,868	3,901	5,769	6,800

*
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.

	2017 £m	2016 £m
UK and Europe		
Internal ratings or unrated		
AAA to A-	7,994	6,939
BBB to B-	3,141	3,257
Below B- or unrated	2,436	2,079
Total UK and Europe	13,571	12,275

In addition to the debt securities shown above, the assets held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a debt securities balance of £652 million.

(b)
Additional analysis of US insurance operations debt securities

	2017 £m	2016 £m
Corporate and government security and commercial loans:		
Government	4,835	5,856
Publicly traded and SEC Rule 144A securities*	22,849	25,992
Non-SEC Rule 144A securities	4,468	4,576
Asset backed securities (see note (e))	3,226	4,321
Total US debt securities†	35,378	40,745

*
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:

	2017 £m	2016 £m
Available-for-sale	35,293	40,645
Fair value through profit or loss:		
Securities held to back liabilities for funds withheld under reinsurance arrangement	85	100
	35,378	40,745

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 £676 million to a net unrealised gain of £1,205 million as analysed in the table below.

	2017	Foreign exchange translation	Changes in unrealised appreciation**	2016
		Reflected as part of movement in other comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	6,325			14,617
Unrealised gain (loss)	(106)	33	536	(675)
Fair value (as included in statement of financial position)	6,219			13,942
Assets fair valued at or above book value				
Book value*	27,763			25,352
Unrealised gain (loss)	1,311	(121)	81	1,351
Fair value (as included in statement of financial position)	29,074			26,703
Total				
Book value*	34,088			39,969
Net unrealised gain (loss)	1,205	(88)	617	676
Fair value (as included in the footnote above in the overview table and the statement of financial position)	35,293			40,645

*

Book value represents cost/amortised cost of the debt securities.0

**

Translated at the average rate of US$1.2889: £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 following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	2017 £m		2016 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	6,170	(95)	12,326	(405)
Between 80% and 90%	36	(6)	1,598	(259)
Below 80%:				
Residential mortgage-backed securities - sub-prime	-	-	-	-
Commercial mortgage-backed securities	-	-	8	(3)
Other asset-backed securities	10	(4)	9	(8)
Government bonds	-	-	-	-
Corporates	3	(1)	1	
	13	(5)	18	(11)
Total	6,219	(106)	13,942	(675)

(ii)

Unrealised losses by maturity of security

	2017 £m	2016 £m
1 year to 5 years	(7)	(7)
5 years to 10 years	(41)	(118)
More than 10 years	(39)	(510)
Mortgage-backed and other debt securities	(19)	(40)
Total	(106)	(675)

(iii)
Age analysis of unrealised losses for the periods indicated
The following table shows 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:

	2017 £m			2016 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(4)	(31)	(35)	(3)	(599)	(602)
6 months to 1 year	(1)	(4)	(5)	-	(2)	(2)
1 year to 2 years	-	(49)	(49)	(4)	(27)	(31)
2 years to 3 years	(1)	(6)	(7)	(2)	(1)	(3)
More than 3 years	-	(10)	(10)	(2)	(35)	(37)
Total	(6)	(100)	(106)	(11)	(664)	(675)

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

	2017 £m		2016 £m	
Age analysis	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	2	-	1	-
3 months to 6 months	1	(1)	-	-
More than 6 months	10	(4)	17	(11)
	13	(5)	18	(11)

(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, at 31 December are as follows:

	2017 £m	2016 £m
Shareholder-backed operations:		
Asia operations note (i)	118	130
US operations note (ii)	3,226	4,321
UK and Europe operations (2017: 34% AAA, 16% AA)note (iii)	1,070	1,464
Other operationsnote (iv)	589	771
	5,003	6,686
With-profits operations:		
Asia operations note (i)	233	357
UK and Europe operations (2017: 58% AAA, 10% AA)note (iii)	5,658	5,177

	5,891	5,534
Total	10,894	12,220

Notes
(i)
Asia operations
The Asia operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £233 million, 98 per cent (2016: 99 per cent) are investment grade.
(ii)
US operations
US operations' exposure to asset-backed securities at 31 December comprises:

	2017 £m	2016 £m
RMBS		
Sub-prime (2017: 2% AAA, 4% AA, 3% A)	112	180
Alt-A (2017: 3% AAA, 3% A)	126	177
Prime including agency (2017: 70% AA, 4% A)	440	675
CMBS (2017: 82% AAA, 15% AA, 1% A)	1,579	2,234
CDO funds (2017: 49% AA, 31% A), including £nil exposure to sub-prime	28	50
Other ABS (2017: 21% AAA, 14% AA, 50% A), including £96 million exposure to sub-prime	941	1,005
Total	3,226	4,321

(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 operations, £1,913 million (2016: £1,623 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 £589 million, 96 per cent (2016: 95 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 at 31 December are analysed as follows:

Exposure to sovereign debts

	2017 £m		2016 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	58	63	56	61
Spain	34	18	33	18
France	23	38	22	-
Germany*	693	301	573	329
Other Eurozone	82	31	83	33
Total Eurozone	890	451	767	441
United Kingdom	5,918	3,287	5,510	2,868

United States**	5,078	10,156	6,861	9,008
Other, predominantly Asia	4,638	2,143	3,979	2,079
Total	16,524	16,037	17,117	14,396

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

Exposure to bank debt securities

	2017 £m							
	Senior debt			Subordinated debt				
Shareholder-backed business	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	2017 Total £m	2016 Total £m
Italy	-	-	-	-	-	-	-	32
Spain	42	26	68	-	-	-	68	170
France	28	41	69	10	7	17	86	166
Germany	30	-	30	-	87	87	117	124
Netherlands	-	65	65	-	6	6	71	50
Other Eurozone	15	-	15	-	-	-	15	19
Total Eurozone	115	132	247	10	100	110	357	561
United Kingdom	695	374	1,069	5	308	313	1,382	1,174
United States	-	2,457	2,457	1	161	162	2,619	2,684
Other, including Asia	17	652	669	93	401	494	1,163	1,018
Total	827	3,615	4,442	109	970	1,079	5,521	5,437
With-profits funds								
Italy	-	31	31	-	-	-	31	62
Spain	-	16	16	-	-	-	16	213
France	9	213	222	-	64	64	286	213
Germany	120	24	144	-	36	36	180	114
Netherlands	-	188	188	5	6	11	199	202
Other Eurozone	-	27	27	-	-	-	27	31
Total Eurozone	129	499	628	5	106	111	739	835
United Kingdom	859	592	1,451	3	484	487	1,938	1,396
United States	-	2,205	2,205	17	296	313	2,518	2,229
Other, including Asia	532	1,256	1,788	290	453	743	2,531	1,992
Total	1,520	4,552	6,072	315	1,339	1,654	7,726	6,452

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:

	2017 £m				2016 £m			
	Mortgage loans*	Policy loans**	Other loans†	Total	Mortgage loans*	Policy loans**	Other loans†	Total
Asia								
With-profits	-	613	112	725	-	577	113	690
Non-linked shareholder-backed	177	216	199	592	179	226	208	613
US								
Non-linked shareholder-backed	6,236	3,394	-	9,630	6,055	3,680	-	9,735
UK and Europe								
With-profits	2,441	4	1,823	4,268	668	6	1,218	1,892
Non-linked shareholder-backed	1,681	-	37	1,718	1,642	-	38	1,680
Other operations	-	-	109	109	-	-	563	563
Total loans securities	10,535	4,227	2,280	17,042	8,544	4,489	2,140	15,173

*
All mortgage loans are secured by properties.
**
In the US £2,512 million (2016: £2,672 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. The majority of other loans in shareholder-backed business in Asia are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

(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 US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the same risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £12.6 million (2016: £12.4 million). The portfolio has a current estimated average loan to value of 55 per cent (2016: 59 per cent).

At 31 December 2017, Jackson had no mortgage loans where the contractual terms of the agreements had been restructured (2016: none).

(c)
Additional information on UK mortgage loans

During 2017, the UK with-profits fund invested 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, 99.98 per cent of the £1,681 million (31 December 2016: 96.29 per cent of £1,642 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 31 per cent (31 December 2016: 30 per cent).

(d)
Loans held by other operations
These relate to loans and receivables managed by Prudential Capital. These assets are generally secured but most have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are:

	2017 £m	2016 £m
Loans and receivables internal ratings:		
AA+ to AA-	14	29
A+ to A-	-	100
BBB+ to BBB-	-	248
BB+ to BB-	95	185
B and other	-	1
Total	109	563

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

	Insurance operations £m			
	Asia	US	UK and Europe	Total
	note C4.1(b)	note C4.1(c)	note C4.1(d)	
At 1 January 2016	48,778	138,913	152,893	340,584
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	41,255	138,913	142,350	322,518
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	-	10,543	13,096
- Group's share of policyholder liabilities of joint ventures and associate§	4,970	-	-	4,970
Reclassification of Korea life business as held for sale*	(2,812)	-	-	(2,812)
Net flows:				
Premiums	9,639	14,766	11,129	35,534
Surrenders	(2,299)	(7,872)	(6,821)	(16,992)
Maturities/deaths	(1,558)	(1,696)	(6,835)	(10,089)
Net flows	5,782	5,198	(2,527)	8,453
Shareholders' transfers post-tax	(44)	-	(215)	(259)
Investment-related items and other movements	2,005	5,690	18,626	26,321
Foreign exchange translation differences	9,075	27,825	527	37,427
As at 31 December 2016/1 January 2017	62,784	177,626	169,304	409,714
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position¶	53,716	177,626	157,654	388,996
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	-	11,650	14,317
- Group's share of policyholder liabilities of joint ventures and associate§	6,401	-	-	6,401
Net flows:				
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	73,839	180,724	181,066	435,629
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position¶	62,898	180,724	167,589	411,211
(excludes £32 million classified as unallocated to a segment)				
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,474	-	13,477	16,951
- Group's share of policyholder liabilities of joint ventures and associate§	7,467	-	-	7,467
Average policyholder liability balances†				
2017	65,241	179,175	162,622	407,038
2016	51,765	158,270	150,003	360,038

*
The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

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

§
The Group's investment in joint ventures and associates 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.

¶
The policyholder liabilities of the Asia insurance operations of £62,898 million (2016: £53,716 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,235 million (2016: £1,302 million) to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £64,133 million (2016: £55,018 million).

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

	Shareholder-backed business £m			
	Asia	US	UK and Europe	Total
At 1 January 2016	27,844	138,913	52,824	219,581
Reclassification of Korea life business as held for sale*	(2,812)	-	-	(2,812)

Net flows:				
Premiums	4,749	14,766	1,842	21,357
Surrenders	(1,931)	(7,872)	(2,967)	(12,770)
Maturities/deaths	(732)	(1,696)	(2,521)	(4,949)
Net flowsnote (a)	2,086	5,198	(3,646)	3,638
Investment-related items and other movements	1,116	5,690	6,980	13,786
Foreign exchange translation differences	4,617	27,825	-	32,442
At 31 December 2016/1 January 2017	32,851	177,626	56,158	266,635
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	26,450	177,626	56,158	260,234
- Group's share of policyholder liabilities relating to joint ventures and associate	6,401	-	-	6,401
Net flows:				
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 (a)	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	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

*
The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

Note
(a)
Including net flows of the Group’s insurance joint ventures and associate.

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	Unit-linked liabilities	Other business	Total
	£m	£m	£m	£m
At 1 January 2016	20,934	15,966	11,878	48,778
Comprising:				
	18,381	13,355	9,519	41,255

- Policyholder liabilities on the consolidated statement of financial position				
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	-	-	2,553
- Group's share of policyholder liabilities relating to joint ventures and associate‡	-	2,611	2,359	4,970
Reclassification of Korea life business as held for sale*	-	(2,187)	(625)	(2,812)
Premiums				
New business	1,701	921	767	3,389
In-force	3,189	1,447	1,614	6,250
	4,890	2,368	2,381	9,639
Surrenders note (c)	(368)	(1,641)	(290)	(2,299)
Maturities/deaths	(826)	(78)	(654)	(1,558)
Net flows note (b)	3,696	649	1,437	5,782
Shareholders' transfers post-tax	(44)	-	-	(44)
Investment-related items and other movements	889	621	495	2,005
Foreign exchange translation differences note (a)	4,458	2,458	2,159	9,075
At 31 December 2016/1 January 2017	29,933	17,507	15,344	62,784
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	27,266	14,289	12,161	53,716
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	-	-	2,667
- Group's share of policyholder liabilities relating to joint ventures and associate‡	-	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 (c)	(324)	(2,288)	(467)	(3,079)
Maturities/deaths	(901)	(150)	(858)	(1,909)
Net flows note (b)	4,574	497	1,804	6,875
Shareholders' transfers post-tax	(54)	-	-	(54)
Investment-related items and other movements note (d)	4,385	2,830	967	8,182
Foreign exchange translation differencesnote (a)	(2,401)	(807)	(740)	(3,948)
At 31 December 2017note (b)	36,437	20,027	17,375	73,839
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position§	32,963	16,263	13,672	62,898
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,474	-	-	3,474
- Group's share of policyholder liabilities relating to joint ventures and associate‡	-	3,764	3,703	7,467
Average policyholder liability balances†				
2017	30,115	18,767	16,359	65,241
2016	22,823	15,643	13,299	51,765

*

The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

†
Averages have been based on opening and closing balances and adjusted for acquisitions and disposals in the year and exclude unallocated surplus of with-profits funds.
‡
The Group's investment in joint ventures and associate are accounted for on an equity method basis and the Group's share of the policyholder liabilities as shown above relate to the life businesses in China, India and of the Takaful business in Malaysia.
§
The policyholder liabilities of the with-profits business of £32,963 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by UK and Europe insurance operations of £1,235 million to the Hong Kong with-profits business (2016: £1,302 million). Including this amount the Asia with-profits policyholder liabilities are £34,198 million.

Notes
(a)
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.
(b)
Net flows have increased by £1,093 million to £6,875 million in 2017 predominantly reflecting continued growth of the in-force book and increased flows from new business.
(c)
Investment-related items and other movements for 2017 principally represent equity market gains and falls in bond yields during the year, in a number of business units with the greatest impact being on with-profits and unit-linked business.

(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 for 2017 and 2016, taking account of expected future premiums and investment returns:

	2017 £m	2016 £m
Policyholder liabilities	62,898	53,716
Expected maturity:	%	%
0 to 5 years	21	23
5 to 10 years	19	20
10 to 15 years	16	16
15 to 20 years	12	11
20 to 25 years	10	9
Over 25 years	22	21

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, GIC and other business	Total
	£m	£m	£m
At 1 January 2016	91,022	47,891	138,913
Premiums	10,232	4,534	14,766
Surrenders	(5,036)	(2,836)	(7,872)
Maturities/deaths	(803)	(893)	(1,696)
Net flows note (b)	4,393	805	5,198
Transfers from general to separate account	1,164	(1,164)	-
Investment-related items and other movements	5,246	444	5,690
Foreign exchange translation differences note (a)	18,586	9,239	27,825
At 31 December 2016/1 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 (b)	3,506	(369)	3,137
Transfers from general to	2,096	(2,096)	-

separate account Investment-related items and other movements note (c)	15,956	295	16,251
Foreign exchange translation differences note (a)	(11,441)	(4,849)	(16,290)
At 31 December 2017	130,528	50,196	180,724
Average policyholder liability balances*			
2017	125,469	53,706	179,175
2016	105,717	52,553	158,270

*
Averages have been based on opening and closing balances.

Notes
(a)
Movements in the year have been translated at an average rate of US$1.29/£1.00 (2016: US$1.35/£1.00). The closing balances have been translated at closing rate of US$1.35/£1.00 (2016: US$1.24/£1.00). Differences upon retranslation are included in foreign exchange translation differences.
(b)
Net flows were £3,137 million in 2017, reflecting continued strong inflows into the variable annuity business.
(c)
Positive investment-related items and other movements in variable annuity separate account liabilities of £15,956 million for 2017 primarily reflects the increases in equities and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £295 million primarily reflect the increase in guarantee reserve 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 2017 and 2016:

	2017			2016		
	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	50,196	130,528	180,724	57,215	120,411	177,626
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	50	42	44	49	43	45
5 to 10 years	25	29	28	26	29	28
10 to 15 years	12	15	14	11	14	14
15 to 20 years	7	8	8	7	8	7
20 to 25 years	3	4	4	3	4	3
Over 25 years	3	2	2	4	2	3

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	£m	£m	£m
At 1 January 2016	100,069	21,442	31,382	152,893
Comprising:				
- Policyholder liabilities	89,526	21,442	31,382	142,350
- Unallocated surplus of with-profits funds	10,543	-	-	10,543
Premiums	9,287	1,227	615	11,129
Surrenders	(3,854)	(2,889)	(78)	(6,821)
Maturities/deaths	(4,314)	(583)	(1,938)	(6,835)
Net flows note (a)	1,119	(2,245)	(1,401)	(2,527)
Shareholders' transfers post-tax	(215)	-	-	(215)
Switches	(152)	152	-	-
Investment-related items and other movements	11,798	2,770	4,058	18,626
Foreign exchange translation differences	527	-	-	527
At 31 December 2016/1 January 2017	113,146	22,119	34,039	169,304
Comprising:				
- Policyholder liabilities	101,496	22,119	34,039	157,654
- Unallocated surplus of with-profits funds	11,650	-	-	11,650
Premiums	12,527	1,923	360	14,810
Surrenders	(4,506)	(2,342)	(91)	(6,939)
Maturities/deaths	(4,564)	(612)	(1,959)	(7,135)
Net flows note (a)	3,457	(1,031)	(1,690)	736
Shareholders' transfers post-tax	(233)	-	-	(233)

Switches	(192)	192	-	-
Investment-related items and other movements note (b)	8,408	1,865	873	11,146
Foreign exchange translation differences	113	-	-	113
At 31 December 2017	124,699	23,145	33,222	181,066
Comprising:				
- Policyholder liabilities	111,222	23,145	33,222	167,589
- Unallocated surplus of with-profits funds	13,477	-	-	13,477
Average policyholder liability balances*				
2017	106,359	22,632	33,631	162,622
2016	95,511	21,781	32,711	150,003

*Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.
**Includes the Scottish Amicable Insurance Fund.

Notes
(a)
Net flows improved from negative £(2,527) million in 2016 to positive £736 million in 2017, due primarily to higher premium flows into our with-profits funds following increased sales into with-profits savings and retirement products. This has been offset by lower premiums into our annuity business following our withdrawal from this market in the UK. The level of inflows/outflows for unit-linked business remains subject to annual variation as it is driven by corporate pension schemes with transfers in or out from a small number of schemes influencing the level of flows in the period.
(b)
Investment-related items and other movements of £11,146, million principally comprise investment return attributable to policyholders earned in the period reflecting favourable equity market movements.

(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 for 2017 and 2016:

	2017 £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	38,285	62,328	100,613	10,609	32,572	43,181	6,714	17,081	23,795	167,589
	2017 %									
Expected maturity:										
0 to 5 years	33%	37%	36%	31%	26%	27%	41%	31%	34%	34%
5 to 10 years	23%	27%	25%	24%	23%	23%	26%	22%	23%	25%
10 to 15 years	16%	17%	17%	17%	18%	18%	15%	18%	17%	17%
15 to 20 years	11%	10%	10%	11%	13%	13%	9%	13%	12%	11%

20 to 25 years	7%	4%	5%	7%	9%	9%	5%	8%	7%	6%
over 25 years	10%	5%	7%	10%	11%	10%	4%			