

PRUDENTIAL PLC
Form 6-K
March 13, 2019

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of March, 2019

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

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

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

Form 20-F 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

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated income statement

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

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

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

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

Notes

(i)

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

(ii)

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

(iii)

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of comprehensive income

Edgar Filing: PRUDENTIAL PLC - Form 6-K

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of changes in equity

Year ended 31 December 2018 £m

Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
---------------	---------------	-------------------	---------------------	---	----------------------	---------------------------	--------------

Edgar Filing: PRUDENTIAL PLC - Form 6-K

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

under IFRS

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of changes in equity

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of financial position

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

Liabilities

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

Notes

(i)

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

(ii)

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

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of cash flows

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

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

Notes

(i)

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

(ii)

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

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

*

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

(iii)

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

(SAIF), a ring-fenced sub-fund of the UK with-profits fund. These bonds were redeemed in full on 30 June 2018. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(iv)

Tax paid includes £134 million (2017: £298 million) paid on profits taxable at policyholder rather than shareholder rates.

(v)

Cash flows arising from the 'acquisition of businesses and intangibles' and 'sale of businesses' include amounts paid for distribution rights and cash flows arising from the acquisitions and disposals of businesses (including subsidiaries acquired and disposed of by with-profits funds for investment purposes).

International Financial Reporting Standards (IFRS) Basis Results

Notes

A

Background

A1

Basis of preparation and exchange rates

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

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

Exchange rates

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

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

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

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

A2

New accounting pronouncements in 2018

IFRS 15, 'Revenue from Contracts with Customers'

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

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

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

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

IFRS 9, 'Financial Instruments' and amendments to IFRS 4, 'Insurance Contracts'

The IASB published a complete version of IFRS 9 in July 2014 with the exception of macro hedge accounting and the standard is mandatorily effective for annual periods beginning on or after 1 January 2018.

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

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

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

Other new accounting pronouncements

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

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

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

B

Earnings performance

B1

Analysis of performance by segment

B1.1

Segment results – profit before tax

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Total UK and Europe insurance operations		1,157	878	878	32%	32%
UK and Europe asset managementnote (v)	B2	477	500	500	(5)%	(5)%
Total UK and Europe		1,634	1,378	1,378	19%	19%
Total segment profit		5,717	5,577	5,422	3%	5%
Other income and expenditure:						
Investment return and other income		52	11	11	373%	373%
Interest payable on core structural borrowings		(410)	(425)	(425)	4%	4%
Corporate expenditurenote (ii)		(367)	(361)	(355)	(2)%	(3)%
Total other income and expenditure		(725)	(775)	(769)	6%	6%
Restructuring costs		(165)	(103)	(103)	(60)%	(60)%
Adjusted IFRS operating profit based on longer-term investment returns		4,827	4,699	4,550	3%	6%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(558)	(1,563)	(1,514)	64%	63%
Amortisation of acquisition accounting adjustmentsnote (iii)		(46)	(63)	(61)	27%	25%
(Loss) gain on disposal of businesses and corporate transactions	D1.1	(588)	223	218	n/a	n/a
Profit before tax		3,635	3,296	3,193	10%	14%
Tax charge attributable to shareholders' returns	B4	(622)	(906)	(876)	31%	29%
Profit for the year		3,013	2,390	2,317	26%	30%
Attributable to:						
Equity holders of the Company		3,010	2,389	2,316	26%	30%
Non-controlling interests		3	1	1	200%	200%
	Note	2018	2017		2018 vs 2017 %	
			AER	CER	AER	CER
Basic earnings per share (in pence)			note (iv)	note (iv)	note (iv)	note (iv)
Based on adjusted IFRS operating profit based on longer-term investment returnsnote (vi)	B5	156.6p	145.2p	140.4p	8%	12%
Based on profit for the year	B5	116.9p	93.1p	90.0p	26%	30%

Notes

(i)

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

(ii)

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

(iii)

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

(iv)

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

(v)

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

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

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

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

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

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

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

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

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

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

derivativesnote

(b)

Debt

securitiesnote (31) (73)

(c)

Equity-type

investments:

actual less 38 12

longer-term

return

Other items 15 19

Total (100) (1,568)

Notes

(a)

Net equity hedge result

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

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

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

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

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

*

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

†

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

(b)

Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

–

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

–

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

–

Related amortisation of DAC.

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

(c)

Short-term fluctuations related to debt securities

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

*

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in adjusted IFRS operating profit based on longer-term investment returns with variations from year to year included in the short-term fluctuations category. The risk margin

Edgar Filing: PRUDENTIAL PLC - Form 6-K

reserve charge for longer-term credit-related losses included in adjusted IFRS operating profit based on longer-term investment returns of Jackson for 2018 is based on an average annual risk margin reserve of 18 basis points (2017: 21 basis points) on average book values of US\$57.1 billion (2017: US\$55.3 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)

	2018		Annual expected loss		2017		Annual expected loss	
	Average book value	RMR	US\$m	£m	Average book value	RMR	US\$m	£m
	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m
A3 or higher	29,982	0.10	(31)	(23)	27,277	0.12	(33)	(25)
Baa1, 2 or 3	25,814							