PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

PRESS RELEASE AND ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

NEWS RELEASE

PRUDENTIAL PLC
GROUP COMMUNICATIONS
12 ARTHUR STREET
LONDON EC4R 9AQ
TEL 020 7220 7588
FAX 020 7548 3725
www.prudential.co.uk

14 March 2017

PRUDENTIAL PLC FULL YEAR 2016 RESULTS

RECORD GROUP IFRS OPERATING PROFIT OF £4,256 MILLION LED BY DOUBLE DIGIT-GROWTH IN ASIA

Performance highlights on a constant (and actual) exchange rate basis

- Asia IFRS operating profit[1] of £1,644 million, up 15 per cent[2,3] (up 28 per cent[4])
- Asia new business profit[5] of £2,030 million, up 22 per cent[2,3] (up 37 per cent[4])
- US life insurance IFRS operating profit[1] of £2,052 million, up 8 per cent[3] (up 21 per cent[4])
- UK life retail APE sales of £1,160 million, up 33 per cent, with PruFund APE sales up 52 per cent to £873 million
- M&G total assets under management of £265 billion, with external assets under management up 8 per cent[4]
- Full year 2016 ordinary dividend increased by 12 per cent to 43.5 pence per share[8]
- Group Solvency II surplus[6] estimated at £12.5 billion; equivalent to a cover ratio of 201 per cent[7]
- The Group is on course to achieve its 2017 financial objectives

Mike Wells, Group Chief Executive, said: “Prudential has delivered a strong financial performance in 2016. In a year that has seen continued low interest rates, market volatility and dramatic political change, our results continue to benefit from the scale and diversity of the Group’s global platform, the disciplined execution of our strategy and the strength of the opportunities in our target markets.

“Our performance has been driven by Asia, which has delivered a seventh consecutive year of double-digit growth in new business profit, IFRS operating profit and capital generation. In the fourth quarter of 2016, quarterly APE sales in Asia exceeded £1 billion for the first time, with eight of our markets in the region growing by more than 20 per cent. For the full year, our new business profit in this region increased by 22 per cent[2] to £2,030 million, IFRS operating profit was 15 per cent[2] higher at £1,644 million and free surplus generation[2,10] grew 15 per cent to £859 million. In the US and in the UK, our businesses remain well positioned to navigate a period of significant regulatory change. We remain on course to achieve our 2017 financial objectives.

“This performance has allowed us to increase our full year ordinary dividend by 12 per cent to 43.5 pence per share[8]. The dividend increase demonstrates our commitment to deliver long-term value for our shareholders and our confidence in the future prospects of our Group.

“Prudential helps to remove uncertainty from the most significant financial events of our customers’ lives, such as saving for a child’s education, protecting against the financial cost of ill-health or turning hard-earned savings into secure retirement income. We are well placed to provide these services through our leading positions in many of our chosen markets. In Asia, growing numbers of middle-class consumers increasingly require our health and protection products, and ageing populations in the UK and the US are seeking ways to invest their savings to produce secure income for retirement.

“The Group’s performance demonstrates our ability to capitalise on the significant growth opportunities in these regions. We are well positioned to continue to deliver high-quality products and services to our 24 million life customers, and retain our distinctive ability to generate both growth and cash for our shareholders.”

Summary financials	**2016 £m**	**2015 £m**	**Change on AER basis**	**Change on CER basis**
IFRS operating profit based on longer-term investment returns[1,2,9]	**4,256**	3,969	7%	(2)%
Underlying free surplus generated[2,10,11]	**3,588**	3,043	18%	10%
Life new business profit[2,11,12]	**3,088**	2,492	24%	11%
IFRS profit after tax[13]	**1,921**	2,579	(26)%	(32)%
Net cash remittances from business units	**1,718**	1,625	6%	-

	2016 £bn	**2015 £bn**	**Change on AER basis**
IFRS shareholders’ funds	**14.7**	13.0	13%
EEV shareholders’ funds[14]	**39.0**	31.9	22%
Group Solvency II capital surplus[6,7]	**12.5**	9.7	29%

1. Based on longer-term investment returns
2. Following its reclassification to held for sale during 2016, operating results exclude the contribution of the Korea life business. The 2015 comparative results have been similarly adjusted.
3. Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated.
4. Growth rate on an actual exchange rate basis.
5. New business profit on business sold in the year, calculated in accordance with EEV principles.
6. The Group Solvency II surplus represents the shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes the impact of recalculated transitionals at the valuation date, which has reduced the Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.
7. Before allowing for second interim ordinary dividend.
8. In 2015, in addition to the ordinary dividend, a special dividend of 10 pence per share was awarded.
9. IFRS operating profit based on longer-term investment returns reflects higher earnings from growth in premium base in Asia and aggregate assets managed by our life and asset management operations across the group. These higher earnings are offset by the effect of one-off impacts in our UK Life operations.
10. Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 11 of the EEV basis results.
11. The 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflect the Solvency II regime, effective from 1 January 2016. The 2015 comparative results for UK insurance operations reflect the Solvency I basis.
12. Excluding UK bulk annuities from 2015 comparative results as Prudential has withdrawn from this market.
13. IFRS profit after tax reflects the combined effects of operating results, negative short-term investment variances, (loss)/profit on sale of Korea life business and the total tax charge for the year.
14. Includes adjustment for opening EEV shareholders' funds of negative £0.5 billion for the impact of Solvency II as at 1 January 2016.

Contact:

Media		**Investors/Analysts**	
Jonathan Oliver	+44 (0)20 7548 3537	Raghu Hariharan	+44 (0)20 7548 2871
Tom Willetts	+44 (0)20 7548 2776	Richard Gradidge	+44 (0)20 7548 3860
		William Elderkin	+44 (0)20 3480 5590

Notes to Editors:

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The results prepared under IFRS form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the amended European Embedded Value principles dated April 2016 formulated by the CFO Forum of European Insurance Companies. The 2016 EEV results for UK insurance operations have been prepared to reflect the Solvency II regime. The 2015 EEV results for UK insurance operations have been prepared reflecting the Solvency I basis, being the regime applicable for that year. There is no change to the basis of preparation for Asia and US operations. The Group's EEV basis results are stated on a post-tax basis and, where appropriate, include the effects of IFRS. Year-on-year percentage increases are presented on a constant exchange rate basis unless otherwise stated. Constant exchange rates results are calculated by translating prior year results using the current year foreign exchange rate i.e. current year average rates for the income statement and current year closing rates for the balance sheet.

2. Annual Premium Equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3. Operating profit is determined on the basis of including longer-term investment returns. EEV and IFRS operating profit is stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, and (loss)/profit attaching to the held for sale Korea life business. Furthermore, for EEV basis results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions and the mark to market value movement on core borrowings. Separately on the IFRS basis, operating profit also excludes amortisation of accounting adjustments arising principally on the acquisition of REALIC completed in 2012 and the cumulative foreign exchange loss on the disposal of the Japan Life business that has been recycled from Other Comprehensive Income on completion of the sale process in 2015.

4. Total number of Prudential plc shares in issue as at 31 December 2016 was 2,581,061,573.

5. A presentation for analysts and investors will be held today at 11:00am (UK)/ 7:00pm (Hong Kong) in the conference suite at Nomura International plc, 1 Angel Lane, London EC4R 3AB. The presentation will be webcast live and as a replay on the corporate website via the link below:
http://www.prudential.co.uk/investors/results-centre

A dial-in facility will be available to listen to the presentation. Please allow time ahead of the presentation to join the call (lines open half an hour before the presentation is due to start, ie from 10.30am (UK) / 6.30pm (Hong Kong)). Dial-in: +44 (0) 20 3059 8125 / 0800 368 0649 (Freephone UK), Passcode: 'Prudential' (this must be quoted to the operator to gain access to the call). Playback: +44 (0) 121 260 4861 (UK and international excluding US)/ +1 844 2308 058 (US only), Passcode: 5392336#. This will be available from approximately 2.00pm (UK) / 10.00pm (Hong Kong) on 14 March 2017 until 11.59pm (UK) on 28 March 2017 / 6.59am (Hong Kong) on 29 March 2017.

6. High-resolution photographs are available to the media free of charge at www.prudential.co.uk/prudential-plc/media/media_library

7. **2016 Second interim ordinary dividend**

Ex-dividend date	29 March 2017 (Singapore) 30 March 2017 (UK, Ireland and Hong Kong)
Record date	31 March 2017
Payment of dividend	19 May 2017 (UK, Ireland and Hong Kong) On or about 26 May 2017 (Singapore and ADR holders)

8. About Prudential plc

Prudential plc and its affiliated companies constitute one of the world's leading financial services groups, serving around 24 million insurance customers and it has £599 billion of assets under management (as at 31 December 2016). Prudential plc is incorporated in England and Wales and is listed on the stock exchanges in London, Hong Kong, Singapore and New York. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

9. Forward-Looking Statements

This document may contain ‘forward-looking statements’ with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential’s beliefs and expectations and including, without limitation, statements containing the words ‘may’, ‘will’, ‘should’, ‘continue’, ‘aims’, ‘estimates’, ‘projects’, ‘believes’, ‘intends’, ‘expects’, ‘plans’, ‘seeks’ and ‘anticipates’, and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK’s vote to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or ‘G-SII’; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential’s business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk factors' heading in this document.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Summary 2016 financial performance

Financial highlights

Life APE new business sales (APE sales)[1]

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m	**2015 £m**	**Change %**	**2015 £m**	**Change %**
Asia[2]	**3,599**	2,712	33	3,020	19
US	**1,561**	1,729	(10)	1,950	(20)
UK retail[3]	**1,160**	874	33	874	33
Total Group excluding bulk annuities[2,3]	**6,320**	5,315	19	5,844	8
UK bulk annuities	**-**	151	(100)	151	(100)
Total Group[2]	**6,320**	**5,466**	16	5,995	5

Life EEV new business profits and investment in new business

	Actual Exchange Rate						Constant Exchange Rate			
	2016 £m		**2015 £m**		**Change %**		**2015 £m**		**Change %**	
	New Business Profit	**Free surplus invested in new business**	**New Business Profit**	**Free surplus invested in new business**	**New Business Profit**	**Free surplus investment in new business**	**New Business Profit**	**Free surplus investment in new business**	**New Business Profit**	**Free surplus investment in new business**
Asia[2]	**2,030**	**476**	1,482	386	37	23	1,660	426	22	12
US	**790**	**298**	809	267	(2)	12	913	301	(13)	(1)
UK retail[3,4]	**268**	**129**	201	42	33	207	201	42	33	207
Total Group excluding bulk annuities[2,3,4]	**3,088**	**903**	2,492	695	24	30	2,774	769	11	17
UK bulk annuities	**-**	**-**	117	23	(100)	(100)	117	23	(100)	(100)
Total Group[2,4]	**3,088**	**903**	2,609	718	18	26	2,891	792	7	14

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m	**2015 £m**	**Change %**	**2015 £m**	**Change %**
Operating profit before tax based on longer-term investment returns[5]					
Long-term business:					
Asia[2]	**1,503**	1,171	28	1,303	15
US	**2,052**	1,691	21	1,908	8
UK	**799**	1,167	(32)	1,167	(32)
Long-term business operating profit[2]	**4,354**	4,029	8	4,378	(1)
UK general insurance commission	**29**	28	4	28	4
Asset management business:					
M&G	**425**	442	(4)	442	(4)
Prudential Capital	**27**	19	42	19	42
Eastspring Investments	**141**	115	23	128	10
US	**(4)**	11	(136)	13	(131)
Other income and expenditure	**(716)**	(675)	(6)	(675)	(6)
Total operating profit based on longer-term investment returns before tax[2]	**4,256**	3,969	7	4,333	(2)
Non-operating items:					
(Loss)/Profit attaching to held for sale Korea business	**(227)**	56	n/a	62	n/a
Other non-operating items	**(1,754)**	(877)	(100)	(958)	(83)
Profit before tax attributable to shareholders	**2,275**	3,148	(28)	3,437	(34)
Tax charge attributable to shareholders' returns	**(354)**	(569)	38	(621)	43
Profit for the year attributable to shareholders	**1,921**	2,579	(26)	2,816	(32)

Post-tax profit - EEV[4,6]

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m	**2015 £m**	**Change %**	**2015 £m**	**Change %**
Post-tax operating profit based on longer-term investment returns					
Long-term business:					
Asia[2]	**3,074**	2,280	35	2,555	20
US	**1,971**	1,808	9	2,040	(3)
UK	**643**	863	(25)	863	(25)
Long-term business post-tax operating profit[2]	**5,688**	4,951	15	5,458	4
UK general insurance commission	**23**	22	5	22	5
Asset management business:					
M&G	**341**	358	(5)	358	(5)
Prudential Capital	**22**	18	22	18	22
Eastspring Investments	**125**	101	24	112	12
US	**(3)**	7	(143)	8	(138)
Other income and expenditure	**(699)**	(617)	(13)	(617)	(13)
Post-tax operating profit based on longer-term investment returns[2]	**5,497**	4,840	14	5,359	3
Non-operating items:					
(Loss)/Profit attaching to held for sale Korea business	**(410)**	39	n/a	42	n/a
Other non-operating items	**(571)**	(928)	38	(1,057)	46
Post-tax profit for the year attributable to shareholders	**4,516**	3,951	14	4,344	4

Basic earnings per share[2] - based on operating profit after tax

	Actual Exchange Rate			Constant Exchange Rate	
	2016 pence	2015 pence	Change %	2015 pence	Change %
IFRS	**131.3**	124.6	5	136.0	(3)
EEV[4]	**214.7**	189.6	13	209.9	2

Underlying free surplus generated [4,6,7]

	Actual Exchange Rate						Constant Exchange Rate			
	2016 £m		2015 £m		Change %		2015 £m		Change %	
	Long-term	Total	Long-term	Total	Long-term	Total	Long-term	Total	Long-term	Total
Asia[2]	**734**	**859**	565	666	30	29	638	750	15	15
US	**1,568**	**1,565**	1,159	1,166	35	34	1,307	1,315	20	19
UK	**778**	**801**	813	835	(4)	(4)	813	835	(4)	(4)
M&G	-	**341**	-	358	-	(5)	-	358	-	(5)
Prudential Capital	-	**22**	-	18	-	22	-	18	-	22
Total Group[2]	**3,080**	**3,588**	2,537	3,043	21	18	2,758	3,276	12	10

Cash remitted by the business units to the Group[8]

	2016 £m	2015 £m	Change %
Asia	**516**	467	10
US	**420**	470	(11)
UK	**300**	301	-
M&G	**290**	302	(4)
Prudential Capital	**45**	55	(18)
Other UK	**147**	30	n/a
Total Group	**1,718**	1,625	6

Cash and capital

	2016	2015	Change %
Ordinary dividend per share relating to the reporting year	**43.5p**	38.78p	12
Special dividend per share	**-**	10.00p	n/a
Holding company cash and short-term investments	**£2,626m**	£2,173m	21
Group Solvency II capital surplus[9,10]	**£12.5bn**	£9.7bn	29
Group Solvency II capital ratio[9,10]	**201%**	193%	+8pp

Group shareholders' funds (including goodwill attributable to shareholders)

	2016	2015	Change %
IFRS	**£14.7bn**	£13.0bn	13
EEV[4,11]	**£39.0bn**	£31.9bn	22

	2016 %	2015 %
Return on IFRS shareholders' funds[12]	**26**	27
Return on embedded value[4,11,12]	**17**	17

	2016	2015	Change %
EEV shareholders' funds[4,11] per share (including goodwill attributable to shareholders)	**1,510p**	1,240p	22
EEV shareholders' funds[4,11] per share (excluding goodwill attributable to shareholders)	**1,453p**	1,183p	23

2017 Financial objectives[13,14]

Asia Objectives	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	CAGR (since 2012) %	Objectives 2017[13]
Asia life and asset management IFRS operating profit							
Full year							
Actuals	909	1,058	1,108	1,286	1,644		>£1,826 million
Constant exchange rate[15]	884	1,058	1,228	1,430	1,641		>15% CAGR
Constant exchange rate change % (year-on-year)		20	16	16	15	17	
Asia Underlying Free Surplus Generation							
Full year							
Actuals	468	565	599	666	859		£0.9 - £1.1 billion
Constant exchange rate[15]	454	565	669	758	872		
Constant exchange rate change % (year-on-year)		24	18	13	15		

Group Objective for cumulative period 1 January 2014 to 31 December 2017	Actual 1 Jan 2014 to 31 Dec 2016	Objective 1 Jan 2014 to 31 Dec 2017
Cumulative Group Underlying Free Surplus Generation[7] from 2014 onwards	£9.2 billion	> £10 billion

Notes:

[1] APE sales is a measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent of single premiums on new business written during the period for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. Further explanation of the differences is included in Note E of the Additional EEV financial information.

[2] Following its reclassification to held for sale during 2016, operating results exclude the contribution of the Korea life business. The 2015 comparative results have been similarly adjusted.

[3] Excluding UK bulk annuities as Prudential has withdrawn from this market.

[4] The 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The 2015 comparative results for UK insurance reflect the Solvency I basis.

[5] IFRS operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.

[6] Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in Note C of the Additional EEV financial information.

[7] Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 11 of the EEV basis results.

[8] Cash remitted to the Group form part of the net cash flows of the holding company. A full holding company cash flow is set out in Note II (a) of Additional IFRS financial information. This differs from the IFRS Consolidated Statement of Cash Flows which includes all cash flows relating to both policyholders and shareholders' fund. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity

[9] Estimated before allowing for second interim ordinary dividend.

[10] The Group Solvency II surplus represents the shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes the impact of recalculated transitionals at the valuation date, which has reduced the Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.

[11] Includes adjustment for opening EEV shareholders' funds of negative £0.5 billion for the impact of Solvency II as at 1 January 2016.

[12] Operating profit after tax and non-controlling interests, as a percentage of opening shareholders' funds.

[13] The objectives assume exchange rate at December 2013 and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume the existing EEV, IFRS and Free Surplus methodology at December 2013 will be applicable over the period.

[14] Following the announcement of the proposed sale of the Korea life business in November 2016, reported amounts exclude the results of the Korea life business. As this sale is expected to complete in 2017. The relevant 2017 objective (Asia IFRS operating profit) has been adjusted.

[15] Constant exchange rates results translated using exchange rates at December 2013.

Group Chief Executive's report

I am pleased to report significant progress in 2016, reflecting our successful strategy and the growing capabilities of the Group.

Our global scale, close understanding of our markets and constant drive to improve are continuing to create shared value for our customers and our shareholders.

Prudential exists to de-risk people's lives. Saving for a child's education, protecting people against the financial cost of ill-health or the death of a family's primary income earner, turning hard-earned savings into secure retirement income – across all these areas we help to remove uncertainty from life's biggest financial events.

Our strategy is shaped around meeting those needs where they are greatest and where we have the capabilities to make the most significant impact. That is among the increasingly affluent population of Asia, who have a growing demand for the health and protection products we provide, and the ageing populations of the US and the UK, who are looking for ways to invest their savings to produce income for retirement.

This was another year of innovation, as we continue to improve and personalise our products to ensure they are tailored to the diverse financial needs of our customers. At the same time, we remain focused on the expansion of our distinctive distribution platforms, allowing us to reach new customers and better serve existing ones. Meanwhile, we continue to develop the investment capabilities of our asset management businesses and to invest in the systems and people to manage the risks we assume on behalf of our customers. We are also sowing the seeds for our future growth by investing in new markets.

Group performance

Prudential has delivered a strong financial performance in 2016, led by growth in Asia. In a year that has seen continued low interest rates, market volatility and dramatic political change, our results continue to benefit from the scale and diversity of the Group's global platform, the disciplined execution of our strategy and the strength of the opportunities in our target markets.

Our operational agility and broad business mix mean we are able to continually flex our approach in response to local market conditions and opportunities without compromising our overall near-term financial performance. These characteristics have recently been particularly evident in our businesses in Asia, which continue to drive the growth of the Group and in 2016 achieved double-digit increases across all of our major metrics. This was despite deliberate pricing and product actions to protect profitability of some market segments where returns were no longer sufficiently attractive given the low-interest-rate environment. We always seek the appropriate balance between value and volume.

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

New business profit[1,3] increased by 11 per cent[2,4] to £3,088 million (up 24 per cent on an actual exchange rate basis), driven by growth of 22 per cent[2] in Asia and 33 per cent[4] in our UK retail business. In the US, a 13 per cent reduction in new business profit mainly reflected lower industry volumes due to the sector-wide disruption that followed the announcement in April 2016 of the Department of Labor's fiduciary reform, the implementation of which is presently uncertain under the Trump administration.

Group IFRS operating profit[6] based on longer-term investment returns was 2 per cent[2] lower at £4,256 million (up 7 per cent on an actual exchange rate basis). Our businesses in Asia and the US generated growth of 15 per cent[2] and 7 per cent respectively, while the contribution from our UK-based businesses reduced by 23 per cent. Here, as expected, the overall result was impacted by the effect of negative fund flows at M&G, our deliberate withdrawal from the UK bulk annuity market as returns ceased to be attractive and a lower contribution from UK capital optimisation actions. The result also includes a provision for the cost of undertaking a review in the UK of past non-advised annuity sales practices and related potential redress.

Prudential's growing in-force business continues to support our overall cash generation. Free surplus generation[3,7] rose by 10 per cent[2] to £3,588 million (up 18 per cent on an actual exchange rate basis). Cash remittances to the Group were also higher at £1,718 million, supporting the 12 per cent increase in the 2016 full year ordinary dividend to 43.5 pence per share. Since 2012 Prudential has made total payments to shareholders of £4.6 billion, highlighting the underlying growth and cash-generative nature of the business.

The Group continues to operate with a strong capital position, ending the year with a Solvency II cover ratio[9] of 201 per cent[8]. Over the period, IFRS shareholders' funds increased by 13 per cent to £14.7 billion after taking into account profit after tax of £1,921 million (2015: £2,579 million, on an actual exchange rate basis) and other movements including positive foreign exchange movements of £1.2 billion. EEV shareholders' funds increased by 22 per cent to £39.0 billion, equivalent to 1,510 pence per share.

During 2016, we have strengthened our position as a diversified global Group, delivering long-term value to customers and shareholders.

In Asia, we are developing our operations, through the quality of our business and through our scale. Underpinning the outlook for Asia earnings, our new regular-premium income is up 20 per cent to £3,359 million and life in-force weighted premium income is up 20 per cent to £9.1 billion. In addition, our Asian asset manager, Eastspring Investments, has grown, with overall assets under management reaching £117.9 billion at the year-end, a new high.

In the US we are well positioned to navigate a period of significant regulatory change, including the currently scheduled introduction of the Department of Labor's fiduciary duty rule. The product innovation that is in train to address the new regulatory requirements, coupled with our sector-leading IT and servicing capabilities, enables us to access sizeable retirement asset pools that were previously not open to Jackson. The demographic shift occurring in the US is a significant long-term driver of demand for the types of products that we offer. In 2016, through this period of disruption, Jackson's separate account assets relating to its variable annuity business, and the main driver of earnings, increased by 11 per cent to US$148.8 billion.

In the UK, where we are seeing a large amount of change in the marketplace along with the introduction of new capital rules, we are also adapting well. PruFund sales growth continues to outperform the market, and our retail sales are now higher than before the Retail Distribution Review. During this period of change we remain focused on delivering high-quality products to meet our customers' evolving needs. The FCA's thematic review of non-advised annuity sales practices showed that, in a portion of annuity sales that the UK business made since July 2008, it was not adequately explained to customers that they may have been eligible for an enhanced annuity. We are continuing to work to ensure we put things right.

Also in the UK, at M&G, we are focused on careful management of costs and improving performance. In 2016, assets managed by M&G on behalf of external clients increased by 8 per cent to £137 billion, with internal assets taking the total to £265 billion (2015: £246 billion).

We have made good progress towards our 2017 objectives, which we announced in December 2013. Asia life and asset management pre-tax operating profit has grown at a compound annual rate of 17 per cent over the period 2012 to 2016. We are therefore on track to meet the objective of growing this measure at a compound annual rate of at least 15 per cent over the period 2012 to 2017. In 2016, Asia delivered underlying free surplus generation of £859 million demonstrating that we are on course to meet the objective of £900 million to £1.1 billion for full-year 2017. Collectively the Group has so far delivered underlying free surplus generation from the beginning of 2014 to 2016 of £9.2 billion, close to our objective for the period 2014 to the end of 2017 of at least £10 billion.

Our strategy

We have a clear, consistent strategy focused on three parts of the world where the needs of customers for the products we provide are not fully met.

In Asia we aim to meet the savings, accumulation, health and protection needs of the fast-growing and increasingly affluent middle class. As this group of people grows, so does their demand for goods and services. As an example, three-quarters of China's total population is forecast to be defined as middle income by 2030. The growing purchasing power of this section of the society is evident today. To illustrate, 60 million people left China for leisure travel purposes in 2011, but by last year this had doubled to 120 million and by 2020 is expected to top 200 million. Similarly last year Asian consumers bought around half of all the cars sold in the world, up from an average of less than 20 per cent during the 1990s.

The region's consumer spending growth is remarkable, but what is closest to the hearts of people in Asia, as anywhere else, is providing a secure and more prosperous future for their loved ones. This is creating a powerful – and largely unmet – demand for the products we provide. Asia has low insurance penetration, high out-of-pocket healthcare spend and rapidly growing private wealth. The working age population in the region is predicted to rise by 178 million by 2030. Mutual fund penetration rates are currently just 12 per cent in Asia, compared with 75 per cent in Europe and 96 per cent in the US, and there is a significant mortality protection gap.

We are a leading pan-regional franchise in Asia, we hold top-three positions in nine of our 12 life markets in the region, and we are the number one Asian retail asset manager[10]. We have the presence, scale, distribution and product capabilities to tap into the growing needs of our Asian customers.

The US is the largest[11] retirement savings market in the world, and over the next 20 years Americans will be retiring at a rate of 10,000 per day[12]. At the same time, private defined-benefit pension plans are disappearing and government plans are underfunded, life expectancy at age 65 has increased significantly, and individual investors struggle to capture returns and are exposed to volatile equity markets. The confluence of these trends is precipitating an expansion of the retirement market and a flight to quality that is aligned with Jackson's capabilities.

In the UK, an ageing population that does not have enough saved for the future is driving increasing demand for savings and retirement income products, and this demand has been reinforced by the pensions freedom changes. This is creating significant opportunities for our UK businesses that both Prudential UK and M&G are addressing through their long-term savings solutions and investment strategies.

Our capabilities

We believe we have a great strategy, but any strategy is only as good as its implementation. We are executing our strategy with discipline and continually developing our capabilities.

Across our markets, we are constantly innovating to improve the way we do business. During 2016, we added a number of new products and services to the successful range we offer around the world. In Asia, to take just two examples, Prudential Singapore became the first insurer in its market to launch an online community portal, where customers can share ideas and suggestions to help us improve our products and services, and Prudential Hong Kong gave customers access to an innovative DNA-based health and nutrition programme, demonstrating how we are building our capabilities to partner with customers to help improve their long-term health and wellbeing. We also expanded our reach in the region during 2016, by launching a new operation in Laos.

In the US, Jackson launched its first fee-based variable annuity, designed to meet the need for products compatible with the Department of Labor's fiduciary duty rule. In the UK retail market we introduced the Prudential Retirement Account, an online account-based plan that offers both accumulation and decumulation for customers near retirement and has proved extremely popular. M&G added a number of new funds, including its Global Target Return Fund and Absolute Return Bond Fund, helping customers deal with market volatility.

Our distribution capability is another of our key strengths. In 2016, we made good progress in improving our distribution platform throughout our markets. In Asia, productivity within our network of agents improved, with average case sizes rising by 30 per cent[14]. The total number of agents across all our Asian markets is more than 500,000. We also continued to leverage the strength of our relationships with our bank partners, which has allowed us to ensure the appropriate balance between value and volume. We have access to more than 10,000 active bank branches through a total of three regional, five strategic and a variety of local partnerships. In the US, our variable annuity wholesale distribution platform is now more than 60 per cent larger[13] than that of our nearest competitor, and our wholesaler productivity is 24 per cent greater[13].

In the UK, the number of our adviser firms has grown by 37 per cent since 2013, and Prudential Financial Planning, our UK advisory business, has grown to become a top-10 UK advisory business, from its inception in 2012. In 2016 M&G, whose products are now registered in 23 jurisdictions around the world, established a new SICAV fund range in Luxembourg as a platform for future international distribution. At the same time, we entered Zambia, our fourth market in Africa. In less than three years, we have built our African business to the point where it has 1,750 agents, is active in 181 bank branches and has over 160,000 customers, with a further 1.5 million micro-insurance customers through partnerships with mobile phone operators and micro-finance institutions.

Our proven investment performance track record is another vital part of our capability. Across our asset management businesses we offer a range of funds that give investors the opportunity to benefit from a long-term, diversified approach, helping to deliver sustainable investment performance regardless of short-term market fluctuations. M&G has a longstanding track record of superior investment performance, with 85 per cent[15] of retail assets under management above median over the tenure of the fund manager. Likewise, the proportion of Eastspring's funds outperforming the median on a three-year period basis was 65 per cent[16]. In the UK, over the last 10 years our highly regarded PruFund investment option has delivered growth of 75 per cent, compared with a total return of 39 per cent for a benchmark ABI mixed investment fund. In the US, the number of funds within Jackson's living benefit variable annuity product that delivered a three-year annualised return, over the period 2014 to 2016, of over 7 per cent was twice the number of funds within the top 12 peer products combined[5].

We are also using the Group's scale to improve our risk management capabilities, including investing in new technology. In 2016 this included commencing implementation of Aladdin, a global risk and portfolio management platform for our asset management businesses, which will help to simplify reporting systems and support future growth.

Our outlook

Our growth prospects are based on clear long-term opportunities in the three markets we are targeting. There are historic demographic shifts taking place in these economies, and we are focused on ensuring that our capabilities develop in line with the evolving needs and preferences of our customers.

We have demonstrated our ability to manage through times of economic uncertainty and market volatility, conditions that appear likely to prevail for some time. Our strategy is clear, the demand from customers for our products is strong and our execution is good and getting better. We are well positioned to continue to deliver value for both our customers and our shareholders.

1. Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in Note C of the Additional EEV financial information.
2. Following its reclassification to held for sale during 2016, operating results exclude the contribution of the Korea life business. The 2015 comparative results have been similarly adjusted.
3. The 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The 2015 comparative results for UK insurance reflect the Solvency I basis.
4. Excluding UK bulk annuities as Prudential has withdrawn from this market.
5. Jackson analysis based on Morningstar fund performance information as at 4Q YTD 2016, ranked by sales as of end Q3 2016. ©2017 Morningstar Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com.
6. IFRS operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.
7. Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in notes 9 of the EEV basis results.
8. Estimated before allowing for second interim ordinary dividend.
9. The Group Solvency II surplus represents the shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes the impact of recalculated transitionals at the valuation date, which has reduced the Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.
10. Source: Asia asset management September 2016 (Ranked according to participating regional players only). Based on assets sourced from the region, excluding Japan, Australia and New Zealand as at June 2016.
11. Cerulli Associates – Advisor Metrics 2016.
12. Social Security Administration, Annual Performance Plan for FY 2012 and Revised Final Performance Plan for FY 2011.
13. Market Metrics – Variable Annuity Sales, Staffing and Productivity Report: Q3 2016.
14. Excluding India.
15. Investment performance is to 31 December 2016 and reflects 33 retail funds, representing 85 per cent of M&G retail funds under management, which have delivered top or upper quartile performance over fund manager tenure which is an average of 6 years. Quartile rankings are based on returns which are net of fees.
16. Blended score representing 50 per cent by number of funds and 50 per cent assets under management outperforming benchmark or in top two quartiles over three-year period.

Chief Financial Officer's report on the 2016 financial performance

I am particularly pleased to be able to report that Prudential's financial performance in 2016 has showcased the resilience of our earnings, cash and capital. While these are qualities I have mentioned in previous reports, the external events of 2016 have seen them tested repeatedly across our businesses during a year of significant uncertainty, market volatility and unexpected political and regulatory events. By remaining focused on our strategy and on disciplined execution, our business withstood the effect of these events and successfully adapted to changes in market conditions, regulatory intervention and shifts in consumer preference, to deliver a strong operating performance in 2016 and an improved capital position.

Prudential's financial attributes and multiple, diverse levers of growth have enabled the Group to absorb not only the areas of earnings pressure known at the beginning of the year, but also the fluctuations of both equity markets and yields. New business profit, IFRS operating profit and free surplus generation, the three financial measures that we use to track delivery of our 'growth and cash' agenda, have all increased in 2016 when expressed on an actual exchange rate basis. This achievement demonstrates the benefits of our scale and the strength of our business model which is well diversified by geography, currency and source of earnings. The 2016 results also highlight the earnings power of our growing in-force book of business and our ability to add large new business volumes which are an important store of future value.

The year-on-year trends of the three 'growth and cash' measures are also positive when expressed on a constant exchange rate basis, except for IFRS operating profit, where we have seen a marginal fall due to the effect of one-off impacts in our UK Life operations.

The Group's performance has once-again been led by Asia, with double digit growth across new business profit, IFRS operating profit and free surplus generation for the 7th year in a row. This underlines the scale and quality of our regional franchise, characterised by the high proportion of recurring income and bias for protection business that is uncoupled from market effects. In our insurance and asset management businesses in the UK and US, we have continued to build our earnings base with growth in assets managed on behalf of our customers.

2016 has seen sterling weakening against most global currencies, which is positive for the translation of results from our sizeable non-sterling operations. However, to aid understanding of the underlying progress in these businesses, we continue to express and comment on the performance trends of our Asia and US operations on a constant currency basis.

The key financial highlights in 2016 were as follows:

- **New business profit**[1] was 11 per cent[2,3] higher at £3,088 million (up 24 per cent on an actual exchange rate basis), primarily as a result of higher volumes with **APE sales** up 8 per cent[2,3]. Growth was strongest in Asia, where new business profit increased 22 per cent on a 19 per cent uplift in APE sales and improvements in country and channel mix. The contribution to new business profit from Jackson declined by 13 per cent, reflecting lower variable annuity sales volumes. UK life retail new business profit grew by 33 per cent, driven by strong consumer demand for products offering access to our PruFund investment option, which resulted in a 33 per cent increase in retail APE sales. There was no bulk annuity new business profit as we withdrew from this market in 2016.
- **IFRS operating profit based on longer-term investment returns** (IFRS operating profit) was 2 per cent[3] lower at £4,256 million (up 7 per cent on an actual exchange rate basis). IFRS operating profit from our Asia life insurance and asset management businesses grew by 15 per cent[3] to £1,644 million, reflecting continued business momentum. In the US, Jackson's total IFRS operating profit increased by 7 per cent, mainly due to growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings. In the UK, total IFRS operating profit was 31 per cent lower than the prior year, as a result of significantly reduced profits from annuity new business following our withdrawal from the bulk annuity market, the lower contribution from actions to support solvency and a provision for the cost of undertaking a review of past non-advised annuity sales practices and related potential redress. M&G's operating profit was 4 per cent lower, reflecting the earnings impact of the recent period of net fund outflows.
- **Underlying free surplus generation**[1,4], our preferred measure of cash generation from our life and asset management businesses, increased by 10 per cent[3] to £3,588 million (up 18 per cent on an actual exchange rate basis), after financing new business growth. The increase reflects a higher contribution from our growing in-force book of business, as we continue to focus on high-return new business with fast payback periods and includes the benefit from capital actions in the UK and the US.
- **Group shareholders' Solvency II capital surplus**[7] was estimated at £12.5 billion at 31 December 2016, equivalent to a cover ratio of 201 per cent[6] (1 January 2016: £9.7 billion, 193 per cent). The improvement in the period primarily reflects the continuing strength of the Group's operating capital generation in excess of growing dividend payments to shareholders, and also includes the benefit of debt issued in the year.
- **Full year ordinary dividend** increased by 12 per cent to 43.5 pence per share, reflecting our strong 2016 performance and our confidence in the future prospects of our Group.

Global investment market movements during 2016 were dominated by the sharp drop in long-term yields over the first three quarters, and the subsequent recovery into the end of the year prompted by more favourable growth expectations in the US. Equity market performance was notably stronger in the second half of the year, contributing to a generally positive movement for 2016 overall in the countries in which we operate. Over the full year, the US S&P 500 index was up 10 per cent, the UK FTSE 100 index up 12 per cent and the MSCI Asia ex-Japan index up 5 per cent. We have taken steps to reduce the investment market sensitivity of our earnings and balance sheet, but remain significant long-term holders of financial assets to back the commitments that we have made to our customers. Short-term fluctuations in both these assets and related liabilities are reported outside the operating result, which is based on long-term investment return assumptions. These short-term fluctuations were overall negative in 2016, primarily as a result of movements in the value of derivatives used by Jackson to protect the economics of its business from adverse market shocks. As a result, total IFRS post tax profit was £1,921 million (2015: £2,579 million on an actual exchange rate basis) and total EEV post-tax profit was £4,516 million (2015: £3,951 million on an actual exchange rate basis).

Reflecting the combined effects of improved operating results on an actual exchange rate basis, negative short-term investment fluctuations and positive currency movements of £1.2 billion, IFRS shareholders' equity was 13 per cent higher at £14.7 billion. Similarly, EEV basis shareholders' equity was up 22 per cent[5] at £39.0 billion. As at 31 December 2016, the Group's Solvency II capital surplus[7] was £12.5 billion, equivalent to a cover ratio of 201 per cent[6] (1 January 2016: £9.7 billion, 193 per cent).

IFRS profit

	Actual exchange rate			Constant exchange rate	
	2016 £m	**2015 £m**	**Change %**	**2015 £m**	**Change %**
Operating profit before tax based on longer-term investment returns					
Long-term business:					
Asia[3]	**1,503**	1,171	28	1,303	15
US	**2,052**	1,691	21	1,908	8
UK	**799**	1,167	(32)	1,167	(32)
Long-term business operating profit[3]	**4,354**	4,029	8	4,378	(1)
UK general insurance commission	**29**	28	4	28	4
Asset management business:					
M&G	**425**	442	(4)	442	(4)
Prudential Capital	**27**	19	42	19	42
Eastspring Investments	**141**	115	23	128	10
US	**(4)**	11	(136)	13	(131)
Other income and expenditure[8]	**(716)**	(675)	(6)	(675)	(6)
Total operating profit based on longer-term investment returns before tax[3]	**4,256**	3,969	7	4,333	(2)
Non-operating items:					
(Loss)/Profit attaching to held for sale Korea business	**(227)**	56	n/a	62	n/a
Other non-operating items[8]	**(1,754)**	(877)	(100)	(958)	(83)
Profit before tax attributable to shareholders	**2,275**	3,148	(28)	3,437	(34)
Tax charge attributable to shareholders' returns	**(354)**	(569)	38	(621)	43
Profit for the year attributable to shareholders	**1,921**	2,579	(26)	2,816	(32)

IFRS Earnings per share

	Actual exchange rate			Constant exchange rate	
	2016 pence	**2015 pence**	**Change %**	**2015 pence**	**Change %**
Basic earnings per share based on operating profit after tax	**131.3**	124.6	5	136.0	(3)
Basic earnings per share based on total profit after tax	**75.0**	101.0	(26)	110.1	(32)

IFRS operating profit based on longer-term investment returns
Total IFRS operating profit declined by 2 per cent[3] (7 per cent increase on an actual exchange rate basis) in 2016 to £4,256 million, with increases in Asia and the US offset by anticipated declines in the contribution from our UK businesses.

- **Asia total operating profit** of £1,644 million was 15 per cent[3] higher than the previous year (28 per cent on an actual exchange rate basis), with strong growth in both life insurance and asset management through Eastspring Investments.
- **US total operating profit** at £2,048 million increased by 7 per cent (20 per cent increase on an actual exchange rate basis), driven by higher fee income from growth in Jackson's separate account asset base and lower amortisation of deferred acquisition costs, which together exceeded the anticipated reduction in spread income.
- **UK total operating profit** was 31 per cent lower at £828 million. This decline reflects lower profit from new annuity business, down from £123 million to £41 million in 2016 as we scale down our participation in the annuity market, a lower contribution from management actions to support solvency, down from £400 million to £332 million, and the establishment of a £175 million provision for the cost of undertaking a review of past non-advised annuity sales practices and related potential redress.
- **M&G operating profit** was 4 per cent lower at £425 million. The impact of recent asset outflows from retail funds on overall funds under management has been partially offset by the benefit of positive market movements.

At the beginning of the year, we expected that earnings would contract in a few discrete areas of the business: at M&G, due to the impact of outflows on funds under management and the corresponding fee income; in Jackson's spread business portfolio as a result of persistently low interest rates; and in our UK life business given our withdrawal from the bulk annuity market. These identified effects have emerged largely as expected. However, our focus on cost control and the effective management of our in-force book of business have mitigated the overall impact of these anticipated adverse effects. Earnings have also benefited from continued growth in the premium base in Asia and the level of aggregate assets managed by our life and asset management operations across the Group, which together underpin the longer-term earnings progression of our business.

Life insurance operations: Taken together, IFRS operating profit from our life insurance operations in Asia, the US and the UK was 1 per cent[3] lower at £4,354 million (8 per cent increase on an actual exchange rate basis).

IFRS operating profit in our life insurance operations in **Asia** was 15 per cent[3] higher at £1,503 million (up 28 per cent on an actual exchange rate basis), reflecting our ability to translate top-line growth into shareholder value. The performance is underpinned by the recurring premium income nature of our in-force book and the highly diverse nature of our earnings by geography and by source. Insurance income was up 24 per cent, reflecting our continued focus on health and protection business. At a country level, we have seen double-digit growth in six markets, led by Hong Kong (up 40 per cent), China (up 83 per cent) and growth of 15 per cent or more from Malaysia, Thailand, Vietnam and Taiwan. These markets have more than compensated for the impact of lower earnings growth in Indonesia and Singapore, following deliberate actions taken to improve the quality of new business flows.

In the **US**, life IFRS operating profit was 8 per cent higher at £2,052 million (up 21 per cent on an actual exchange rate basis), reflecting the resilient performance of Jackson's franchise in an environment of market volatility and sector-wide disruption following the announcement of the Department of Labor's fiduciary duty rule in April 2016. Average separate account balances increased by 5 per cent, resulting in a 3 per cent rise in fee income, while the result also benefited from scale efficiencies. As expected, lower yields in the year have impacted spread income, which decreased by 5 per cent.

UK life IFRS operating profit declined by 32 per cent to £799 million (2015: £1,167 million). Within this total, the contribution from our core in-force with-profits and annuity business was £601 million (2015: £644 million), including an unchanged transfer to shareholders from the with-profits funds of £269 million. The balance of the result reflects the contribution from other activities which are either non-core or are not expected to recur to the same extent going forward.

Profit from new annuity business reduced from £123 million in 2015 to £41 million, as we scaled down our participation in the annuity market. In response to the volatile investment market environment during 2016, we took a number of asset and liability actions to improve the solvency position of our UK life operations and further mitigate market risk, generating combined profits of £332 million (2015: £400 million). Of this amount, £197 million related to profit from longevity reinsurance transactions (2015: £231 million) and £135 million (2015: £169 million) from the effect of repositioning the fixed income asset portfolio. In response to the findings of the FCA's thematic review of non-advised annuity sales practices, the UK business will review internally vesting annuities sold without advice after 1 July 2008. Reflecting this, the UK life 2016 result includes a provision of £175 million for the cost of this review and related potential redress. The provision does not include potential insurance recoveries of up to £175 million.

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

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

	2016 £m				2015 £m			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2016	Net liability flows[10]	Market and other movements	At 31 December 2016	At 1 January 2015	Net liability flows[10]	Market and other movements	At 31 December 2015
Asia[11]	**25,032**	**2,086**	**5,733**	**32,851**	26,410	1,867	(433)	27,844
US	**138,913**	**5,198**	**33,515**	**177,626**	126,746	8,476	3,691	138,913
UK	**52,824**	**(3,646)**	**6,980**	**56,158**	55,009	(2,694)	509	52,824
Total Group	**216,769**	**3,638**	**46,228**	**266,635**	208,165	7,649	3,767	219,581

Focusing on the business supported by shareholder capital, which generates over 90 per cent of the life profit, in 2016 net flows into our businesses were overall positive at £3.6 billion, reflecting our focus on both retaining our existing customers and attracting new business to drive long-term value creation. The weakening of sterling during the year contributed a total £32.4 billion positive foreign exchange movement which, together with favourable investment and other movements, led to a £46.2 billion increase in policyholder liabilities, with much of this arising in the second half of the year.

Policyholder liabilities and net liability flows in with-profits business[9,25]

	2016 £m				2015 £m			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2016	Net liability flows[10]	Market and other movements	At 31 December 2016	At 1 January 2015	Net liability flows[10]	Market and other movements	At 31 December 2015
Asia	**20,934**	**3,696**	**5,303**	**29,933**	18,612	2,102	220	20,934
UK	**100,069**	**1,119**	**11,958**	**113,146**	99,427	(968)	1,610	100,069
Total Group	**121,003**	**4,815**	**17,261**	**143,079**	118,039	1,134	1,830	121,003

The 18 per cent increase in policyholder liabilities in our with-profits business to £143.1 billion (2015: £121.0 billion), reflects the growing popularity with consumers seeking protection from the impact of volatile market conditions. In the course of 2016, net liability flows increased to £4.8 billion across our Asian and UK operations. As returns from these funds are smoothed and shared with customers, the emergence of shareholder profit is more gradual. This business, nevertheless, remains an important source of future shareholder value.

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

	Actual Exchange Rate						Constant Exchange Rate		
	2016 £m			2015 £m			2015 £m		
	Operating profit[3]	Average liability	Margin bps	Operating profit[3]	Average liability	Margin bps	Operating profit[3]	Average liability	Margin bps
Spread income	**1,171**	**83,054**	**141**	1,153	72,900	158	1,267	78,026	162
Fee income	**2,175**	**139,451**	**156**	1,888	123,232	153	2,118	135,717	156
With-profits	**317**	**118,334**	**27**	314	106,749	29	319	108,551	29
Insurance margin	**1,991**			1,671			1,858		
Margin on revenues	**2,126**			1,822			2,000		
Expenses:									
Acquisition costs	**(2,251)**	**6,320**	**(36)%**	(2,100)	5,466	(38)%	(2,339)	5,995	(39)%
Administration expenses*	**(1,943)**	**229,477**	**(85)**	(1,656)	203,664	(81)	(1,829)	222,250	(82)
DAC adjustments	**390**			313			352		
Expected return on shareholder assets	**221**			224			232		
	4,197			3,629			3,978		
Longevity reinsurance and other management actions to improve UK solvency	**332**			400			400		
Provision for review of past annuity sales	**(175)**			-			-		
Operating profit based on longer-term investment returns[3]	**4,354**			4,029			4,378		

* The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. The acquisition costs include only those relating to shareholders backed business.

Alongside growing our overall level of life operating profit, we continue to maintain our bias for higher-quality sources of income such as insurance margin and fee income. We favour insurance margin because it is relatively insensitive to the equity and interest rate cycle and prefer fee income to spread income because it is more capital-efficient. In line with this approach, on a constant exchange rate basis, insurance margin has increased by 7 per cent (up 19 per cent on an actual exchange rate basis) and fee income by 3 per cent (up 15 per cent on an actual exchange rate basis), while spread income decreased by 8 per cent (up 2 per cent on an actual exchange rate basis).

Asset management: Movements in asset management operating profit are also primarily influenced by changes in the scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations. In 2016, IFRS operating profit from our asset management businesses was marginally lower at £589 million (2015: £602 million on a constant exchange rate basis), primarily due to the impact of negative net flows in M&G.

Asset management net inflows and external funds under management[13,14]

	2016 £m				2015 £m			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2016	**Net flows**	**Market and other movements**	**At 31 Dec 2016**	At 1 January 2015	Net flows	Market and other movements	At 31 Dec 2015
M&G	**126,405**	**(8,090)**	**18,448**	**136,763**	137,047	(7,008)	(3,634)	126,405
Eastspring[15]	**30,281**	**1,835**	**5,926**	**38,042**	25,333	5,971	(1,023)	30,281
Total external assets managed	**156,686**	**(6,255)**	**24,374**	**174,805**	162,380	(1,037)	(4,657)	156,686
Total external assets managed (including MMF)	**162,692**	**(5,852)**	**25,679**	**182,519**	167,180	28	(4,516)	162,692

M&G's IFRS operating profit declined by 4 per cent to £425 million (2015: £442 million), reflecting the impact on revenues of lower average assets under management during the year, following the net outflows experienced since the second quarter of 2015. As these net outflows were primarily from the higher margin retail business, they had a disproportionately adverse impact on earnings. The same dynamics have seen the cost-income ratio move up 2 percentage points to 59 per cent.

Despite continued outflows in 2016, external assets under management at 31 December 2016 were 8 per cent higher than a year ago at £136.8 billion, benefitting from positive investment market movements, particularly in the second half of the year and a return to positive net flows for retail business in the fourth quarter of £942 million. Including the assets managed for internal life operations, M&G's total assets under management rose to £264.9 billion (2015: £246.1 billion).

Our Asia-based asset manager, Eastspring Investments, increased IFRS operating profit by 10 per cent (up 23 per cent on an actual exchange rate basis) to £141 million, reflecting the positive effect on average assets under management of favourable market movements and £2.2 billion net inflows in the second half of the year. Although a shift in the mix of assets away from higher-margin equity funds has moderated the overall revenue margin, scale efficiencies have resulted in an improvement in the cost-income ratio to 56 per cent (2015: 58 per cent). External assets under management at 31 December 2016 increased to £38.0 billion (31 December 2015: £30.3 billion). Including money market funds and the assets managed for internal life operations, Eastspring Investment's total assets under management rose to a record £117.9 billion (2015: £89.1 billion).

IFRS non-operating items[8]

IFRS non-operating items consist of short-term fluctuations, the results attaching to the held for sale life business in Korea and other non-operating items.

Short-term investment fluctuations represent the most significant component of non-operating items and are discussed further below.

The result of the held for sale Korea life business, a loss of £227 million, comprises both the write down of the IFRS net assets to sales proceeds (net of costs) and the profits for the year. The comparative profits for the year have been similarly reclassified as non-operating for consistency of presentation.

Other non-operating items of negative £76 million mainly represent the amortisation of acquisition accounting adjustments arising principally on the acquisition of the REALIC business in 2012 (2015: negative £76 million on an actual exchange rate basis). Additionally, 2015 non-operating items included a loss of £46 million from the recycling of exchange losses on the sale of the Japan business.

IFRS short-term investment fluctuations
IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In 2016, the total short-term fluctuations in investment returns relating to the life operations were negative £1,482 million and comprised negative £225 million for Asia, negative £1,455 million in the US and positive £198 million in the UK.

The Asia negative £225 million short-term fluctuations principally reflected the net impact of changes in interest rates and equity markets across the region.

In the US, Jackson provides certain guarantees on its annuity products, the value of which would typically rise when equity markets fall and long-term interest rates decline. Jackson charges fees for these guarantees which are in turn used to purchase downside protection in the form of options and futures to mitigate the effect of equity market falls, and swaps and swaptions to cushion the impact of drops in long-term interest rates. Under IFRS, accounting for the movement in the valuation of these derivatives, which are all fair valued, is asymmetrical to the movement in guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and accepts the variability in accounting results. The negative short-term fluctuations of £1,455 million in the year mainly reflect the effect of the increase in equity markets on net value movements on the guarantees and associated derivatives with the S&P 500 index closing at 10 per cent higher than at the start of the year. While the resulting negative mark-to-market movements on these hedging instruments are recorded in 2016, the related increases in fee income that arise from the higher asset values managed, will be recognised and reported in future years.

The UK non-operating profit of positive £198 million mainly reflects gains on bonds backing annuity capital and shareholders' funds following the 70bps fall in 15-year UK gilt yields in 2016.

The negative short-term fluctuations in investment returns for other operations of negative £196 million (2015: negative £61 million) include unrealised value movements on financial instruments.

IFRS effective tax rates
In 2016, the effective tax rate on IFRS operating profit based on longer-term investment returns was 21 per cent, (2015: 20 per cent), reflecting a larger contribution to operating profit from Jackson which attracts a higher rate of tax.

The 2016 effective tax rate on the total IFRS profit was 16 per cent (2015: 18 per cent), reflecting a smaller contribution to the total profit from Jackson which attracts higher rate of tax.

The main driver of the Group's effective tax rate is the relative mix of the profits between countries with higher tax rates (such as US, Indonesia, and Malaysia), and countries with lower tax rates (such as Hong Kong, Singapore and the UK). The UK has enacted legislation to reduce the corporation tax rate in stages from 20 per cent to 17 per cent from 1 April 2020. The effect of reductions to 17 per cent is reflected in the full year 2016 results. Following the US elections, there is the prospect of significant tax reform occurring in the US, which potentially could reduce the US corporate income tax rate from the current 35 per cent. A number of Asian countries, most notably Indonesia, have indicated they are considering reducing corporation tax rates, but no legislative proposals have been announced to date.

We do not expect that changes being introduced in the UK and other countries to implement recommendations made by the OECD's base erosion and profit shifting project to reform the international tax regime to have any significant impact on the Group.

Total tax contribution
The Group continues to make significant tax contributions in the countries in which it operates, with £2,890 million remitted to tax authorities in 2016. This was lower than the equivalent amount of £3,004 million in 2015, reflecting lower corporation tax payments, partly offset by increases in other taxes borne and taxes collected. In the US a change of basis for taxing derivatives which affects the timing, but not the quantum, of tax payable accelerated tax payments from 2016 into 2015.

Publication of tax strategy
In 2017, a new UK requirement for large UK businesses to publish their tax strategy will take effect. Prudential's tax strategy, together with further details of the tax payments made in 2016, will be available on the Group's website before 30 June 2017.

New business performance

Life EEV new business profit[1] and APE new business sales (APE sales)

	Actual exchange rate						Constant exchange rate			
	2016 £m		2015 £m		Change %		2015 £m		Change %	
	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit
Asia[3]	**3,599**	**2,030**	2,712	1,482	33	37	3,020	1,660	19	22
US	**1,561**	**790**	1,729	809	(10)	(2)	1,950	913	(20)	(13)
UK retail[2]	**1,160**	**268**	874	201	33	33	874	201	33	33
Total Group excluding bulk annuities[2,3]	**6,320**	**3,088**	5,315	2,492	19	24	5,844	2,774	8	11
UK bulk annuities	**-**	**-**	151	117	(100)	(100)	151	117	(100)	(100)
Total Group[3]	**6,320**	**3,088**	5,466	2,609	16	18	5,995	2,891	5	7

Life insurance new business profit[1] was up 11 per cent[2,3] (24 per cent on an actual exchange rate basis) to £3,088 million, reflecting the net outcome from strong growth in Asia and in UK retail business and reduced contribution from our US operations. **Life insurance new business APE sales** increased by 8 per cent[2,3] (19 per cent on an actual exchange rate basis) to £6,320 million led by Asia and the UK.

In **Asia** new business profit was 22 per cent[3] higher at £2,030 million, outpacing new business APE sales in the region which increased by 19 per cent[3] to £3,599 million (up 37 per cent and 33 per cent respectively on an actual exchange rate basis). APE sales progression has been strongest in the agency channel, up 23 per cent, as we continue to drive improvements in productivity and invest in recruitment initiatives to underpin future sales prospects. The fourth quarter saw an acceleration in the positive trends observed earlier in the year; overall APE increased to over £1 billion for the first time in a discrete quarter, with 8 of our markets in the region growing by 20 per cent or more. Despite the strength of this growth our focus on quality is undiminished, with regular premiums on long-term contracts accounting for over 93 per cent of APE sales and a continuing high proportion of new business from health and protection coverage (62 per cent of new business profit). This favourable mix provides a high level of recurring income and an earnings profile that is significantly less correlated to investment markets.

Our businesses in China and Hong Kong have performed well in 2016, with APE sales increasing by 31 per cent and 40 per cent, respectively, and demonstrating the extent of the opportunity in these markets. In Hong Kong, we continue to generate business from both Mainland China residents and local customers, with a strong bias for regular premiums (94 per cent of APE sales) and an increasing contribution from health and protection business (up 43 per cent). 2016 saw increased intervention by the Chinese authorities in relation to capital controls and we continue to monitor developments, which to date have not had a meaningful impact on our business in Hong Kong. In China, we have pivoted the business towards higher quality regular premium business driven by our increased scale in the agency channel, and sales of single premiums have reduced as we de-emphasised further new spread-based business across the region in 2016.

In Indonesia, trading conditions remain challenging, and in such an environment we have retained our more cautious approach to new business, resulting in a 25 per cent reduction in APE sales. However, sales performance in the fourth quarter was more encouraging with a more modest period-on-period decline in APE sales of 3 per cent and a return to growth in the month of December. In Malaysia, APE sales were up 8 per cent, driven by improvements in the conventional agency channel and increased contributions from our bancassurance partners. In Singapore, where APE sales were up 1 per cent in 2016, new business performance has improved through the year which saw APE sales in the second half increase by 12 per cent relative to the equivalent period last year, driven by increased agent activation and a recovery in bancassurance sales.

The 22 per cent increase in new business profit primarily reflects the effect of higher APE sales volumes (up 19 per cent) and positive effects from changes in country mix and channel mix.

In **the US**, uncertainty following the announcement of the Department of Labor's fiduciary duty rule on the distribution of retirement market products has contributed to a marked decline of 22 per cent[16] in industry sales of variable annuities. Jackson's APE sales from all our variable annuity products were also lower as a result, down 25 per cent. Notwithstanding this reduction in sales, net inflows into Jackson's separate account asset balances, which drive fee-based earnings on variable annuity business, remained positive at £4.4 billion. More favourable market conditions in the institutional product market provided Jackson with the opportunity to write APE sales of £184 million compared to £138 million in 2015.

Jackson's new business profit of £790 million declined by 13 per cent overall, although this represents a smaller decrease than the reduction in sales volumes, demonstrating the benefit of improved business mix and a modest uplift from higher interest rates. The economics on new business in variable annuities remain extremely attractive, with high internal rates of return and short payback periods.

In our **UK life business**, our strategy of extending customer access to PruFund's with-profits investment option via additional product wrappers continues to drive growth in retail APE sales, which increased 33 per cent to £1,160 million. In the current low interest rate environment, consumers are attracted to PruFund's smoothed multi-asset fund returns and the financial security attaching to its strong capitalisation. We have seen notable success with the build out of PruFund through individual pensions (up 104 per cent), income drawdown (up 62 per cent) and ISAs (up 70 per cent), although our more established PruFund investment bonds also increased 21 per cent. Reflecting this strong performance, total PruFund assets under management of £24.7 billion as at 31 December 2016 were 50 per cent higher than at the start of the year.

UK's retail new business profit of £268 million increased by 33 per cent reflecting the increased sales volume and positive effects from changes in product mix.

Free surplus generation

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations. For life insurance operations it represents amounts maturing from the in-force business during the year, net of amounts reinvested in writing new business. For asset management it equates to post-tax IFRS profit for the period.

This metric is based on the capital regimes which apply locally in the various jurisdictions in which our life businesses operate. The introduction of Solvency II with effect from 1 January 2016 has altered the regime locally applied to our UK life business, so the 2016 UK life free surplus figures reflect this change. The 2015 UK life comparatives are unchanged as they reflect the regime that applied at that time. Solvency II does not directly impact the way capital is generated locally in the US and in our Asian life operations, so there is no change in the way free surplus is calculated for these businesses.

In 2016 underlying free surplus generation, after investment in new business, increased by 10 per cent[2] to £3,588 million.

Free surplus generation

	Actual exchange rate			Constant exchange rate	
	2016 £m	**2015 £m**	**Change %**	**2015 £m**	**Change %**
Free surplus generation[1,4]					
Asia[3]	**1,335**	1,052	27	1,176	14
US	**1,863**	1,433	30	1,616	15
UK	**930**	900	3	900	3
M&G	**341**	358	(5)	358	(5)
Prudential Capital	**22**	18	22	18	22
Underlying free surplus generated from in-force life business and asset management[3]	**4,491**	3,761	19	4,068	10
Investment in new business[3]	**(903)**	(718)	(26)	(792)	(14)
Underlying free surplus generated[3]	**3,588**	3,043	18	3,276	10
Market related movements, timing differences and other movements	**(588)**	289			
Net cash remitted by business units	**(1,718)**	(1,625)			
Total movement in free surplus	**1,282**	1,707			
Free surplus at end of year[1,17]	**6,575**	5,293			

The 10 per cent[3] increase in free surplus generated[1] by our life insurance and asset management businesses to £4,491 million (up 19 per cent[3] on an actual exchange rate basis) reflects our growing scale and the highly capital-generative nature of our business model. In 2016 a key contributor to this growth has been derived from the positive momentum of Asia's in-force life insurance portfolio, which provides an important underpin to this metric and helps absorb cyclicality elsewhere in the Group. We drive this metric by targeting markets and products that have low-strain, high-return and fast payback profiles and by delivering both good service and value to improve customer retention. Our ability to generate both growth and cash is a distinctive feature of Prudential. The closing value of free surplus in our life and asset management operations was £6.6 billion at 31 December 2016, after financing reinvestment in new business and funding cash remittances from the business units to Group.

In **Asia**, growth in the in-force life portfolio, combined with post-tax asset management profits from Eastspring Investments, contributed to free surplus generation of £1,335 million, up 14 per cent. In the **US**, in-force free surplus generation increased 15 per cent, reflecting higher expected returns and a benefit of £236 million from contingent financing of specific US statutory reserves, which strengthened Jackson's local statutory capital position. In the **UK**, free surplus generation[1] was 3 per cent higher at £930 million, including a net contribution of £206 million (2015: £275 million) from management actions taken in the year to improve solvency, net of the provision for the cost of undertaking a review of past non-advised annuity sales practices and related potential redress.

We invested £903 million of the free surplus generated[1] during the period in writing new business (2015: £792 million, including bulk annuities) equivalent to an increase of 14 per cent.

Asia remains the primary destination for reinvestment of capital given its higher margin organic growth opportunities. Investment of free surplus in new business was 12 per cent[3] higher at £476 million, which is lower than the 19 per cent[3] growth in APE sales, mainly due to positive mix effects. We continue to generate internal rates of return in excess of 20 per cent, with an average payback period of three years.

In the **US**, new business investment was broadly consistent with 2015 at £298 million, reflecting a greater proportion of variable annuity premiums being directed to the fixed account option and higher institutional volumes. At just 2 per cent of new business single premium sales, Jackson's overall strain remains low, supporting the generation of high returns on capital. New business economics on Jackson's sales remain extremely attractive, with business written at an overall internal rate of return in excess of 20 per cent and payback periods averaging two years.

The new business investment[1] in the **UK** was £129 million (2015: £65 million), although comparisons are distorted by the application of different capital regimes in the two periods, with investment in 2016 including a significantly higher strain for new non-profit annuities under the new Solvency II regime, despite the much reduced sales. Following our decision in June 2016 to stop writing annuity business in the open market and our action in early February 2017 to direct internal vestings to a panel of providers, UK new business strain is expected to reduce significantly in 2017.

We continue to manage cashflows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

Business unit remittance[18]	Actual Exchange Rate	
	2016 £m	2015 £m
Net cash remitted by business units:		
Asia	**516**	467
US	**420**	470
UK	**300**	301
M&G	**290**	302
Prudential Capital	**45**	55
Other UK	**147**	30
Net cash remitted by business units	**1,718**	1,625
Holding company cash at 31 December	**2,626**	2,173

Cash remitted to the corporate centre in 2016 amounted to £1,718 million, driven by higher remittances from Asia (up 21 per cent, after adjusting for £42 million of proceeds in 2015 from the sale of our Japan life business). Jackson made sizeable remittances of £420 million, albeit lower than last year when more supportive markets enhanced capital formation. The remittance from UK Life of £300 million was in line with 2015, while the remittance from M&G of £290 million was lower than last year reflecting lower levels of post tax earnings in the year. Actions completed in the period, including internal restructuring that has enabled us to access central resources previously held at intermediary holding and other companies, contributed a further £147 million.

Cash remitted to the Group in 2016 was used to meet central costs of £416 million (2015: £354 million), pay the 2015 second interim ordinary, 2015 special and 2016 first interim dividends and finance the final up-front payment for the renewal of the distribution agreement with Standard Chartered Bank. These movements combined with the net proceeds of debt raised in the year and other corporate cash flows led to holding company cash increasing from £2,173 million to £2,626 million over 2016.

Post-tax profit - EEV[1]

	Actual exchange rate			Constant exchange rate	
	2016 £m	2015 £m	Change %	2015 £m	Change %
Post-tax operating profit based on longer-term investment returns					
Long-term business:					
Asia[3]	**3,074**	2,280	35	2,555	20
US	**1,971**	1,808	9	2,040	(3)
UK	**643**	863	(25)	863	(25)
Long-term business post-tax operating profit[3]	**5,688**	4,951	15	5,458	4
UK general insurance commission	**23**	22	5	22	5
Asset management business:					
M&G	**341**	358	(5)	358	(5)
Prudential Capital	**22**	18	22	18	22
Eastspring Investments	**125**	101	24	112	12
US	**(3)**	7	(143)	8	(138)
Other income and expenditure[19]	**(699)**	(617)	(13)	(617)	(13)
Post-tax operating profit based on longer-term investment returns[3]	**5,497**	4,840	14	5,359	3
Non-operating items:					
(Loss)/Profit attaching to held for sale Korea business	**(410)**	39	n/a	42	n/a
Other non-operating items[19]	**(571)**	(928)	38	(1,057)	46
Post-tax profit for the year attributable to shareholders	**4,516**	3,951	14	4,344	4

Earnings per share[1]

	Actual exchange rate			Constant exchange rate	
	2016 pence	2015 pence	Change %	2015 pence	Change %
Basic earnings per share based on post-tax operating profit[3]	**214.7**	189.6	13	209.9	2
Basic earnings per share based on post-tax total profit	**176.4**	154.8	14	170.2	4

EEV operating profit

On an EEV basis, Group post-tax operating profit based[1] on longer-term investment return increased by 3 per cent[3] (up 14 per cent on an actual exchange rate basis) to £5,497 million in 2016. Prudential adopts an active basis of setting the future return assumptions used to calculate the Group's EEV basis operating profit. These assumptions are therefore based on the 31 December 2016 long-term interest rates which were lower in our key markets of the UK, Indonesia and Singapore, and higher in other markets including US, Hong Kong and Malaysia. The impact of these movements in the full year results broadly offset.

The EEV operating profit includes new business profit[1] from the Group's life business, which increased by 11 per cent[3] (up 24 per cent on an actual exchange rate basis) to £3,088 million and in-force life business profit[1] of £2,600 million, which was 1 per cent[3] higher than prior year (up 11 per cent on an actual exchange rate basis). Experience and assumptions changes were positive at £706 million (2015: £741 million), reflecting our ongoing focus on managing the in-force book for value.

Capital position, financing and liquidity

Capital position

With effect from 1 January 2016, the Group is required to adopt Solvency II as its consolidated capital regime. This was developed by the EU in order to harmonise the various regimes previously applied across EU member states. As the regime was primarily designed with European life products in mind, it is a poor fit with Prudential's business given the predominantly non-EU footprint of the Group. The one year value at risk nature of the Solvency II test, which has its roots in banking regulation where risk positions can be priced and readily traded, runs counter to the multi-year nature of life insurance business, where the illiquid nature of liabilities renders such potential market solutions theoretical and not grounded in established sector practices. It also means that solvency capital will be highly volatile.

While Solvency II does not fully recognise the economic capital strength of the Group, we implemented it in 2016 having received internal model approval from the Prudential Regulation Authority in December 2015.

Analysis of movement in Group shareholder Solvency II surplus[20]

	2016 £bn	2015 £bn
Estimated solvency II surplus at 1 January/economic capital surplus at 1 January	**9.7**	9.7
Operating experience	**2.7**	2.4
Non-operating experience (including market movements)	**(1.1)**	(0.6)
Other capital movements		
Subordinated debt issuance	**1.2**	0.6
Foreign currency translation impacts	**1.6**	0.2
Dividends paid	**(1.3)**	(1.0)
Methodology and calibration changes	**(0.3)**	(1.6)
Estimated Solvency II surplus at 31 December	**12.5**	9.7

The high quality and recurring nature of our operating capital generation and our disciplined approach to managing balance sheet risk enabled us to enter the new Solvency II regime on 1 January 2016 with a strong Group shareholders' capital surplus of £9.7 billion. These factors also provided meaningful protection against the significant adverse market-driven effects on this metric in the first half of 2016. Reflecting the improvement in long-term yields during the last three months of the year, combined with strong operating capital generation and the beneficial effects of debt issued, the Group shareholders' Solvency II capital surplus was estimated at £12.5 billion at 31 December 2016, equivalent to a cover ratio of 201 per cent[6,7] (1 January 2016: 193 per cent).

In July 2013, Prudential plc was listed by the Financial Stability Board as one of nine companies to be designated as a Global Systemically Important Insurer, a classification that was reaffirmed in November 2016. Prudential is monitoring the development and potential impact of the related framework of policy measures and is engaging closely with the Prudential Regulation Authority on the implications of this designation.

Local statutory capital

All of our subsidiaries continue to hold appropriate capital levels on a local regulatory basis. In the UK, at 31 December 2016 the Prudential Assurance Company Limited and its subsidiaries had an estimated Solvency II shareholder surplus[21] of £4.6 billion (equivalent to a cover ratio of 163 per cent) and a with-profits surplus[22] of £3.7 billion (equivalent to a cover ratio of 179 per cent). In the US, the combination of a high start of year capital level coupled with strong operational capital formation in the year and specific actions taken to strengthen further Jackson's local statutory capital position led to an increase in its Risk Based Capital ratio to 485 per cent (2015: 481 per cent).

Debt portfolio

The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified, with investment grade securities representing 96 per cent of our UK portfolio and 98 per cent of our US portfolio at end-2016. During 2016, default losses were minimal and reported impairments of £35 million across these two portfolios were in line with those in 2015.

Financing and liquidity

Shareholders' net core structural borrowings	**2016 £m**			**2015 £m**		
	IFRS basis	**Mark to market value**	**EEV basis**	**IFRS basis**	**Mark to market value**	**EEV basis**
Total borrowings of shareholder-financed operations	**6,798**	**422**	**7,220**	5,011	408	5,419
Less: Holding company cash and short-term investments	**(2,626)**	**-**	**(2,626)**	(2,173)	-	(2,173)
Net core structural borrowings of shareholder-financed operations	**4,172**	**422**	**4,594**	2,838	408	3,246
Gearing ratio*	**22%**			18%		

* Net core structural borrowings as proportion of IFRS shareholders' funds plus net debt.

Our financing and central liquidity position remained strong throughout the year. Our central cash resources amounted to £2.6 billion at 31 December 2016 (31 December 2015: £2.2 billion). Total core structural borrowings increased by £1.8 billion to £6.8 billion following the issue of US$1 billion (£800 million at 31 December 2016) 5.25 per cent tier 2 perpetual subordinated debt in June 2016, US$725 million (£580 million at 31 December 2016) 4.38 per cent tier 2 perpetual subordinated debt in September 2016 and the impact of currency movements.

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 31 December 2016, we had issued commercial paper under this programme totalling £70 million and US$1,213 million, to finance non-core borrowings.

Prudential's holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities provided by 19 major international banks, expiring in 2021 and 2022. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2016. The medium-term note programme, the SEC registered shelf programme, the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company and are intended to maintain a strong and flexible funding capacity.

Shareholders' funds

	IFRS		EEV	
	2016 £m	**2015 £m**	**2016 £m**	**2015 £m**
Profit after tax for the year	**1,921**	2,579	**4,516**	3,951
Exchange movements, net of related tax	**1,161**	118	**4,211**	244
Unrealised gains and losses on Jackson fixed income securities classified as available for sale[23]	**31**	(629)	**-**	-
Dividends	**(1,267)**	(974)	**(1,267)**	(974)
Market to market value movements on Jackson assets backing surplus and required capital	**-**	-	**(11)**	(76)
Other	**(135)**	50	**(367)**	53
Net increase in shareholders' funds	**1,711**	1,144	**7,082**	3,198
Shareholders' funds at 1 January	**12,956**	11,812	**31,886**	29,161
Shareholders' funds at 31 December	**14,667**	12,956	**38,968**	32,359
Effect of implementation of Solvency II at 1 January 2016				(473)
Revised shareholders' funds at 1 January 2016				31,886
Shareholders' value per share	**568p**	504p	**1,510p**	1,240p
Return on shareholders' funds[24]	**26%**	27%	**17%**	17%

In 2016, UK sterling weakened relative to the US dollar and various Asian currencies. With approximately 49 per cent of the Group's IFRS net assets (71 per cent of the Group's EEV net assets) denominated in non-sterling currencies this generated a positive foreign exchange movement on net assets in the period.

This movement, together with profit after tax, movement in other comprehensive income and dividends paid, has led to the Group's IFRS shareholders' funds at 31 December 2016 increasing by 13 per cent to £14.7 billion (31 December 2015: £13.0 billion on an actual exchange rate basis).

The introduction of Solvency II at the start of 2016 changed the capital dynamics of our UK life operations which are directly impacted by this change. In overview, it permitted the inclusion of future profits in the available capital of the business but increased the statutory capital requirements. Factoring these and other consequential methodology changes in the EEV calculations of the UK life business produced a net charge of £473 million, equivalent to 5 per cent of the UK's embedded value (just over 1 per cent of the Group's embedded value at the start of the year). For our operations in Asia and the US, there is no impact on the EEV results since Solvency II does not act as the local constraint on the ability to distribute capital to the Group.

The Group's EEV basis shareholders' funds also increased by 22 per cent[5] to £39.0 billion (31 December 2015: £31.9 billion on an actual exchange rate basis), equivalent of 1,510 pence per share, up from 1,240 pence per share[5] at 31 December 2015.

Corporate transactions

Sale of Korea life insurance business

In November 2016 we announced the sale of our Korea life insurance business, PCA Life Insurance Co Ltd. to Mirae Asset Life Insurance Co. Ltd., for KRW170 billion (equivalent to £114 million at 31 December 2016 closing exchange rate) cash consideration. The completion of this sale is subject to regulatory approval. Consistent with the classification of the business as held for sale, the IFRS and EEV carrying values have been set to £105 million, representing the estimated proceeds, net of related expenses of £9 million. The IFRS loss of £227 million and EEV loss of £410 million comprises the 2016 reduction on writing down the carrying value of the business to the agreed sale proceeds (net of costs) together with its profits for the year. The comparative profits for the year have been similarly reclassified as non-operating for consistency of presentation.

Entrance into Zambia

In June 2016 we completed the acquisition of Professional Life Assurance of Zambia, increasing Prudential's insurance business footprint in Africa to four markets. Across Ghana, Kenya, Uganda and now Zambia we are gradually laying the foundations for what we hope will become a meaningful component of the Group in the years to come. Our current focus in these businesses is on growing our distribution; at 31 December we had 1,750 agents and were active in 181 branches of our four local bank partners (three exclusive) across these businesses.

Dividend

During 2016 the Group's dividend policy was updated. The board will maintain its focus on delivering a growing ordinary dividend. In line with this policy, Prudential aims to grow the ordinary dividend by 5 per cent per annum. The potential for additional distributions will continue to be determined after taking into account the Group's financial flexibility across a broad range of financial metrics and our assessment of opportunities to generate attractive returns by investing in specific areas of the business.

The board has decided to increase the full-year ordinary dividend by 12 per cent to 43.5 pence per share, reflecting our strong 2016 financial performance and our confidence in the future prospects of the Group. In line with this, the directors have approved a second interim ordinary dividend of 30.57 pence per share (2015: 26.47 pence per share). In 2015, a special dividend of 10 pence per share was also awarded.

Notes:

1. The 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflect the Solvency II regime, effective from 1 January 2016. The 2015 comparative results for UK insurance operations reflect the Solvency I basis.
2. Excluding UK bulk annuities as Prudential has withdrawn from this market.
3. Following its reclassification to held for sale during 2016, operating results exclude the results of the Korea life business. The 2015 comparative results have been similarly adjusted.

4. Free surplus represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the year and excludes market movements, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs.
5. Includes adjustment for opening EEV shareholders' funds of negative £0.5 billion for the impact of Solvency II as at 1 January 2016.
6. Before allowing for second interim ordinary dividend.
7. The Group Solvency II surplus represents the shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes the impact of recalculated transitionals at the valuation date, which has reduced the Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.
8. Refer to note B1.1 in IFRS financial statements for the breakdown of other income and expenditure and other non-operating items.
9. Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures and associates in Asia.
10. Defined as movements in policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.
11. Following its reclassification to held for sale during 2016, the shareholder-backed policyholder liabilities for Asia exclude the value of policyholder liabilities held at 1 January 2016 and 2016 net liability flows for Korea life business.
12. For basis of preparation see note I (a) of Additional unaudited IFRS financial information.
13. Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
14. For our asset management business the level of funds managed on behalf of third parties, which are not therefore recorded on the balance sheet, is a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing between those which are external to the Group and those held by the insurance business and included on the Group balance sheet. This is analysed in note II(b) of the Additional IFRS financial information.
15. Net inflows exclude Asia Money Market Fund (MMF) inflows of £403 million (2015: net inflows £1,065 million). External funds under management exclude Asia MMF balances of £7,714 million (2015: £6,006 million).
16. LIMRA/Secure Retirement Institute, US Individual Annuity Participants Report 3Q YTD 2016
17. The 2015 comparative includes an adjustment to opening free surplus representing the impact of Solvency II at 1 January 2016, together with the effect of a reclassification between long-term business and other operations, as discussed in note 9(v) of the EEV basis results.
18. Net cash remitted by business units are included in the Holding company cash flow, which is disclosed in detail in note II(a) of Additional unaudited IFRS financial information.
19. Refer to the EEV basis supplementary information – Post-tax operating profit based on longer-term investment returns and Post-tax summarised consolidated income statement, for the breakdown of other income and expenditure, and other non-operating items.
20. The methodology and assumptions used in calculating the Solvency II capital results are set out in note II (c) of Additional unaudited financial information.
21. The UK Solvency II surplus represents the shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring fenced with-profits funds and staff pension scheme in surplus. The estimated solvency position includes the impact of recalculated transitionals at the valuation date.
22. The with-profits Solvency II surplus represents the contribution to Own Funds and the Solvency Capital Requirement from ring fenced funds. The estimated solvency position includes the impact of recalculated transitionals at the valuation date.
23. Net of related charges to deferred acquisition costs and tax.
24. Operating profit after tax and non-controlling interests as percentage of opening shareholders' funds.
25. Includes Unallocated surplus of with-profits business.

Group Chief Risk Officer's Report of the risks facing our business and how these are managed

1. Introduction

2016 has been a year of extraordinary global change, starting with market turbulence in China, followed by the UK's vote to leave the EU and ending with the election of a new president in the US.

Even in such a year, we have maintained a strong and sustained focus on planning for the possibility of, and ultimately managing, the market volatility and macroeconomic uncertainty arising from these events. Our Risk Management Framework and risk appetite have allowed us to control successfully our risk exposure throughout the year. Our strong governance, processes and controls enable us to deal with the uncertainty ahead in order to continue helping our customers achieve their long-term financial goals.

For our shareholders, we generate value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain risks within a clearly defined risk appetite, where we believe doing so contributes to value creation and the Group is able to withstand the impact of an adverse outcome. For our retained risks, we ensure that we have the necessary capabilities, expertise, processes and controls to manage appropriately the exposure.

In my report, I seek to explain the main risks inherent in our business and how we manage these evolving risks, with the aim of ensuring we maintain an appropriate risk profile.

2. Risk governance, culture and our risk management cycle

Prudential defines 'risk' as the uncertainty that we face in successfully implementing our strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Group. As such, material risks will be retained selectively where we think there is value to do so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking.

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

a. Risk governance

Our risk governance comprises the organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that the Group head office and the business units establish to make decisions and control their activities on risk-related matters. This encompasses individuals, Group-wide functions and committees involved in the management of risk.

i. Risk committees and governance structure

Our Risk governance structure is led by the Group's Risk Committee, supported by independent non-executives on risk committees of major subsidiaries. These committees monitor the development of the risk management framework, the Group's risk appetites, limits, and policies, as well as its risk culture. We have in place a comprehensive risk management cycle to identify, measure, manage and monitor our risk exposures.

In addition to the risk committees mentioned, there are various executive risk forums to ensure risk issues are shared and considered across the Group. These are led by the Group Executive Risk Committee which is supported by a number of specific committees including in relation to security and information security where specialist skills are required.

ii. Risk Management Framework

The Group's Risk Management Framework has been developed to monitor and manage the risk of the business at all levels and is owned by the Board. The aggregate Group exposure to the key risk drivers is monitored and managed by the Group Risk function whose responsibility it is to review, assess and report on the Group's risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

The Framework requires that all our businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group - the 'Risk Management Cycle' (see below) and is based on the concept of the 'three lines of defence', comprising risk taking and management, risk control and oversight, and independent assurance. A major part of the Risk Management Cycle is the annual assessment of the Group's risks which are considered key. These key risks range from risks associated with the economic, market, political and regulatory environment; those that we assume when writing our insurance products and by virtue of the investments we hold; and those that are inherent in our business model and its operation. This is used to inform risk reporting to the risk committees and the Board for the year.

iii. Risk appetite, limits and triggers

The extent to which we are willing to take risk in the pursuit of our objective to create shareholder value is defined by a number of risk appetite statements, operationalised through measures such as limits, triggers and indicators. The Group risk appetite is approved by the Board and is set with reference to economic and regulatory capital, liquidity and earnings volatility. The Group risk appetite is aimed at ensuring that we take an appropriate level of aggregate risk and covers all risks to shareholders, including those from participating and third party business. We have no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement and monitor appropriate controls to manage operational risks. Group limits operate within the risk appetite to constrain the material risks, while triggers and indicators provide further constraint and ensure escalation. The Group Chief Risk Officer determines the action to be taken upon any breaches.

The Group Risk function is responsible for reviewing the scope and operation of these measures at least annually, to determine that they remain relevant. The Board approves all changes made to the Group's Risk Appetite Framework. We define and monitor aggregate risk limits based on financial and non-financial stresses for our earnings volatility, liquidity and capital requirements.

Earnings volatility:
The objectives of the aggregate risk limits seek to ensure that:
- The volatility of earnings is consistent with the expectations of stakeholders;
- The Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks; and
- Earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies.

The two measures used to monitor the volatility of earnings are IFRS operating profit and EEV operating profit, although IFRS and EEV total profits are also considered.

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

Capital requirements:
The limits aim to ensure that:
- The Group meets its internal economic capital requirements;
- The Group achieves its desired target rating to meet its business objectives; and
- Supervisory intervention is avoided.

The two measures used at the Group level are Solvency II capital requirements and internal economic capital requirements. In addition, capital requirements are monitored on local statutory bases.

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

iv. Risk policies

These set out the specific requirements which cover the fundamental principles for risk management within the Group Risk Framework. Policies are designed to give some flexibility so that business users can determine how best to comply with policies based on their local expertise.

There are core risk policies for credit, market, insurance, liquidity and operational risks and a number of internal control policies covering internal model risk, underwriting, dealing controls and tax risk management. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we maintain in line with the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units must confirm that they have implemented the necessary controls to evidence compliance with the Group Governance Manual on an annual basis.

v. Risk standards

The Group-wide Operating Standards provide supporting detail to the higher level risk policies. In many cases they define the minimum requirements for compliance with Solvency II regulations which in some areas are highly prescriptive. The standards are more detailed than policies.

b. Our risk culture

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

An evaluation of risk culture is part of the Risk Management Framework and in particular seeks to identify evidence that:
- Senior management in business units articulate the need for good risk management as a way to realise long-term value and continuously support this through their actions.
- Employees understand and care about their role in managing risk - they are aware of and openly discuss risk as part of the way they perform their role; and
- Employees invite open discussion on the approach to the management of risk.

Key aspects of risk culture are also communicated through the Code of Conduct and the policies in the Group Governance Manual, including the commitments to the fair treatment of our customers and staff. The approach to the management of risk is also a key part of the evaluation of the remuneration of executives. Risk culture is an evolving topic across the financial services industry and we will be continuing work to evaluate and embed a strong risk culture through 2017.

c. The risk management cycle

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

i. Risk identification

Group-wide risk identification takes place throughout the year, and includes processes such as our Own Risk and Solvency

Assessment (ORSA) and the horizon-scanning performed as part of our emerging risk management process.

On an annual basis, a top-down identification of the Group's key risks is performed which considers those risks that have the greatest potential to impact the Group's operating results and financial condition. A bottom-up process of risk identification is performed by the business units who identify, assess and document risks, with appropriate coordination and challenge from the risk functions.

The Group ORSA report pulls together the analysis performed by a number of risk and capital management processes, which are embedded across the Group, and provides quantitative and qualitative assessments of the Group's risk profile, risk management and solvency needs on a forward-looking basis. The scope of the report covers the full known risk universe of the Group.

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

Reverse stress testing, which requires us to work backwards from an assumed point of business model failure, is another tool that helps us to identify the key risks and scenarios that may materially impact the Group.

Our emerging risk management process identifies potentially material risks which have a high degree of uncertainty around timing, magnitude and propensity to evolve. The Group holds emerging risk sessions over the year to identify emerging risks which includes input from local subject matter and industry experts. We maintain contacts with thought leaders and peers to benchmark and refine our process.

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

ii. Risk measurement and assessment

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

iii. Risk management and control

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

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

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

The methods and risk management tools we employ to mitigate each of our major categories of risks are detailed in section 4 below.

iv. Risk monitoring and reporting

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

3. Summary risks

The table below is a summary of the key risks facing the Group, which can be grouped into those which apply to us because of the global environment in which we operate, and those which arise as a result of the business that we operate – including risks arising from our investments, the nature of our products and from our business operations.

'Macro'- risks

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

- **Global economic conditions.** Changes in global economic conditions can impact us directly; for example by leading to poor returns on our investments and increasing the cost of promises we have made to our customers. They can also have an indirect impact; for example economic pressures could lead to decreased savings, reducing the propensity for people to buy our products. Global economic conditions may also impact on regulatory risk for the Group by changing prevailing political attitudes towards regulation.

- **Geopolitical risk.** The geopolitical environment is increasingly uncertain with political upheaval in the UK, the US and the Eurozone. Uncertainty in these regions, combined with conflict in the Middle East and increasing tensions in east Asia underline that geopolitical risks are truly global and their potential impacts are wide-ranging; for example through increased regulatory risk. The geopolitical and economic environments are increasingly closely linked, and changes in the political arena may have direct or indirect impacts on our Group.

- **Digital disruption.** The emergence of advance technologies such as artificial intelligence and block chain is providing an impetus for companies to rethink their existing operating models and how they interact with their customers. Prudential is embracing the opportunities presented by digitalisation and is closely monitoring any risks which arise.

Risks from our investments	Risks from our products	Risks from our business operations
Global economic conditions - see above - have a large impact on those risks from our investments. Our fund investment performance is a fundamental part of our business in providing appropriate returns for our customers and shareholders, and so is an important area of focus. **Credit risk** Is the potential for reduced value of our investments due to the uncertainty around investment returns arising from the potential for defaults of our investment counterparties. Invested credit risk arises from our asset portfolio. We increase sector focus where necessary. The assets backing the UK and Jackson's annuity business mean credit risk is a significant focus for the Group. **Market risk** Is the potential for reduced value of our investments resulting from the volatility of asset prices as driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices. In our Asia business, our main market risks arise from the value of fees from our fee-earning products. In the US, Jackson's fixed and variable annuity books are exposed to a variety of market risks due to the assets backing these policies. In the UK, exposure relates to the valuation of the proportion of the with-profits fund's future profits which is transferred to the shareholders (future transfers), which is dependent on equity,	**Insurance risks** The nature of the products offered by the Group exposes it to insurance risks, which are a significant part of our overall risk profile. The insurance risks that we are exposed to by virtue of our products include **longevity risk** (policyholders living longer than expected); **mortality risk** (policyholders with life protection dying); **morbidity risk** (policyholders with health protection becoming ill) and **persistency risk** (customers lapsing their policies). From our health protection products, increases in the costs of claims (including the level of medical expenses) increasing over and above price inflation (claim inflation) is another risk. The processes that determine the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. Where experience deviates from these assumptions our profitability may be impacted. Across our business units, persistency and morbidity risks are among the largest insurance risks for our Asia business given our strong focus on health protection products in the region. For the UK and Jackson, the most significant insurance risk is longevity risk driven by their annuity businesses.	**Operational risks** As a Group, we are dependent on the appropriate and secure processing of a large number of transactions by our people, IT infrastructure and outsourcing partners, which exposes us to operational risks and reputational risks. **Information security risk** is a significant consideration within operational risk, including both the risk of malicious attack on our systems as well as risks relating to data security and integrity and network disruption. The size of Prudential's IT infrastructure and network, our move toward digitisation and the increasing number of high profile cyber security incidents across industries means that this will continue to be an area of high focus. **Regulatory risk** We also operate under the ever-evolving requirements set out by diverse regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations; all of which add to the complexity of the operating model if not properly managed. The number of regulatory changes under way across Asia, in particular those focusing on consumer protection means that regulatory change in the region is also considered a key risk. Both Jackson and the UK operate in highly regulated markets. Regulatory reforms could materially impact our businesses, and regulatory focus continues to be high.

property and bond values.

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

Liquidity risk
Is the risk of not having sufficient liquid assets to meet our obligations as they fall due , and incorporates the risk arising from funds composed of illiquid assets. It results from a mismatch between the liquidity profile of assets and liabilities.

4. Further risk information

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

4.1 Risks from our investments

a. Market risk
The main drivers of market risk in the Group are:
- Investment risk (including equity and property risk);
- Interest rate risk; and
- Given the geographical diversity of our business, foreign exchange risk.

With respect to investment risk, equity and property risk arises from our holdings of equity and property investments, the prices of which can change depending on market conditions.

The valuation of our assets (particularly the bonds that we invest in) and liabilities are also dependent on market interest rates and exposes us to the risk of those moving in a way that is detrimental for us.

Given our global business, we earn our profits and hold assets in various currencies. The translation of those into our reporting currency exposes us to movements in foreign exchange rates.

Our main investment risk exposure arises from the portion of the profits from the UK with-profits fund to which we are entitled to receive; the value of the future fees from our fee-earning products in our Asia business; and from the asset returns backing Jackson's variable annuities business.

Our interest rate risk is driven in the UK by our need to match our assets and liabilities; from the guarantees of some non unit-linked investment products in Asia; and the cost of guarantees in Jackson's fixed, fixed index and variable annuity business.
The methods that we use to manage and mitigate our market risks include the following:
- Our market risk policy;
- Risk appetite statements, limits and triggers that we have in place;
- The monitoring and oversight of market risks through the regular reporting of management information;
- Our asset and liability management programmes;
- Use of derivative programmes, including, for example, interest rate swaps, options and hybrid options for interest rate risk;
- Regular deep dive assessments; and
- Use of currency hedging.

<u>Investment risk</u>
In the UK business, our main investment risk arises from the assets held in the with-profits funds. Although this is mainly held by our policyholders, a proportion of the fund's profit (one tenth) is transferred to us and so our investment exposure relates to the future valuation of that proportion (future transfers). This investment risk is driven mainly by equities in the fund, although there is some risk associated with other investments such as property and bonds. Some hedging to protect from a reduction in the value of these future transfers against falls in equity prices is performed outside the fund using derivatives. The with-profits funds large Solvency II own funds – estimated at £8.4 billion as at 31 December 2016 (31 December 2015: £7.6 billion) – helps to protect against market fluctuations and helps the fund to maintain appropriate solvency levels. The with-profits funds Solvency II own funds are partially protected against falls in equity markets through an active hedging programme within the fund.

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

In Jackson, investment risk arises from the assets backing customer policies. In the case of spread-based business, including fixed annuities, these assets are generally bonds, and shareholder exposure comes from the minimum returns needed to meet the guaranteed rates that we offer to policyholders. For our variable annuity business, these assets include both equities and bonds. In this case, the main risk to the shareholder comes from the guaranteed benefits that can be included as part of these products. Our exposure to this kind of situation is reduced by using a derivative hedging programme, as well as through the use of reinsurance to pass on the risk to third party reinsurers.

Interest rate risk

While long-term interest rates in advanced economies have broadly increased since mid-2016, they remain close to historical lows. Some products that we offer are sensitive to movements in interest rates. We have already taken a number of actions to reduce the risk to the in-force business, as well as re-pricing and restructuring new business offerings in response to these historically low interest rates. Nevertheless, we still retain some sensitivity to interest rate movements.

Interest rate risk arises in our UK business from the need to match cash payments to meet annuity obligations with the cash we receive from our investments. To minimise the impact on our profit, we aim to match the duration (a measure of interest rate sensitivity) of assets and liabilities as closely as possible and the position is monitored regularly. Under the Solvency II regulatory regime, additional interest rate risk results from the way the balance sheet is constructed, such as the requirement for us to include a risk margin. The UK business continually assesses the need for any derivatives in managing its interest rate sensitivity. The with-profits business is exposed to interest rate risk because of underlying guarantees in some of its products. Such risk is largely borne by the with-profits fund itself but shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk.

In Asia, our exposure to interest rate risk arises from the guarantees of some non unit-linked investment products. This exposure exists because it may not be possible to hold assets which will provide cash payments to us which match exactly those payments we in turn need to make to policyholders – this is known as an asset and liability mismatch and although it is small and appropriately managed, it cannot be eliminated.

Jackson is exposed to interest rate risk in its fixed, fixed index and variable annuity books. Movements in interest rates can impact on the cost of guarantees in these products, in particular the cost of guarantees may increase when interest rates fall. We actively monitor the level of sales of variable annuity products with guaranteed living benefits, and together with the risk limits we have in place this helps us to ensure that we are comfortable with the interest rate and market risks we incur as a result. The Jackson hedging programme in place includes hybrid derivatives to protect us from a combined fall in interest rates and equity markets since Jackson is exposed to the combination of these market movements.

Foreign exchange risk

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

We retain revenues locally to support the growth of our business and capital is held in the local currency of the business to meet local regulatory and market requirements. We accept the foreign exchange risk this can produce when reporting our Group balance sheet and income statement. In cases where a surplus arises in an overseas operation which is to be used to support Group capital, or where a significant cash payment is due from an overseas subsidiary to the Group, this foreign exchange exposure is hedged where we believe it is economically favourable to do so. Generally, we do not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside local territories, but we do have some controlled appetite for this on fee income and on non-sterling investments within the with-profits fund. Where foreign exchange risk arises outside our appetite, currency borrowings, swaps and other derivatives are used to manage our exposure.

b. Credit risk

We invest in bonds that provide a regular, fixed amount of interest income (fixed income assets) in order to match the payments we need to make to policyholders. We also enter into reinsurance and derivative contracts with third parties to mitigate various types of risk, as well as holding cash deposits at certain banks. As a result, we are exposed to credit risk and counterparty risk across our business.

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

We use a number of risk management tools to manage and mitigate this credit risk, including the following:

- Our credit risk policy;
- Risk appetite statements and limits that we have defined on issuers, counterparties and the average credit quality of the portfolio;
- Collateral arrangements we have in place for derivative transactions;
- The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews. During 2016, it has conducted sector reviews in the banking (UK and Asia) and energy sectors;
- Regular deep dive assessments; and
- Close monitoring or restrictions on investments that may be of concern.

Debt and loan portfolio

Our UK business is mainly exposed to credit risk on fixed income assets in the shareholder-backed portfolio. At 31 December 2016, this portfolio contained fixed income assets worth £35.6 billion. Credit risk arising from a further £55.2 billion of fixed income assets is largely borne by the with-profits fund, to which the shareholder is not directly exposed although under extreme circumstances shareholder support may be required if the fund is unable to meet payments as they fall due.

The value of our debt portfolio in our Asia business was £36.5 billion at 31 December 2016. The majority (69 per cent) of the portfolio is in unit-linked and with-profits funds and so exposure of the shareholder to this component is minimal. The remaining 31 per cent of the debt portfolio is held to back the shareholder business.

Credit risk also arises in the general account of the Jackson business, where £40.7 billion of fixed income assets are held to support shareholder liabilities including those from our fixed annuities, fixed index annuities and life insurance products.

The shareholder-owned debt and loan portfolio of the Group's asset management business of £2.4 billion as at 31 December 2016 mostly belongs to our Prudential Capital (PruCap) operations.

Certain sectors have been under pressure during 2016, including the European banking sector. Most of the focus on the latter was around UK banks due to Brexit concerns, Italian banks and certain banks at risk of fines for the mis-selling of mortgage securities leading up to the 2008 financial crisis. We subject these sectors to ongoing monitoring and regular management information reporting to the Group's risk committees. Certain sectors are also subject to our watch list and early warning indicator monitoring processes.

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

<u>Group sovereign debt</u>
We also invest in bonds issued by national governments, that are traditionally seen as safer investments. This sovereign debt represented 19 per cent or £17.1 billion of the shareholder debt portfolio as at 31 December 2016 (31 December 2015: 17 per cent or £12.8 billion). 4 per cent of this was rated AAA and 92 per cent was considered investment grade (31 December 2015: 94 per cent investment grade). At 31 December 2016, the Group's shareholder holding in Eurozone sovereign debt[1] was £767 million. 75 per cent of this was rated AAA (31 December 2015: 75 per cent rated AAA). We do not have any sovereign debt investments in Greece.

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

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2016 are given in Note C3.2(f) of the Group's IFRS financial statements.

<u>Bank debt exposure and counterparty credit risk</u>
Our exposure to banks is a key part of our core investment business, as well as being important for the hedging and other activities we undertake to manage our various financial risks. Given the importance of our relationship with our banks, exposure to the sector is a considered a key risk for the Group with an appropriate level of management information provided to the Group's risk committees and the Board.

The exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 31 December 2016 are given in Note C3.2(f) of the Group's IFRS financial statements.

Our exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits.

Where appropriate, we reduce our exposure, buy credit protection or use additional collateral arrangements to manage our levels of counterparty credit risk.

At December 2016, shareholder exposures by rating and sector are shown below:
- 96 per cent of the shareholder portfolio is investment grade rated. In particular, 68 per cent of the portfolio is rated A- and above; and
- The Group's shareholder portfolio is well diversified: no individual sector makes up more than 10 per cent of the total portfolio (excluding the financial and sovereign sectors).

c. Liquidity risk
Our liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due. This incorporates the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may arise, for example, where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption requests are made against Prudential issued illiquid funds.

We have significant internal sources of liquidity, which are sufficient to meet all of our expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. In total, the Group has £2.6 billion of undrawn committed facilities that we can make use of, expiring in 2020. We have access to further liquidity by way of the debt capital markets, and also have in place an unlimited commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade.

Liquidity uses and sources are assessed at a Group and business unit level under both base case and stressed assumptions. We calculate a Liquidity Coverage Ratio (LCR) under stress scenarios as one measure of our liquidity risk, and this ratio and the liquidity resources available to us are regularly monitored and are assessed to be sufficient.

Our risk management and mitigation of liquidity risk include:
- Our liquidity risk policy;
- The risk appetite statements, limits and triggers that we have in place;

- The monitoring of liquidity risk we perform through regular management information to committees and the Board;
- Our Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of our liquidity risks and the adequacy of our available liquidity resources under normal and stressed conditions;
- Regular stress testing;
- Our established contingency plans and identified sources of liquidity;
- Our ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The access we enjoy to external sources of finance through committed credit facilities.

4.2 Risks from our products

a. Insurance risk

Insurance risk makes up a significant proportion of our overall risk exposure. The profitability of our businesses depends on a mix of factors including levels of, and trends in, mortality (policyholders dying), morbidity (policyholders becoming ill) and persistency (customers lapsing their policies), and increases in the costs of claims, including the level of medical expenses increases over and above price inflation (claim inflation).

The key drivers of the Group's insurance risks are persistency and morbidity risk in the Asia business; and longevity risk in the Jackson and Prudential UK & Europe businesses.

We manage and mitigate our insurance risk using the following:
- Our insurance and underwriting risk policies;
- The risk appetite statements, limits and triggers we have in place;
- Using longevity, morbidity and persistency assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- We use reinsurance to mitigate longevity and morbidity risks;
- Morbidity risk is also mitigated by appropriate underwriting when policies are issued and claims are received;
- Persistency risk is mitigated through the quality of sales processes and with initiatives to increase customer retention;
- Medical expense inflation risk mitigated through product re-pricing; and
- Regular deep dive assessments.

Longevity risk is an important element of our insurance risks for which we need to hold a large amount of capital under Solvency II regulations. Longevity reinsurance is a key tool for us in managing our risk. The enhanced pensions freedoms introduced in the UK during 2015 greatly reduced the demand for retail annuities and further liberalisation is anticipated. Although we have scaled down our participation in the annuity market by reducing new business acquisition, given our significant annuity portfolio the assumptions we make about future rates of improvement in mortality rates remain key to the measurement of our insurance liabilities and to our assessment of any reinsurance transactions.

We continue to conduct research into longevity risk using both experience from our annuity portfolio and industry data. Although the general consensus in recent years is that people are living longer, there is considerable volatility in year-on-year longevity experience, which is why we need expert judgement in setting our longevity basis.

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

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

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

4.3 Risks from our business operations

a. Operational risk

Operational risk is the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel and systems, or from external events. This includes employee error, model error, system failures, fraud or some other event which disrupts business processes.

We manage and mitigate our operational risk using the following:
- Operational risk and outsourcing and third-party supply policies;
- Corporate insurance programmes to limit the impact of operational risks;
- Scenario analysis for operational risk capital requirements, which focus on extreme, yet plausible, events;
- Internal and external review of cyber security capability; and
- Regular testing of elements of the disaster-recovery plan.

An important element of operational risk relates to compliance with changing regulatory requirements. The high rate of global regulatory change, in an already complex regulatory landscape, increases the risk of non-compliance due to a failure to identify, correctly interpret, implement and/or monitor regulations. Legislative developments over recent years, together with enhanced regulatory oversight and increased capability to issue sanctions, have resulted in a complex regulatory environment that may lead to breaches of varying magnitude if the Group's business-as-usual operations are not compliant. As well as prudential regulation, we focus on conduct regulation, including regulations related to anti-money laundering, bribery and corruption, and sales practices. We have a particular focus on these regulations in newer/emerging markets.

The performance of core activities places reliance on the IT infrastructure that supports day-to-day transaction processing. Our IT environment must also be secure and we must address an increasing cyber risk threat as our digital footprint increases – see separate Cyber risk section below. The risk that our IT infrastructure does not meet these requirements is a key area of focus, particularly the risk that legacy IT infrastructure supporting core activities/processes affects business continuity or impacts on business growth.

As well as the above, other key areas of focus within operational risk include:

- The risk of a significant failure of a third-party outsourcing partner impacting critical services;
- The risk of trading or transaction errors having a material cost across Group;
- The risk that errors within models and user-developed applications used by the Group result in incorrect or inappropriate transactions being instructed;
- Departure of key persons or teams resulting in disruption to current and planned business activities;
- The risk that key people, processes and systems are unable to operate (thus impacting on the on-going operation of the business) due to a significant unexpected external event; for example pandemic, terrorist attack, natural disaster or political unrest;
- The risk that a significant project fails or partially fails to meet its objectives, leading to financial loss; and
- The risk of inadequate or inappropriate controls, governance structures or communication channels in place to support the desired culture and ensure that the business is managed in line with the core business values, within the established risk appetite and in alignment with external stakeholder expectations.

b. Global regulatory and political risk

Our risk management and mitigation of regulatory and political risk includes the following:

- A Risk and Capital Plan that includes considerations of current strategies;
- Close monitoring and assessment of our business environment and strategic risks;
- Board strategy sessions that consider risk themes;
- A Systemic Risk Management Plan that details the Group's strategy and Risk Management Framework; and
- A Recovery Plan covering corporate and risk governance for managing risks in a distressed environment, a range of recovery options, and scenarios to assess the effectiveness of these recovery options

In June 2016, the UK voted to leave the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to major trading markets, including the single EU market, is currently highly uncertain.

The ongoing uncertainty and likelihood of a lengthy negotiation period may increase volatility in the markets where we operate, creating the potential for a general downturn in economic activity and for further or prolonged falls in interest rates in some jurisdictions due to easing of monetary policy and investor sentiment. We have several UK-domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. However, our diversification by geography, currency, product and distribution should reduce some of the potential impact. Contingency plans were developed ahead of the referendum by business units and operations that may be immediately impacted by a vote to withdraw the UK from the EU, and these plans have been enacted since the referendum result.

The EU's Solvency II Directive came into effect on 1 January 2016; however, the UK's vote to leave the EU has the potential to result in changes to future applicability of the regime in the UK. In September 2016, following the Brexit vote, the UK Treasury published terms of reference of its consultation into Solvency II to consider the options for British insurers and to assess the impact of the regime on the competitiveness of the UK insurance industry, the needs of UK consumers and the wider UK business economy. The outcome is likely to be dependent on the overall Brexit agreement reached between the UK and EU. Separately, the European Commission has commenced a review of some elements of the application of the Solvency II legislation with a particular focus on the Solvency Capital Requirement calculated using the standard formula.

National and regional efforts to curb systemic risk and promote financial stability are also underway in certain jurisdictions in which Prudential operates, including the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US, and other European Union legislation related to the financial services industry.

There are a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way Prudential is supervised. These include addressing Financial Conduct Authority (FCA) reviews, ongoing engagement with the Prudential Regulation Authority (PRA), and the work of the Financial Stability Board (FSB) and standard-setting institutions such as the International Association of Insurance Supervisors (IAIS). Decisions taken by regulators, including those related to solvency requirements and capital allocation may have an impact on our business.

The IAIS's Global Systematically Important Insurers (G-SII) regime form additional compliance considerations for us. Groups designated as G-SIIs are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential's designation as a G-SII was reaffirmed by the IAIS in November 2016, based on the updated methodology published in June 2016. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII. We continue to engage with the IAIS on developments in capital requirements for groups with G-SII designation.

The IAIS is also developing a Common Framework (ComFrame) which is focused on the supervision of Internationally Active Insurance Groups. ComFrame will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. As part of this, work is underway to develop a global Insurance Capital Standard that is intended to apply to Internationally Active Insurance Groups. Once the development of the Insurance Capital Standard (ICS) has been concluded, it is intended to replace the Basic Capital Requirement as the minimum group capital requirement for G-SIIs.

A consultation on the ICS was concluded in 2016 and the IAIS intends to publish an interim version of ICS in 2017. Further field testing, consultations and private reporting to group-wide supervisors on the interim version of the ICS are expected over the coming years. It is currently planned to be adopted as part of ComFrame by the IAIS in late 2019.

The IAIS's Insurance Core Principles, which provide a globally-accepted framework for the supervision of the insurance sector and ComFrame evolution, are expected to create continued development in both prudential and conduct regulations over the next two to three years.

In the US, the Department of Labor proposal in April 2016 to introduce new fiduciary obligations for distributors of investment products to holders of regulated accounts, which could dramatically reshape the distribution of retirement products. Jackson's strong relationships with distributors, history of product innovation and efficient operations should help mitigate any impacts.

The US National Association of Insurance Commissioners (NAIC) is currently conducting an industry consultation with the aim of reducing the complexity in the variable annuity statutory balance sheet and risk management. Following an industry quantitative impact study, changes have been proposed to the current framework; however, these are considered to be at an early stage of development. Jackson continues to be engaged in the consultation and testing process. The proposal is currently planned to be effective from 2018.

With the new US administration having taken office in January 2017, the potential uncertainty as to the timetable and status of these key US reforms has increased given preliminary indications from Washington. Our preparations to manage the impact of these reforms will continue until further clarification is provided.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New requirements could be introduced in these and other regulatory regimes that challenge legal structures, current sales practices.

c. Cyber risk

Cyber risk is an area of increased scrutiny for global regulators after a number of recent high profile attacks and data losses. The growing maturity and industrialisation of cyber-criminal capability, together with an increasing level of understanding of complex financial transactions by criminal groups, are two reasons why risks to the financial services industry are increasing.

Given this, cyber security is seen as a key risk for the Group. Our current threat assessment is that, while we are not individually viewed as a compelling target for a direct cyber-attack, we are at risk of suffering attacks as a member of the global financial services industry, with potentially significant impact on business continuity, our customer relationship and our brand reputation.

The Board receives periodic updates on cyber risk management throughout the year. The current Group-wide Cyber Risk Management Strategy and the associated Group-wide Coordinated Cyber Defence Plan were approved by the Board in 2016.

The Cyber Risk Management Strategy includes three core objectives: to develop a comprehensive situational awareness of our business in cyberspace, to pro-actively engage cyber attackers to minimise harm to our business and to enable the business to grow confidently and safely in cyberspace.

The Cyber Defence Plan consists of a number of work-streams, including developing our ability to deal with incidents; alignment with our digital transformation strategy; and increasing cyber oversight and assurance to the Board.

Protecting our customers remains core to our business, and the successful delivery of the Cyber Defence Plan will reinforce our capabilities to continue doing so in cyberspace as we transition to a digital business.

Group functions work with each of the business units to address cyber risks locally within the national and regional context of each business, following the strategic direction laid out in the Cyber Risk Management Strategy and managed through the execution of the Cyber Defence Plan.

The Group Information Security Committee, which consists of senior executives from each of the businesses and meets on a regular basis, governs the execution of the Cyber Defence Plan and reports on delivery and cyber risks to the Group Executive Risk Committee. Both committees also receive regular operational management information on the performance of controls.

[1] Excludes Group's proportionate share in joint ventures and unit-linked assets and holdings of consolidated unit trust and similar funds.

Corporate governance

The Board confirms that it has complied with all relevant provisions set out in the Hong Kong Code on Corporate Governance Practices (the HK Code) throughout the accounting period. With respect to Code Provision B.1.2(d) of the HK Code, the responsibilities of the Remuneration Committee do not include making recommendations to the Board on the remuneration of non-executive directors. In line with the principles of the UK Code, fees for Non-executive Directors are determined by the Board.

The directors also confirm that the financial results contained in this document have been reviewed by the Group Audit Committee.

The company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by the Hong Kong Listing Rules and that the directors of the Company have complied with this code of conduct throughout the year.

IFRS Disclosure and Additional Unaudited Financial Information
Prudential plc 2016 results
International Financial Reporting Standards (IFRS) basis results

Notes

Additional unaudited IFRS financial information

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	2016 £m	2015 £m
Gross premiums earned		**38,981**	36,663
Outward reinsurance premiums		**(2,020)**	(1,157)
Earned premiums, net of reinsurance		**36,961**	35,506
Investment return		**32,511**	3,304
Other income		**2,370**	2,495
Total revenue, net of reinsurance		**71,842**	41,305
Benefits and claims		**(60,948)**	(30,547)
Outward reinsurers' share of benefit and claims		**2,412**	1,389
Movement in unallocated surplus of with-profits funds		**(830)**	(498)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(59,366)**	(29,656)
Acquisition costs and other expenditure	B3	**(8,848)**	(8,208)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(360)**	(312)
Remeasurement of carrying value of Korea life business classified as held for sale		**(238)**	-
Disposal of Japan life business – cumulative exchange loss recycled from other comprehensive income		**-**	(46)
Total charges, net of reinsurance		**(68,812)**	(38,222)
Share of profits from joint ventures and associates, net of related tax		**182**	238
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**		**3,212**	3,321
Less tax charge attributable to policyholders' returns		**(937)**	(173)
Profit before tax attributable to shareholders	B1.1	**2,275**	3,148
Total tax charge attributable to policyholders and shareholders	B5	**(1,291)**	(742)
Adjustment to remove tax charge attributable to policyholders' returns		**937**	173
Tax charge attributable to shareholders' returns	B5	**(354)**	(569)
Profit for the year attributable to equity holders of the Company		**1,921**	2,579

Earnings per share (in pence)		2016	2015
Based on profit attributable to the equity holders of the Company:	B6		
Basic		**75.0p**	101.0p
Diluted		**75.0p**	100.9p

Dividends per share (in pence)		2016	2015
Dividends relating to reporting year:	B7		
First interim ordinary dividend		**12.93p**	12.31p
Second interim ordinary dividend		**30.57p**	26.47p
Special dividend		**-**	10.00p
Total		**43.50p**	48.78p
Dividends paid in reporting year:	B7		
Current year first interim ordinary dividend		**12.93p**	12.31p
Second interim ordinary dividend/final ordinary dividend for prior year		**26.47p**	25.74p
Special dividend		**10.00p**	-
Total		**49.40p**	38.05p

* 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	2016 £m	2015 £m
Profit for the year		**1,921**	2,579
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		**1,148**	68
Cumulative exchange loss of sold Japan life business recycled through profit or loss		**-**	46
Related tax		**13**	4
		1,161	118
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding gains (losses) arising during the year		**241**	(1,256)
Deduct net gains included in the income statement on disposal and impairment		**(269)**	(49)
Total	C3.2(c)	**(28)**	(1,305)
Related change in amortisation of deferred acquisition costs	C5 (b)	**76**	337
Related tax		**(17)**	339
		31	(629)
Total		**1,192**	(511)
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Gross		**(107)**	27
Related tax		**14**	(5)
		(93)	22
Other comprehensive income (loss) for the year, net of related tax		**1,099**	(489)
Total comprehensive income for the year attributable to the equity holders of the Company		**3,020**	2,090

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital note C10	Share premium note C10	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
		Year ended 31 December 2016 £m							
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 tax		**-**	**-**	**-**	**1,161**	**-**	**1,161**	**-**	**1,161**
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	B7	**-**	**-**	**(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 CHANGES IN EQUITY

		Year ended 31 December 2015 £m							
	Note	**Share capital** note C10	**Share premium** note C10	**Retained earnings**	**Translation reserve**	**Available -for-sale securities reserves**	**Shareholders' equity**	**Non-controlling interests**	**Total equity**
Reserves									
Profit for the year		-	-	2,579	-	-	2,579	-	2,579
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	118	-	118	-	118
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	(629)	(629)	-	(629)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax		-	-	22	-	-	22	-	22
Total other comprehensive income (loss)		-	-	22	118	(629)	(489)	-	(489)
Total comprehensive income for the year		-	-	2,601	118	(629)	2,090	-	2,090
Dividends	B7	-	-	(974)	-	-	(974)	-	(974)
Reserve movements in respect of share-based payments		-	-	39	-	-	39	-	39
Share capital and share premium									
New share capital subscribed	C10	-	7	-	-	-	7	-	7
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(38)	-	-	(38)	-	(38)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	20	-	-	20	-	20
Net increase in equity		-	7	1,648	118	(629)	1,144	-	1,144
At beginning of year		128	1,908	8,788	31	956	11,811	1	11,812
At end of year		128	1,915	10,436	149	327	12,955	1	12,956

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2016 £m	2015 £m
Assets			
Goodwill	C5(a)	**1,628**	1,648
Deferred acquisition costs and other intangible assets	C5(b)	**10,807**	8,472
Property, plant and equipment		**743**	1,197
Reinsurers' share of insurance contract liabilities		**10,051**	7,903
Deferred tax assets	C8	**4,315**	2,819
Current tax recoverable		**440**	477
Accrued investment income		**3,153**	2,751
Other debtors		**3,019**	1,955
Investment properties		**14,646**	13,422
Investment in joint ventures and associates accounted for using the equity method		**1,273**	1,034
Loans	C3.3	**15,173**	12,958
Equity securities and portfolio holdings in unit trusts		**198,552**	157,453
Debt securities	C3.2	**170,458**	147,671
Derivative assets		**3,936**	2,958
Other investments		**5,465**	4,395
Deposits		**12,185**	12,088
Assets held for sale	D1	**4,589**	2
Cash and cash equivalents		**10,065**	7,782
Total assets	C1	**470,498**	386,985
Equity			
Shareholders' equity		**14,666**	12,955
Non-controlling interests		**1**	1
Total equity		**14,667**	12,956
Liabilities			
Insurance contract liabilities	C4.1	**316,436**	260,753
Investment contract liabilities with discretionary participation features	C4.1	**52,837**	42,959
Investment contract liabilities without discretionary participation features	C4.1	**19,723**	18,806
Unallocated surplus of with-profits funds	C4.1	**14,317**	13,096
Core structural borrowings of shareholder-financed operations	C6.1	**6,798**	5,011
Operational borrowings attributable to shareholder-financed operations	C6.2	**2,317**	1,960
Borrowings attributable to with-profits operations	C6.2	**1,349**	1,332
Obligations under funding, securities lending and sale and repurchase agreements		**5,031**	3,765
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**8,687**	7,873
Deferred tax liabilities	C8	**5,370**	4,010
Current tax liabilities		**649**	325
Accruals, deferred income and other liabilities		**13,825**	10,416
Provisions		**947**	604
Derivative liabilities		**3,252**	3,119
Liabilities held for sale	D1	**4,293**	-
Total liabilities	C1	**455,831**	374,029
Total equity and liabilities		**470,498**	386,985

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,545 million (2015: £5,995 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	2016 £m	2015 £m
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*[note (i)]		**3,212**	3,321
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		**(37,824)**	(6,814)
Other non-investment and non-cash assets		**(2,490)**	(1,063)
Policyholder liabilities (including unallocated surplus)		**31,135**	6,067
Other liabilities (including operational borrowings)		**7,861**	1,761
Interest income and expense and dividend income included in result before tax		**(9,749)**	(8,726)
Other non-cash items[note (ii)]		**834**	234
Operating cash items:			
Interest receipts		**7,886**	7,316
Dividend receipts		**2,286**	1,777
Tax paid[note (v)]		**(950)**	(1,340)
Net cash flows from operating activities		**2,201**	2,533
Cash flows from investing activities			
Purchases of property, plant and equipment		**(348)**	(256)
Proceeds from disposal of property, plant and equipment		**102**	30
Acquisition of subsidiaries and intangibles		**(303)**	(286)
Sale of businesses		**-**	43
Net cash flows from investing activities		**(549)**	(469)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations:[note (iii)]	C6.1		
Issue of subordinated debt, net of costs		**1,227**	590
Interest paid		**(335)**	(288)
With-profits operations:[note (iv)]	C6.2		
Interest paid		**(9)**	(9)
Equity capital:			
Issues of ordinary share capital		**13**	7
Dividends paid		**(1,267)**	(974)
Net cash flows from financing activities		**(371)**	(674)
Net increase in cash and cash equivalents		**1,281**	1,390
Cash and cash equivalents at beginning of year		**7,782**	6,409
Effect of exchange rate changes on cash and cash equivalents		**1,002**	(17)
Cash and cash equivalents at end of year		**10,065**	7,782

Notes

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

(ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax.

(iii) 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.

(iv) 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. 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.

(v) Tax paid includes £226 million (2015: £229 million) paid on profits taxable at policyholder rather than shareholder rates.

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 2016, there were no unendorsed standards effective for the two years ended 31 December 2016 affecting 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 2015 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 2016	**Average rate for 2016**	**Closing rate at 31 Dec 2015**	**Average rate for 2015**
Local currency: £				
Hong Kong	**9.58**	**10.52**	11.42	11.85
Indonesia	**16,647.30**	**18,026.11**	20,317.71	20,476.93
Malaysia	**5.54**	**5.61**	6.33	5.97
Singapore	**1.79**	**1.87**	2.09	2.1
China	**8.59**	**8.99**	9.57	9.61
India	**83.86**	**91.02**	97.51	98.08
Vietnam	**28,136.99**	**30,292.79**	33,140.64	33,509.21
Thailand	**44.25**	**47.80**	53.04	52.38
US	**1.24**	**1.35**	1.47	1.53

Certain notes to the financial statements present 2015 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 2016 or 2015 but is derived from those accounts. The auditors have reported on the 2016 statutory accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 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 Adoption of new accounting pronouncements in 2016

The Group has adopted the following new accounting pronouncements which were effective in 2016:

- Annual improvements to IFRSs 2012-2014 cycle;
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38); and
- Disclosure Initiative (Amendments to IAS 1).

The adoption of these pronouncements has had no impact on these financial statements.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

	Note	2016 £m	2015* £m		%	
			AER note (vi)	CER note (vi)	2016 vs 2015 AER note (vi)	2016 vs 2015 CER note (vi)
Asia operations						
Asia insurance operations*	B4(a)	**1,503**	1,171	1,303	28%	15%
Eastspring Investments		**141**	115	128	23%	10%
Total Asia operations		**1,644**	1,286	1,431	28%	15%
US operations						
Jackson (US insurance operations)		**2,052**	1,691	1,908	21%	8%
Broker-dealer and asset management		**(4)**	11	13	(136)%	(131)%
Total US operations		**2,048**	1,702	1,921	20%	7%
UK operations						
UK insurance operations:	B4(b)					
Long-term business		**799**	1,167	1,167	(32)%	(32)%
General insurance commission[note (i)]		**29**	28	28	4%	4%
Total UK insurance operations		**828**	1,195	1,195	(31)%	(31)%
M&G	B2	**425**	442	442	(4)%	(4)%
Prudential Capital		**27**	19	19	42%	42%
Total UK operations		**1,280**	1,656	1,656	(23)%	(23)%
Total segment profit		**4,972**	4,644	5,008	7%	(1)%
Other income and expenditure						
Investment return and other income		**1**	14	14	(93)%	(93)%
Interest payable on core structural borrowings		**(360)**	(312)	(312)	(15)%	(15)%
Corporate expenditure[note (ii)]		**(334)**	(319)	(319)	(5)%	(5)%
Total		**(693)**	(617)	(617)	(12)%	(12)%
Solvency II implementation costs		**(28)**	(43)	(43)	35%	35%
Restructuring costs [note (iii)]		**(38)**	(15)	(15)	(153)%	(153)%
Interest received from tax settlement		**43**	-	-	n/a	n/a
Operating profit based on longer-term investment returns		**4,256**	3,969	4,333	7%	(2)%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(1,678)**	(755)	(827)	(122)%	(103)%
Amortisation of acquisition accounting adjustments[note (iv)]		**(76)**	(76)	(85)	0%	11%
(Loss) profit attaching to the held for sale Korea life business	D1	**(227)**	56	62	n/a	n/a
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income[note (v)]		**-**	(46)	(46)	n/a	n/a
Profit before tax attributable to shareholders		**2,275**	3,148	3,437	(28)%	(34)%
Tax charge attributable to shareholders' returns		**(354)**	(569)	(621)	38%	43%
Profit for the year attributable to shareholders		**1,921**	2,579	2,816	(26)%	(32)%

		2016	2015		%	
Basic earnings per share (in pence)	B6			CER note (vi)	2016 vs 2015 AER note (vi)	2016 vs 2015 CER note (vi)
Based on operating profit based on longer-term investment returns		**131.3p**	124.6p	136.0p	5%	(3)%
Based on profit for the year		**75.0p**	101.0p	110.1p	(26)%	(32)%

* To facilitate future comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit above.

Notes

(i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement, which terminated at the end of 2016.
(ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.
(iii) Restructuring costs are incurred in the UK and Asia and represent one-off business development expenses.
(iv) Amortisation of acquisition accounting adjustments principally relate to the acquired REALIC business of Jackson.
(v) On 5 February 2015, the Group completed the sale of its closed book life insurance business in Japan.
(vi) For definitions of AER and CER refer to note A1.

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

	2016 £m	2015* £m
Insurance operations:		
Asia[note (i)]	**(225)**	(137)
US[note (ii)]	**(1,455)**	(424)
UK[note (iii)]	**198**	(120)
Other operations[note (iv)]	**(196)**	(74)
Total	**(1,678)**	(755)

* To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the short-term fluctuations in investment returns attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit.

Notes

(i) *Asia insurance operations*
In Asia, the short-term fluctuations of negative £(225) million (2015: negative £(137) million) principally reflect the impact of changes in interest rates across the region on bonds and, equity market falls in China.

(ii) *US insurance 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 £565 million as shown in note C5(b) (2015: £93 million) and comprise amounts in respect of the following items:

	2016 £m	2015 £m
Net equity hedge result[note (a)]	**(1,587)**	(504)
Other than equity-related derivatives[note (b)]	**(126)**	29
Debt securities [note (c)]	**201**	1
Equity-type investments: actual less longer-term return	**35**	19
Other items	**22**	31
Total	**(1,455)**	(424)

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 below.

The result comprises the net effect of:

1. The accounting value movements on the variable and fixed index annuity guarantee liabilities. This includes:
   - The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are measured under the US GAAP basis applied for IFRS in a way that is substantially insensitive to the effect of current period equity market and interest rate changes; and
   - The 'not for life' portion of GMWB embedded derivative liabilities which are required to be measured under IAS 39 using a basis 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.
2. Adjustments in respect of fee assessments and claim payments;
3. Fair value movements on free-standing equity derivatives held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options.
4. Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins.

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;
– 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.

(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;
– Accounting effects of the Guaranteed Minimum Income Benefit (GMIB) reinsurance; 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.

The direct GMIB liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled, it is deemed a derivative under IAS 39 which requires fair valuation.

The fluctuations for this item therefore include significant accounting mismatches caused by:

- The fair value movements booked in the income statement on the derivative programme being in respect of the management of interest rate exposures of the variable and fixed index annuity business, as well as the fixed annuity business guarantees and durations within the general account;
- Fair value movements on Jackson's debt securities of the general account which are recorded in other comprehensive income rather than the income statement; and
- The mixed measurement model that applies for the GMIB and its reinsurance.

(c) Short-term fluctuations related to debt securities

	2016 £m	2015 £m
Short-term fluctuations relating to debt securities		
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	**(94)**	(54)
Defaults	**(4)**	-
Bond write-downs	**(35)**	(37)
Recoveries / reversals	**15**	18
Total (charges) credits in the year	**(118)**	(73)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns[note]	**89**	83
	(29)	10
Interest-related realised gains:		
Arising in the year	**376**	102
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(135)**	(108)
	241	(6)
Related amortisation of deferred acquisition costs	**(11)**	(3)
Total short-term fluctuations related to debt securities	**201**	1

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 2016 is based on an average annual risk margin reserve of 21 basis points (2015: 23 basis points) on average book values of US$56.4 billion (2015: US$54.6 billion) as shown below:

	2016				2015			
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**	
	US$m	**%**	**US$m**	**£m**	**US$m**	**%**	**US$m**	**£m**
A3 or higher	**29,051**	**0.12**	**(36)**	**(27)**	28,185	0.13	(37)	(24)
Baa1, 2 or 3	**25,964**	**0.24**	**(62)**	**(46)**	24,768	0.25	(62)	(40)
Ba1, 2 or 3	**1,051**	**1.07**	**(11)**	**(8)**	1,257	1.17	(15)	(10)
B1, 2 or 3	**312**	**2.95**	**(9)**	**(7)**	388	3.08	(12)	(8)
Below B3	**40**	**3.81**	**(2)**	**(1)**	35	3.70	(1)	(1)
Total	**56,418**	**0.21**	**(120)**	**(89)**	54,633	0.23	(127)	(83)
Related amortisation of deferred acquisition costs (see below)			**23**	**17**			24	16
Risk margin reserve charge to operating profit for longer-term credit related losses			**(97)**	**(72)**			(103)	(67)

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 for unrealised losses on debt securities classified as available-for-sale net of related change in amortisation of deferred acquisition costs of £48 million (2015: charge for net unrealised losses £(968) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(iii) *UK insurance operations*
The positive short-term fluctuations in investment returns for UK insurance operations of £198 million (2015: negative £(120) million) mainly reflects gains on bonds backing the capital of the shareholder-backed annuity business following the fall in 15-year gilt yields over 2016.

(iv) *Other*
The negative short-term fluctuations in investment returns for other operations of £(196) million (2015: negative £(74) million) include unrealised value movements on financial instruments driven by the fall in interest rates.

(v) *Default losses*
The Group incurred default losses of £(4) million on its shareholder-backed debt securities for 2016 wholly in respect of Jackson's portfolio (2015: £nil).

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

Operating segments

The Group's operating segments, determined in accordance with IFRS 8 'Operating Segments', are as follows:

Insurance operations:	**Asset management operations:**
– Asia	– Eastspring Investments
– US (Jackson)	– US broker-dealer and asset management
– UK	– M&G – Prudential Capital

The Group's operating segments are also its reportable segments for the purposes of internal management reporting.

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;
- Loss attaching to the held for sale Korea life business. See note D1 for further details;
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015.

Segment results that are reported to the Group Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asia Regional Head Office.

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, with those of the general account, 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, some types of business movements in liabilities 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.

(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.

Debt, equity-type securities and loans
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.

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 2016, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £969 million (2015: £567 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 are of significance 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 non-equity based derivatives (for example, interest rate swaps and swaptions) 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, longer-term interest rates 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 £1,405 million as at 31 December 2016 (2015: £840 million). The rates of return applied in 2016 ranged from 3.2 per cent to 13.9 per cent (2015: 3.5 per cent to 13.0 per cent) with the rates applied varying by territory. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. 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 (ii):

– Fair value movements for equity-based derivatives;
– Fair value movements for embedded derivatives for the 'not for life' portion of GMWB and fixed index annuity business, and GMIB reinsurance (see below);

– Movements in the accounts carrying value of GMDB and the ‘for life’ portion of GMWB and GMIB liabilities, 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;
– 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 variable annuity guarantee minimum income benefit
The GMIB liability, which is essentially 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. 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 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 2016, the equity-type securities for US insurance non-separate account operations amounted to £1,323 million (2015: £1,004 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:

	2016	**2015**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.5% to 6.5%**	5.7% to 6.4%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.5% to 8.5%**	7.7% to 8.4%

(d) UK 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 annuity business within the non-profit sub-fund of The Prudential Assurance Company (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 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 Profit before tax – asset management operations

The profit included in the income statement in respect of asset management operations for the year is as follows:

	2016 £m					2015 £m
	M&G	Prudential Capital	US	Eastspring Investments	Total	Total
Revenue (excluding NPH broker-dealer fees)	**1,188**	**62**	**235**	**391**	**1,876**	1,964
NPH broker-dealer fees[note (i)]	**-**	**-**	**550**	**-**	**550**	522
Gross revenue	**1,188**	**62**	**785**	**391**	**2,426**	2,486
Charges (excluding NPH broker-dealer fees)	**(768)**	**(91)**	**(239)**	**(304)**	**(1,402)**	(1,497)
NPH broker-dealer fees[note (i)]	**-**	**-**	**(550)**	**-**	**(550)**	(522)
Gross charges	**(768)**	**(91)**	**(789)**	**(304)**	**(1,952)**	(2,019)
Share of profit from joint ventures and associates, net of related tax	**13**	**-**	**-**	**54**	**67**	55
Profit (loss) before tax	**433**	**(29)**	**(4)**	**141**	**541**	522
Comprising:						
Operating profit based on longer-term investment returns[note (ii)]	**425**	**27**	**(4)**	**141**	**589**	587
Short-term fluctuations in investment returns	**8**	**(56)**	**-**	**-**	**(48)**	(65)
Profit (loss) before tax	**433**	**(29)**	**(4)**	**141**	**541**	522

Notes

(i) The segment revenue of the Group's asset management operations includes:
NPH broker-dealer fees which represent commissions received that are then paid on to the writing brokers on sales of investment products. To reflect their commercial nature the amounts are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from this item. The presentation in the table above shows separately the amounts attributable to this item so that the underlying revenue and charges can be seen.

(ii) M&G operating profit based on longer-term investment returns:

	2016 £m	2015 £m
Asset management fee income	**900**	934
Other income	**23**	5
Staff costs	**(332)**	(293)
Other costs	**(212)**	(240)
Underlying profit before performance-related fees	**379**	406
Share of associate results	**13**	14
Performance-related fees	**33**	22
Total M&G operating profit based on longer-term investment returns	**425**	442

The revenue for M&G of £956 million (2015: £961 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £1,188 million shown in the main table of this note. This is because the £956 million (2015: £961 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

B3 Acquisition costs and other expenditure

	2016 £m	2015 £m
Acquisition costs incurred for insurance policies	**(3,687)**	(3,275)
Acquisition costs deferred less amortisation of acquisition costs	**923**	431
Administration costs and other expenditure	**(5,522)**	(4,746)
Movements in amounts attributable to external unit holders of consolidated investment funds	**(562)**	(618)
Total acquisition costs and other expenditure	**(8,848)**	(8,208)

B4 Effect of changes and other accounting features on insurance assets and liabilities

The following features are of relevance to the determination of the 2016 results:

(a) Asia insurance operations
In 2016, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £67 million (2015: £62 million) representing a small number of non-recurring items, including a gain resulting from entering into a reinsurance contract in the year.

(b) UK 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.

Prudential Retirement Income Limited (PRIL) was the principal company writing the UK's shareholder-backed annuity business. In 2016, the business of PRIL was transferred into PAC following a Part VII transfer under the Financial Services and Markets Act 2000.

The IFRS credit risk allowance made for the ex-PRIL UK shareholder-backed fixed and linked annuity business equated to 43 basis points at 31 December 2016 (31 December 2015: 43 basis points). The allowance represented 26 per cent of the bond spread over swap rates (31 December 2015: 25 per cent).

The reserves for credit risk allowance at 31 December 2016 for the UK shareholder-backed business (both for ex-PRIL and the legacy PAC shareholder annuity business) were £1.7 billion (31 December 2015: £1.6 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 2016, was a credit of £16 million (2015: credit of £31 million).

Longevity reinsurance and other management actions
A number of management actions were taken in 2016 to improve the Solvency II position of the UK insurance operations and further mitigate market risk, which have generated combined profits of £332 million. Similar actions were also taken in 2015.

Of this amount £197 million related to profit from additional longevity reinsurance transactions covering £5.4 billion of annuity liabilities on an IFRS basis, with the balance of £135 million reflecting the effect of repositioning the fixed income portfolio and other actions.

The contribution to profit from similar longevity reinsurance transactions in 2015 was £231 million, covering £6.4 billion of annuity liabilities (on a Pillar 1 basis). Other asset-related management actions generated a further £169 million in 2015.

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

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 review is expected to commence in 2017 and last a period of three years. A provision of £175 million has been established at 31 December 2016 to cover the costs of undertaking the review and any potential redress. The ultimate amount that will be expended by the Group on the review remains uncertain. Although the Group's professional indemnity insurance may 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'.

B5 Tax charge

(a) Total tax charge by nature of expense

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

	2016 £m			2015 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
UK tax	**(438)**	**(326)**	**(764)**	(149)
Overseas tax	**(939)**	**412**	**(527)**	(593)
Total tax (charge) credit	**(1,377)**	**86**	**(1,291)**	(742)

The current tax charge of £1,377 million (2015: £734 million) includes £53 million (2015: £35 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders as shown below:

	2016 £m			2015 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Tax (charge) to policyholders' returns	**(421)**	**(516)**	**(937)**	(173)
Tax (charge) credit attributable to shareholders	**(956)**	**602**	**(354)**	(569)
Total tax (charge) credit	**(1,377)**	**86**	**(1,291)**	(742)

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in realised and unrealised gains on equity and bond investments in the with-profits fund of the main UK insurance business. The principal reason for the decrease in the tax charge attributable to shareholders' returns is a deferred tax credit on derivative fair value movements in the US insurance operations.

(b) Reconciliation of effective tax rate

In the reconciliation below, the expected tax rates reflect the corporate income 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. In the column 'Attributable to policyholders', the 100 per cent expected tax rate is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after tax basis, the effect of which leaves the profit equal to the tax charge.

	2016 £m						
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Attributable to shareholders**	**Attributable to policyholders**	**Total**
Operating profit based on longer-term investment returns	**1,503**	**2,052**	**828**	**(127)**	**4,256**	**n/a**	**n/a**
Non-operating (loss) profit	**(460)**	**(1,523)**	**198**	**(196)**	**(1,981)**	**n/a**	**n/a**
Profit (loss) before tax	**1,043**	**529**	**1,026**	**(323)**	**2,275**	**937**	**3,212**
Expected tax rate	**22%**	**35%**	**20%**	**19%**	**25%**	**100%**	**47%**
Tax at the expected rate	**229**	**185**	**205**	**(61)**	**558**	**937**	**1,495**
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	**(28)**	**(18)**	**(12)**	**(9)**	**(67)**		**(67)**
Deductions not allowable for tax purposes	**19**	**8**	**7**	**26**	**60**		**60**
Items related to taxation of life insurance businesses	**(20)**	**(159)**	**(1)**	**-**	**(180)**		**(180)**
Deferred tax adjustments	**(11)**	**-**	**2**	**(14)**	**(23)**		**(23)**
Effect of results of joint ventures and associates	**(29)**	**-**	**-**	**(17)**	**(46)**		**(46)**
Irrecoverable withholding taxes	**-**	**-**	**-**	**36**	**36**		**36**
Other	**-**	**-**	**1**	**(6)**	**(5)**		**(5)**
Total	**(69)**	**(169)**	**(3)**	**16**	**(225)**	**-**	**(225)**
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	**1**	**(81)**	**(7)**	**5**	**(82)**		**(82)**
Movements in provisions for open tax matters	**20**	**-**	**-**	**31**	**51**		**51**
Impact of changes in local statutory tax rates	**-**	**-**	**(5)**	**(1)**	**(6)**		**(6)**
Write down of Korea life business	**58**	**-**	**-**	**-**	**58**		**58**
Total	**79**	**(81)**	**(12)**	**35**	**21**	**-**	**21**
Total actual tax charge (credit)	**239**	**(65)**	**190**	**(10)**	**354**	**937**	**1,291**
Analysed into:							
Tax on operating profit based on longer-term investment returns	**254**	**468**	**160**	**12**	**894**	**n/a**	**n/a**
Tax on non-operating profit	**(15)**	**(533)**	**30**	**(22)**	**(540)**	**n/a**	**n/a**
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	**17%**	**23%**	**19%**	**(9)%**	**21%**	**n/a**	**n/a**
Excluding non-recurring tax reconciling items	**16%**	**27%**	**21%**	**18%**	**22%**	**n/a**	**n/a**
Total profit	**23%**	**(12)%**	**19%**	**3%**	**16%**	**100%**	**40%**

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 insurance and Group, excluding the impact of the held for sale Korea life business are as follows:

	Asia insurance	**Attributable to shareholders**
Expected tax rate on total profit	22%	24%
Actual tax rate:		
Operating profit based on longer-term investment returns	17%	21%
Total profit	19%	14%

The more significant reconciling items are explained below:

Asia insurance operations
The £28 million reconciling item '*income not taxable or taxable at concessionary rates'* primarily reflects income taxable at rates lower than the expected rates in Malaysia and Singapore. It is lower than the 2015 adjustment of £42 million due to the absence of non-taxable gains on domestic securities in Taiwan.

The £20 million reconciling item '*items related to taxation of life insurance businesses'* 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.
There is no significant movement in the reconciling items from 2015.

The £29 million reconciling item '*effect of results of the joint ventures and associates'* 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. The decrease reflects a lower profit from joint ventures and associates in 2016.

The £58 million reconciling item '*write down of Korea life business'* reflects the non-tax deductible write down of the held for sale Korea life business.

US insurance operations
The £159 million reconciling item '*items related to taxation of life insurance businesses* reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business.

The £81 million non-recurring reconciling item '*adjustments to tax charge in relation to prior years'* arose as a result of the finalisation of the dividend received deduction in the 2015 tax return as compared to the estimate included in the tax charge at 2015.

UK insurance operations
There are no significant reconciling items or significant movements from 2015.

Other operations

The £26 million reconciling item '*deductions not allowable for tax purposes'* primarily relates to non-tax deductible foreign exchange movements on debt instruments.

	2015 £m						
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Attributable to shareholders**	**Attributable to policyholders**	**Total**
Operating profit (loss) based on longer-term investment returns	1,171	1,691	1,195	(88)	3,969	n/a	n/a
Non-operating loss	(135)	(492)	(120)	(74)	(821)	n/a	n/a
Profit (loss) before tax	1,036	1,199	1,075	(162)	3,148	173	3,321
Expected tax rate	24%	35%	20%	20%	27%	100%	31%
Tax at the expected rate	249	420	215	(32)	852	173	1,025
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(42)	(10)	(2)	(9)	(63)		(63)
Deductions not allowable for tax purposes	15	5	7	6	33		33
Items related to taxation of life insurance businesses	(20)	(113)	-	-	(133)		(133)
Deferred tax adjustments	10	-	-	(11)	(1)		(1)
Effect of results of joint ventures and associates	(37)	-	-	(13)	(50)		(50)
Irrecoverable withholding taxes	-	-	-	28	28		28
Other	(4)	(1)	6	2	3		3
Total	(78)	(119)	11	3	(183)		(183)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	5	(65)	(7)	-	(67)		(67)
Movements in provisions for open tax matters	(6)	-	-	(5)	(11)		(11)
Impact of changes in local statutory tax rates	(5)	-	(16)	(1)	(22)		(22)
Total	(6)	(65)	(23)	(6)	(100)		(100)
Total actual tax charge (credit)	165	236	203	(35)	569	173	742
Analysed into:							
Tax on operating profit based on longer-term investment returns	170	408	227	(19)	786	n/a	n/a
Tax on non-operating profit	(5)	(172)	(24)	(16)	(217)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	15%	24%	19%	22%	20%	n/a	n/a
Excluding non-recurring tax reconciling items	15%	28%	21%	15%	22%	n/a	n/a
Total profit	16%	20%	19%	22%	18%	100%	22%

B6 Earnings per share

		2016				
	Note	**Before tax** B1.1 **£m**	**Tax** B5 **£m**	**Net of tax** **£m**	**Basic earnings per share** **Pence**	**Diluted earnings per share** **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**

		2015*				
	Note	**Before tax** B1.1 **£m**	**Tax** B5 **£m**	**Net of tax** **£m**	**Basic earnings per share** **Pence**	**Diluted earnings per share** **Pence**
Based on operating profit based on longer-term investment returns		3,969	(786)	3,183	124.6p	124.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(755)	206	(549)	(21.5)p	(21.5)p
Profit attaching to held for sale Korea life business	D1	56	(14)	42	1.7p	1.7p
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income		(46)	-	(46)	(1.8)p	(1.8)p
Amortisation of acquisition accounting adjustments		(76)	25	(51)	(2.0)p	(2.0)p
Based on profit for the year		3,148	(569)	2,579	101.0p	100.9p

* To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit above.

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:	**2016 (millions)**	**2015 (millions)**
Basic earnings per share	**2,560**	2,553
Shares under option at end of year	**7**	9
Number of shares that would have been issued at fair value on assumed option price	**(5)**	(6)
Diluted earnings per share	**2,562**	2,556

B7 Dividends

	2016		2015	
	Pence per share	**£m**	**Pence per share**	**£m**
Dividends relating to reporting year:				
First interim ordinary dividend	**12.93p**	**333**	12.31p	315
Second interim ordinary dividend	**30.57p**	**789**	26.47p	681
Special dividend	**-**	**-**	10.00p	257
Total	**43.50p**	**1,122**	48.78p	1,253
Dividends paid in reporting year:				
Current year first interim ordinary dividend	**12.93p**	**332**	12.31p	315
Second interim ordinary dividend/final ordinary dividend for prior year	**26.47p**	**679**	25.74p	659
Special dividend	**10.00p**	**256**	-	-
Total	**49.40p**	**1,267**	38.05p	974

Dividend per share

For the year ended 31 December 2015 the second interim ordinary dividend of 26.47 pence per ordinary share and the special dividend of 10.00 pence per ordinary share were paid to eligible shareholders on 20 May 2016. The 2016 first interim ordinary dividend of 12.93 pence per ordinary share was paid to eligible shareholders on 29 September 2016.

The second interim ordinary dividend for the year ended 31 December 2016 of 30.57 pence per share will be paid on 19 May 2017 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 31 March 2017 (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 26 May 2017. The second interim ordinary dividend will be paid on or about 26 May 2017 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 2017. 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 2016

		2016 £m										2015 £m
		Insurance operations			Asset management							
By operating segment	Note	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Unallo-cated to a segment (central opera-tions)	Elimin-ation of intra-group debtors and creditors	Group Total	Group Total
		C2.1	C2.2	C2.3								
Assets												
Goodwill	C5(a)	**245**	**-**	**153**	**1,153**	**-**	**16**	**61**	**-**	**-**	**1,628**	1,648
Deferred acquisition costs and other intangible assets	C5(b)	**2,316**	**8,323**	**107**	**8**	**-**	**4**	**3**	**46**	**-**	**10,807**	8,472
Property, plant and equipment		**121**	**237**	**343**	**5**	**-**	**10**	**3**	**24**	**-**	**743**	1,197
Reinsurers' share of insurance contract liabilities		**1,539**	**7,224**	**2,590**	**-**	**-**	**-**	**-**	**-**	**(1,302)**	**10,051**	7,903
Deferred tax assets	C8	**98**	**3,861**	**146**	**23**	**8**	**118**	**9**	**52**	**-**	**4,315**	2,819
Current tax recoverable		**29**	**95**	**283**	**25**	**2**	**6**	**-**	**-**	**-**	**440**	477
Accrued investment income		**521**	**549**	**1,915**	**6**	**20**	**79**	**28**	**35**	**-**	**3,153**	2,751
Other debtors		**2,633**	**295**	**2,447**	**880**	**788**	**293**	**53**	**5,620**	**(9,990)**	**3,019**	1,955
Investment properties		**5**	**6**	**14,635**	**-**	**-**	**-**	**-**	**-**	**-**	**14,646**	13,422
Investment in joint ventures and associates accounted for using the equity method		**688**	**-**	**409**	**39**	**-**	**-**	**137**	**-**	**-**	**1,273**	1,034
Loans	C3.3	**1,303**	**9,735**	**3,572**	**-**	**563**	**-**	**-**	**-**	**-**	**15,173**	12,958
Equity securities and portfolio holdings in unit trusts		**23,581**	**120,747**	**54,037**	**140**	**-**	**-**	**18**	**29**	**-**	**198,552**	157,453
Debt securities	C3.2	**36,546**	**40,745**	**90,796**	**-**	**2,359**	**-**	**-**	**12**	**-**	**170,458**	147,671
Derivative assets		**47**	**834**	**2,927**	**-**	**124**	**-**	**-**	**4**	**-**	**3,936**	2,958
Other investments		**-**	**987**	**4,449**	**24**	**-**	**5**	**-**	**-**	**-**	**5,465**	4,395
Deposits		**1,379**	**-**	**10,705**	**-**	**-**	**49**	**46**	**6**	**-**	**12,185**	12,088
Assets held for sale	D1	**3,863**	**-**	**726**	**-**	**-**	**-**	**-**	**-**	**-**	**4,589**	2
Cash and cash equivalents		**1,995**	**1,054**	**4,703**	**354**	**1,451**	**81**	**162**	**265**	**-**	**10,065**	7,782
Total assets	C1	**76,909**	**194,692**	**194,943**	**2,657**	**5,315**	**661**	**520**	**6,093**	**(11,292)**	**470,498**	386,985
Total equity		**4,993**	**5,204**	**5,999**	**1,820**	**22**	**204**	**383**	**(3,958)**	**-**	**14,667**	12,956
Liabilities												
Insurance contract liabilities	C4.1	**54,417**	**174,328**	**88,993**	**-**	**-**	**-**	**-**	**-**	**(1,302)**	**316,436**	260,753
Investment contract liabilities with discretionary participation features	C4.1	**347**	**-**	**52,490**	**-**	**-**	**-**	**-**	**-**	**-**	**52,837**	42,959
Investment contract liabilities without discretionary participation features	C4.1	**254**	**3,298**	**16,171**	**-**	**-**	**-**	**-**	**-**	**-**	**19,723**	18,806
Unallocated surplus of with-profits funds	C4.1	**2,667**	**-**	**11,650**	**-**	**-**	**-**	**-**	**-**	**-**	**14,317**	13,096
Core structural borrowings of shareholder-financed operations		**-**	**202**	**-**	**-**	**275**	**-**	**-**	**6,321**	**-**	**6,798**	5,011
Operational borrowings attributable to shareholder-financed operations		**19**	**480**	**167**	**-**	**-**	**-**	**-**	**1,651**	**-**	**2,317**	1,960
Borrowings attributable to with-profits operations		**4**	**-**	**1,345**	**-**	**-**	**-**	**-**	**-**	**-**	**1,349**	1,332
Obligations under funding, securities lending and sale and repurchase agreements		**-**	**3,534**	**1,497**	**-**	**-**	**-**	**-**	**-**	**-**	**5,031**	3,765
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**3,093**	**-**	**5,594**	**-**	**-**	**-**	**-**	**-**	**-**	**8,687**	7,873
Deferred tax liabilities	C8	**935**	**2,831**	**1,577**	**15**	**-**	**1**	**-**	**11**	**-**	**5,370**	4,010
Current tax liabilities		**113**	**-**	**447**	**64**	**7**	**-**	**12**	**6**	**-**	**649**	325
Accruals deferred income and other liabilities		**5,887**	**4,749**	**6,176**	**553**	**4,396**	**455**	**53**	**1,546**	**(9,990)**	**13,825**	10,416
Provisions		**157**	**2**	**442**	**205**	**-**	**1**	**72**	**68**	**-**	**947**	604
Derivative liabilities		**265**	**64**	**1,860**	**-**	**615**	**-**	**-**	**448**	**-**	**3,252**	3,119
Liabilities held for sale	D1	**3,758**	**-**	**535**	**-**	**-**	**-**	**-**	**-**	**-**	**4,293**	-
Total liabilities	C1	**71,916**	**189,488**	**188,944**	**837**	**5,293**	**457**	**137**	**10,051**	**(11,292)**	**455,831**	374,029
Total equity and liabilities		**76,909**	**194,692**	**194,943**	**2,657**	**5,315**	**661**	**520**	**6,093**	**(11,292)**	**470,498**	386,985

C2 Analysis of segment statement of financial position by business type

C2.1 Asia insurance operations

		31 Dec 2016 £m				31 Dec 2015 £m
	Note	With-profits business	Unit-linked assets and liabilities	Other business	Total	Total
Assets						
Goodwill		**-**	**-**	**245**	**245**	233
Deferred acquisition costs and other intangible assets		**28**	**-**	**2,288**	**2,316**	2,145
Property, plant and equipment		**89**	**-**	**32**	**121**	73
Reinsurers' share of insurance contract liabilities		**43**	**-**	**1,496**	**1,539**	797
Deferred tax assets		**-**	**-**	**98**	**98**	66
Current tax recoverable		**-**	**2**	**27**	**29**	34
Accrued investment income		**238**	**49**	**234**	**521**	505
Other debtors		**1,960**	**147**	**526**	**2,633**	2,212
Investment properties		**-**	**-**	**5**	**5**	5
Investment in joint ventures and associates accounted for using the equity method		**-**	**-**	**688**	**688**	475
Loans	C3.3	**690**	**-**	**613**	**1,303**	1,084
Equity securities and portfolio holdings in unit trusts		**10,737**	**11,439**	**1,405**	**23,581**	18,532
Debt securities	C3.2	**21,861**	**3,321**	**11,364**	**36,546**	28,292
Derivative assets		**27**	**-**	**20**	**47**	57
Deposits		**319**	**403**	**657**	**1,379**	773
Assets held for sale	D1	**-**	**2,877**	**986**	**3,863**	-
Cash and cash equivalents		**816**	**222**	**957**	**1,995**	2,064
Total assets		**36,808**	**18,460**	**21,641**	**76,909**	57,347
Total equity		**-**	**-**	**4,993**	**4,993**	3,957
Liabilities						
Insurance contract liabilities		**28,221**	**14,035**	**12,161**	**54,417**	42,084
Investment contract liabilities with discretionary participation features	C4.1	**347**	**-**	**-**	**347**	251
Investment contract liabilities without discretionary participation features	C4.1	**-**	**254**	**-**	**254**	181
Unallocated surplus of with-profits funds		**2,667**	**-**	**-**	**2,667**	2,553
Operational borrowings attributable to shareholder-financed operations		**-**	**12**	**7**	**19**	-
Borrowings attributable to with-profits operations		**4**	**-**	**-**	**4**	-
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**1,770**	**1,144**	**179**	**3,093**	2,802
Deferred tax liabilities		**639**	**25**	**271**	**935**	734
Current tax liabilities		**35**	**-**	**78**	**113**	50
Accruals, deferred income and other liabilities		**2,837**	**108**	**2,942**	**5,887**	4,476
Provisions		**65**	**-**	**92**	**157**	119
Derivative liabilities		**223**	**5**	**37**	**265**	140
Liabilities held for sale	D1	**-**	**2,877**	**881**	**3,758**	-
Total liabilities		**36,808**	**18,460**	**16,648**	**71,916**	53,390
Total equity and liabilities		**36,808**	**18,460**	**21,641**	**76,909**	57,347

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 insurance operations

	Note	31 Dec 2016 £m Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business	Total	31 Dec 2015 £m Total
Assets					
Deferred acquisition costs and other intangible assets		**-**	**8,323**	**8,323**	6,168
Property, plant and equipment		**-**	**237**	**237**	192
Reinsurers' share of insurance contract liabilities		**-**	**7,224**	**7,224**	6,211
Deferred tax assets		**-**	**3,861**	**3,861**	2,448
Current tax recoverable		**-**	**95**	**95**	307
Accrued investment income		**-**	**549**	**549**	473
Other debtors		**-**	**295**	**295**	22
Investment properties		**-**	**6**	**6**	5
Loans	C3.3	**-**	**9,735**	**9,735**	7,418
Equity securities and portfolio holdings in unit trusts		**120,411**	**336**	**120,747**	91,216
Debt securities	C3.2	**-**	**40,745**	**40,745**	34,071
Derivative assets		**-**	**834**	**834**	905
Other investments		**-**	**987**	**987**	810
Cash and cash equivalents		**-**	**1,054**	**1,054**	1,405
Total assets		**120,411**	**74,281**	**194,692**	151,651
Total equity		**-**	**5,204**	**5,204**	4,154
Liabilities					
Insurance contract liabilities		**120,411**	**53,917**	**174,328**	136,129
Investment contract liabilities without discretionary participation features	C4.1	**-**	**3,298**	**3,298**	2,784
Core structural borrowings of shareholder-financed operations		**-**	**202**	**202**	169
Operational borrowings attributable to shareholder-financed operations		**-**	**480**	**480**	66
Obligations under funding, securities lending and sale and repurchase agreements		**-**	**3,534**	**3,534**	1,914
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**-**	**-**	**-**	22
Deferred tax liabilities		**-**	**2,831**	**2,831**	2,086
Current tax liabilities		**-**	**-**	**-**	3
Accruals, deferred income and other liabilities		**-**	**4,749**	**4,749**	4,069
Provisions		**-**	**2**	**2**	6
Derivative liabilities		**-**	**64**	**64**	249
Total liabilities		**120,411**	**69,077**	**189,488**	147,497
Total equity and liabilities		**120,411**	**74,281**	**194,692**	151,651

C2.3 UK insurance operations

By operating segment	Note	31 Dec 2016 £m With-profits sub-funds note (i)	Other funds and subsidiaries: Unit-linked assets and liabilities	Other funds and subsidiaries: Annuity and other long-term business	Other funds and subsidiaries: Total	31 Dec 2016 £m Total	31 Dec 2015 £m Total
Assets							
Goodwill		**153**	**-**	**-**	**-**	**153**	185
Deferred acquisition costs and other intangible assets		**25**	**-**	**82**	**82**	**107**	91
Property, plant and equipment		**325**	**-**	**18**	**18**	**343**	798
Reinsurers' share of insurance contract liabilities		**1,352**	**134**	**1,104**	**1,238**	**2,590**	2,156
Deferred tax assets		**82**	**-**	**64**	**64**	**146**	132
Current tax recoverable		**1**	**-**	**282**	**282**	**283**	135
Accrued investment income		**1,227**	**101**	**587**	**688**	**1,915**	1,622
Other debtors		**1,436**	**322**	**689**	**1,011**	**2,447**	2,498
Investment properties		**12,391**	**661**	**1,583**	**2,244**	**14,635**	13,412
Investment in joint ventures and associates accounted for using the equity method		**409**	**-**	**-**	**-**	**409**	434
Loans	C3.3	**1,892**	**-**	**1,680**	**1,680**	**3,572**	3,571
Equity securities and portfolio holdings in unit trusts		**38,803**	**15,183**	**51**	**15,234**	**54,037**	47,593
Debt securities	C3.2	**48,936**	**6,277**	**35,583**	**41,860**	**90,796**	83,101
Derivative assets		**2,388**	**14**	**525**	**539**	**2,927**	1,930
Other investments		**4,443**	**5**	**1**	**6**	**4,449**	3,556
Deposits		**8,464**	**1,009**	**1,232**	**2,241**	**10,705**	11,226
Assets held for sale[note (ii)]		**726**	**-**	**-**	**-**	**726**	2
Cash and cash equivalents		**3,209**	**694**	**800**	**1,494**	**4,703**	2,880
Total assets		**126,262**	**24,400**	**44,281**	**68,681**	**194,943**	175,322
Total equity		**-**	**-**	**5,999**	**5,999**	**5,999**	5,140
Liabilities							
Insurance contract liabilities	C4.1	**49,001**	**6,029**	**33,963**	**39,992**	**88,993**	83,801
Investment contract liabilities with discretionary participation features	C4.1	**52,477**	**-**	**13**	**13**	**52,490**	42,708
Investment contract liabilities without discretionary participation features	C4.1	**18**	**16,090**	**63**	**16,153**	**16,171**	15,841
Unallocated surplus of with-profits funds	C4.1	**11,650**	**-**	**-**	**-**	**11,650**	10,543
Operational borrowings attributable to shareholder-financed operations		**-**	**4**	**163**	**167**	**167**	179
Borrowings attributable to with-profits operations		**1,345**	**-**	**-**	**-**	**1,345**	1,332
Obligations under funding, securities lending and sale and repurchase agreements		**757**	**-**	**740**	**740**	**1,497**	1,651
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**3,513**	**2,066**	**15**	**2,081**	**5,594**	5,049
Deferred tax liabilities		**1,279**	**-**	**298**	**298**	**1,577**	1,162
Current tax liabilities		**90**	**59**	**298**	**357**	**447**	203
Accruals deferred income and other liabilities		**4,649**	**129**	**1,398**	**1,527**	**6,176**	5,430
Provisions		**95**	**-**	**347**	**347**	**442**	158
Derivative liabilities		**853**	**23**	**984**	**1,007**	**1,860**	2,125
Liabilities held for sale[note (ii)]		**535**	**-**	**-**	**-**	**535**	-
Total liabilities		**126,262**	**24,400**	**38,282**	**62,682**	**188,944**	170,182
Total equity and liabilities		**126,262**	**24,400**	**44,281**	**68,681**	**194,943**	175,322

Note

(i) Includes the Scottish Amicable Insurance Fund which, at 31 December 2016 have total assets and liabilities of £6,101 million (2015: £6,230 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 £11.2 billion (2015: £10.8 billion) of non-profits annuities liabilities.

(ii) The assets and liabilities held for sale for the UK insurance operations at 31 December 2016 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.

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 rate of discount used was 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 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 £40,645 million (2015: £33,984 million) of debt securities classified as available-for-sale.

In addition to the financial instruments shown above, 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.

	31 Dec 2015 £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				
Equity securities and portfolio holdings in unit trusts	35,441	3,200	554	39,195
Debt securities	20,312	40,033	525	60,870
Other investments (including derivative assets)	85	1,589	3,371	5,045
Derivative liabilities	(110)	(1,526)	-	(1,636)
Total financial investments, net of derivative liabilities	55,728	43,296	4,450	103,474
Percentage of total	54%	42%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	116,691	354	22	117,067
Debt securities	4,350	4,940	-	9,290
Other investments (including derivative assets)	5	20	4	29
Derivative liabilities	(2)	(16)	-	(18)
Total financial investments, net of derivative liabilities	121,044	5,298	26	126,368
Percentage of total	96%	4%	0%	100%
Non-linked shareholder-backed				
Loans	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	1,150	10	31	1,191
Debt securities	17,767	59,491	253	77,511
Other investments (including derivative assets)	-	1,378	901	2,279
Derivative liabilities	-	(1,112)	(353)	(1,465)
Total financial investments, net of derivative liabilities	18,917	60,022	3,015	81,954
Percentage of total	23%	73%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	153,282	3,564	607	157,453
Debt securities	42,429	104,464	778	147,671
Other investments (including derivative assets)	90	2,987	4,276	7,353
Derivative liabilities	(112)	(2,654)	(353)	(3,119)
Total financial investments, net of derivative liabilities	195,689	108,616	7,491	311,796
Investment contracts liabilities without discretionary participation features held at fair value	-	(16,022)	-	(16,022)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,782)	(1,055)	(1,036)	(7,873)
Other financial liabilities held at fair value	-	(322)	(2,347)	(2,669)
Total financial instruments at fair value	189,907	91,217	4,108	285,232
Percentage of total	67%	32%	1%	100%

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**	
2016	**-**	**-**	**14,646**	**14,646**
2015	-	-	13,422	13,422

(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 services 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 £116,257 million at 31 December 2016 (2015: £104,464 million), £12,708 million are valued internally (2015: £10,331 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 the Group's entire holdings 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 2016, the Group held £4,593 million (2015: £4,108 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2015: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

Included within these amounts were loans of £2,672 million at 31 December 2016 (2015: £2,183 million), measured as the loan outstanding balance, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,851 million at 31 December 2016 (2015: £2,347 million) was 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 £(179) million (2015: £(164) million), the level 3 fair valued financial assets net of financial liabilities were £4,772 million (2015: £4,272 million). Of this amount, a net asset of £72 million (2015: net liability of £(77) million) was internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2015: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset/liability were:

(a) Debt securities of £422 million (2015: £381 million), which were 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 of £956 million (2015: £852 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
(c) Liabilities of £(883) million (2015: £(1,013) 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.
(d) Derivative liabilities of £(516) million (2015: £(353) million) which are valued internally using standard market practices but are subject to independent assessment against external counterparties' valuations.
(e) Other sundry individual financial investments of £93 million (2015: £56 million).

Of the internally valued net asset referred to above of £72 million (2015: net liability of £(77) million):

(a) A net asset of £315 million (2015: £29 million) was 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 £(243) million (2015: £(106) million) was 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 was varied downwards by 10 per cent, the change in valuation would be £24 million (2015: £11 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £24 million (2015: a decrease of £10 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and no impact (2015: a decrease of £1 million) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Other assets at fair value – investment properties

The investment properties of the Group are principally held by the UK 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 2016, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £455 million and transfers from level 2 to level 1 of £902 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, in 2016, the transfers into level 3 were £138 million and the transfers out of level 3 were £394 million. These transfers were between levels 3 and 2 and primarily for equity securities and debt securities.

(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.

C3.2 Debt securities

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

(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".

	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							
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**

	2015 £m						
	AAA	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Below BBB-**	**Other**	**Total**
Asia							
With-profits	2,050	6,212	2,463	2,238	1,879	1,493	16,335
Unit-linked	333	404	420	1,050	203	399	2,809
Non-linked shareholder-backed	700	2,626	1,919	1,736	1,223	944	9,148
US							
Non-linked shareholder-backed	1,209	5,563	8,767	11,623	832	6,077	34,071
UK							
With-profits	5,657	8,318	9,557	12,241	2,673	6,089	44,535
Unit-linked	1,101	1,842	1,164	1,999	272	103	6,481
Non-linked shareholder-backed	4,760	9,022	8,735	4,994	384	4,190	32,085
Other operations	1,686	119	285	101	14	2	2,207
Total debt securities	17,496	34,106	33,310	35,982	7,480	19,297	147,671

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

	2016 £m	**2015 £m**
Asia - non-linked shareholder-backed		
Internally rated		
Government bonds	**63**	162
Corporate bonds – rated as investment grade by local external ratings agencies	**757**	481
Other	**95**	301
Total Asia non-linked shareholder-backed	**915**	944

US	**Mortgage -backed securities**	**Other securities**	**2016 Total**	**2015 Total**
Implicit ratings of other US debt securities based on NAIC* valuations (see below)				
NAIC 1	**2,587**	**2,172**	**4,759**	4,334
NAIC 2	**8**	**1,901**	**1,909**	1,594
NAIC 3-6	**12**	**120**	**132**	149
Total US	**2,607**	**4,193**	**6,800**	6,077

* 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.

	2016 £m	2015 £m
UK		
Internal ratings or unrated		
AAA to A-	**6,939**	5,570
BBB to B-	**3,257**	3,234
Below B- or unrated	**2,079**	1,578
Total UK	**12,275**	10,382

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

	2016 £m	2015 £m
Corporate and government security and commercial loans:		
Government	**5,856**	4,242
Publicly traded and SEC Rule 144A securities*	**25,992**	21,776
Non-SEC Rule 144A securities	**4,576**	3,733
Asset backed securities (see note (e))	**4,321**	4,320
Total US debt securities†	**40,745**	34,071

* 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:

	2016 £m	2015 £m
Available-for-sale	**40,645**	33,984
Fair value through profit or loss:		
Securities held to back liabilities for funds withheld under reinsurance arrangement	**100**	87
	40,745	34,071

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

There was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £592 million to a net unrealised gain of £676 million as analysed in the table below.

	2016	Foreign exchange translation	Changes in unrealised appreciation**	2015
		Reflected as part of movement in other comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**14,617**			13,163
Unrealised loss	**(675)**	**(118)**	**116**	(673)
Fair value (as included in statement of financial position)	**13,942**			12,490
Assets fair valued at or above book value				
Book value*	**25,352**			20,229
Unrealised gain	**1,351**	**230**	**(144)**	1,265
Fair value (as included in statement of financial position)	**26,703**			21,494
Total				
Book value*	**39,969**			33,392
Net unrealised gain	**676**	**112**	**(28)**	592
Fair value (as included in the footnote above in the overview table and the statement of financial position)	**40,645**			33,984

The available-for-sale debt securities of Jackson are analysed into US Treasuries and other debt securities as follows:

US Treasuries				
Book value*	**5,486**			3,477
Net unrealised (loss) gain	**(412)**	**(30)**	**(436)**	54
Fair value	**5,074**			3,531
Other debt securities				
Book value*	**34,483**			29,915
Net unrealised gain	**1,088**	**142**	**408**	538
Fair value	**35,571**			30,453
Total debt securities				
Book value*	**39,969**			33,392
Net unrealised gain (loss)	**676**	**112**	**(28)**	592
Fair value	**40,645**			33,984

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

**Translated at the average rate of US$1.3546: £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:

	2016 £m		2015 £m	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**
Between 90% and 100%	**12,326**	**(405)**	11,058	(320)
Between 80% and 90%	**1,598**	**(259)**	902	(144)
Below 80%:				
Residential mortgage-backed securities - sub-prime	**-**	**-**	4	(1)
Commercial mortgage-backed securities	**8**	**(3)**	-	-
Other asset-backed securities	**9**	**(8)**	9	(7)
Government bonds	**-**	**-**	-	-
Corporates	**1**	**-**	517	(201)
	18	**(11)**	530	(209)
Total	**13,942**	**(675)**	12,490	(673)

(ii) Unrealised losses by maturity of security

	2016 £m	2015 £m
1 year to 5 years	**(7)**	(51)
5 years to 10 years	**(118)**	(334)
More than 10 years	**(510)**	(247)
Mortgage-backed and other debt securities	**(40)**	(41)
Total	**(675)**	(673)

(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:

	2016 £m			2015 £m		
	Non-investment grade	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	**(3)**	**(599)**	**(602)**	(13)	(148)	(161)
6 months to 1 year	**-**	**(2)**	**(2)**	(17)	(332)	(349)
1 year to 2 years	**(4)**	**(27)**	**(31)**	(16)	(63)	(79)
2 years to 3 years	**(2)**	**(1)**	**(3)**	(3)	(38)	(41)
More than 3 years	**(2)**	**(35)**	**(37)**	(3)	(40)	(43)
Total	**(11)**	**(664)**	**(675)**	(52)	(621)	(673)

Further, the following table shows the age analysis as at 31 December 2016, of the securities whose fair values were below 80 per cent of the book value:

	2016 £m		2015 £m	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Less than 3 months	**1**	**-**	450	(165)
3 months to 6 months	**-**	**-**	64	(34)
More than 6 months	**17**	**(11)**	16	(10)
	18	**(11)**	530	(209)

(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 2016 are as follows:

	2016 £m	2015 £m
Shareholder-backed operations:		
Asia insurance operations [note (i)]	**130**	111
US insurance operations [note (ii)]	**4,321**	4,320
UK insurance operations (2016: 25% AAA, 40% AA)[note (iii)]	**1,464**	1,531
Asset management operations[note (iv)]	**771**	911
	6,686	6,873
With-profits operations:		
Asia insurance operations [note (i)]	**357**	262
UK insurance operations (2016: 55% AAA, 17% AA)[note (iii)]	**5,177**	4,600
	5,534	4,862
Total	**12,220**	11,735

Notes

(i) Asia insurance operations

The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £357 million, 99 per cent (31 December 2015: 84 per cent) are investment grade.

(ii) US insurance operations

US insurance operations' exposure to asset-backed securities at 31 December 2016 comprises:

	2016 £m	2015 £m
RMBS		
RMBS Sub-prime (2016: 2% AAA, 12% AA, 4% A)	**180**	191
Alt-A (2016: 3% AAA, 6% A)	**177**	191
Prime including agency (2016: 72% AA, 3% A)	**675**	902
CMBS (2016: 76% AAA, 16% AA, 5% A)	**2,234**	2,403
CDO funds (2016: 35% AAA, 5% AA, 23% A), including £nil exposure to sub-prime	**50**	52
Other ABS (2016: 21% AAA, 18% AA, 52% A), including £129 million exposure to sub-prime	**1,005**	581
Total	**4,321**	4,320

(iii) UK insurance 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, £1,623 million (2015: £1,140 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(iv) Asset management operations

Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £771 million, 95 per cent (2015: 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 2016 are analysed as follows:

Exposure to sovereign debts

	2016 £m		2015 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	**56**	**61**	55	60
Spain	**33**	**18**	1	17
France	**22**	**-**	19	-
Germany*	**573**	**329**	409	358
Other Eurozone	**83**	**33**	62	44
Total Eurozone	**767**	**441**	546	479
United Kingdom	**5,510**	**2,868**	4,997	1,802
United States**	**6,861**	**9,008**	3,911	6,893
Other, predominantly Asia	**3,979**	**2,079**	3,368	1,737
Total	**17,117**	**14,396**	12,822	10,911

* Including bonds guaranteed by the federal government.

** The exposure to the United States sovereign debt comprises holdings of the US, UK and Asia insurance operations.

Exposure to bank debt securities

	2016 £m							
	Senior debt			Subordinated debt				
Shareholder-backed business	**Covered**	**Senior**	**Total senior debt**	**Tier 1**	**Tier 2**	**Total subordinated debt**	**2016 Total £m**	**2015 Total £m**
Italy	**-**	**32**	**32**	**-**	**-**	**-**	**32**	30
Spain	**148**	**22**	**170**	**-**	**-**	**-**	**170**	154
France	**28**	**53**	**81**	**10**	**75**	**85**	**166**	226
Germany	**46**	**4**	**50**	**-**	**74**	**74**	**124**	130
Netherlands	**-**	**44**	**44**	**-**	**6**	**6**	**50**	31
Other Eurozone	**-**	**19**	**19**	**-**	**-**	**-**	**19**	31
Total Eurozone	**222**	**174**	**396**	**10**	**155**	**165**	**561**	602
United Kingdom	**536**	**318**	**854**	**6**	**314**	**320**	**1,174**	957
United States	**-**	**2,494**	**2,494**	**6**	**184**	**190**	**2,684**	2,457
Other, predominantly Asia	**17**	**511**	**528**	**76**	**414**	**490**	**1,018**	718
Total	**775**	**3,497**	**4,272**	**98**	**1,067**	**1,165**	**5,437**	4,734
With-profits funds								
Italy	**-**	**62**	**62**	**-**	**-**	**-**	**62**	57
Spain	**153**	**60**	**213**	**-**	**-**	**-**	**213**	182
France	**8**	**140**	**148**	**-**	**65**	**65**	**213**	250
Germany	**96**	**18**	**114**	**-**	**-**	**-**	**114**	111
Netherlands	**-**	**189**	**189**	**6**	**7**	**13**	**202**	205
Other Eurozone	**-**	**31**	**31**	**-**	**-**	**-**	**31**	35
Total Eurozone	**257**	**500**	**757**	**6**	**72**	**78**	**835**	840
United Kingdom	**544**	**400**	**944**	**2**	**450**	**452**	**1,396**	1,351
United States	**-**	**1,851**	**1,851**	**58**	**320**	**378**	**2,229**	1,796
Other, including Asia	**312**	**1,035**	**1,347**	**220**	**425**	**645**	**1,992**	1,656
Total	**1,113**	**3,786**	**4,899**	**286**	**1,267**	**1,553**	**6,452**	5,643

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 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:

	2016 £m				2015 £m			
	Mortgage loans*	**Policy loans****	**Other loans†**	**Total**	**Mortgage loans***	**Policy loans****	**Other loans†**	**Total**
Asia								
With-profits	**-**	**577**	**113**	**690**	-	452	88	540
Non-linked shareholder-backed	**179**	**226**	**208**	**613**	130	269	145	544
US								
Non-linked shareholder-backed	**6,055**	**3,680**	**-**	**9,735**	4,367	3,051	-	7,418
UK								
With-profits	**668**	**6**	**1,218**	**1,892**	727	8	1,324	2,059
Non-linked shareholder-backed	**1,642**	**-**	**38**	**1,680**	1,508	-	4	1,512
Asset management operations	**-**	**-**	**563**	**563**	-	-	885	885
Total loans securities	**8,544**	**4,489**	**2,140**	**15,173**	6,732	3,780	2,446	12,958

* All mortgage loans are secured by properties. In the US, mortgage loans are all commercial mortgage loans that are secured on the following property types: industrial, multi-family residential, suburban office, retail or hotel. By carrying value, 96 per cent of the £1,642 million (2015: 78 per cent of the £1,508 million) mortgage loans held for UK shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 30 per cent (2015: 30 per cent).

** In the US £2,672 million (2015: £2,183 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 loans

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £12.4 million (2015: £8.6 million). The portfolio has a current estimated average loan to value of 59 per cent (2015: 59 per cent).

At 31 December 2016, Jackson had no mortgage loans where the contractual terms of the agreements had been restructured (2015: none).

(c) Loans held by asset management 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:

	2016 £m	**2015 £m**
Loans and receivables internal ratings:		
AA+ to AA-	**29**	-
A+ to A-	**100**	157
BBB+ to BBB-	**248**	607
BB+ to BB-	**185**	119
B and other	**1**	2
Total	**563**	885

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 note C4.1(b)	**US** note C4.1(c)	**UK** note C4.1(d)	**Total**
At 1 January 2015	45,022	126,746	154,436	326,204
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	38,705	126,746	144,088	309,539
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	-	10,348	12,450
- Group's share of policyholder liabilities of joint ventures and associate§	4,215	-	-	4,215
Net flows:				
Premiums	7,784	16,699	9,692	34,175
Surrenders	(2,550)	(6,759)	(6,363)	(15,672)
Maturities/Deaths	(1,265)	(1,464)	(6,991)	(9,720)
Net flows	3,969	8,476	(3,662)	8,783
Shareholders' transfers post-tax	(43)	-	(214)	(257)
Investment-related items and other movements	(364)	(3,824)	2,319	(1,869)
Foreign exchange translation differences	194	7,515	14	7,723
As at 31 December 2015/1 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**
At 31 December 2016	**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**
Average policyholder liability balances†				
2016	**51,765**	**158,270**	**150,003**	**360,038**
2015	44,573	132,830	143,219	320,622

* 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 £53,716 million (2015: £41,255 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,302 million (2015: £1,261 million) to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £55,018 million (2015: £42,516 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. 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 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**	**Total**
At 1 January 2015	26,410	126,746	55,009	208,165
Net flows:				
Premiums	4,793	16,699	3,146	24,638
Surrenders	(2,308)	(6,759)	(3,227)	(12,294)
Maturities/Deaths	(618)	(1,464)	(2,613)	(4,695)
Net flows[note (a)]	1,867	8,476	(2,694)	7,649
Investment-related items and other movements	(121)	(3,824)	509	(3,436)
Foreign exchange translation differences	(312)	7,515	-	7,203
At 31 December 2015/1 January 2016	27,844	138,913	52,824	219,581
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	22,874	138,913	52,824	214,611
- Group's share of policyholder liabilities relating to joint ventures	4,970	-	-	4,970
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 flows[note (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	**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	**6,401**	**-**	**-**	**6,401**

* 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 £m	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2015	18,612	16,209	10,201	45,022
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	16,510	13,874	8,321	38,705
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	-	-	2,102
- Group's share of policyholder liabilities relating to joint ventures and associate‡	-	2,335	1,880	4,215
Premiums				
New business	812	1,322	781	2,915
In-force	2,179	1,496	1,194	4,869
	2,991	2,818	1,975	7,784
Surrenders note (c)	(242)	(2,043)	(265)	(2,550)
Maturities/Deaths	(647)	(88)	(530)	(1,265)
Net flows note (b)	2,102	687	1,180	3,969
Shareholders' transfers post-tax	(43)	-	-	(43)
Investment-related items and other movements	(243)	(536)	415	(364)
Foreign exchange translation differences note (a)	506	(394)	82	194
At 31 December 2015/1 January 2016	**20,934**	**15,966**	**11,878**	**48,778**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**18,381**	**13,355**	**9,519**	**41,255**
- 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 note (d)	**889**	**621**	**495**	**2,005**
Foreign exchange translation differences note (a)	**4,458**	**2,458**	**2,159**	**9,075**
At 31 December 2016 note (b)	**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**
Average policyholder liability balances†				
2016	**22,823**	**15,643**	**13,299**	**51,765**
2015	17,446	16,088	11,039	44,573

* 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. If Korea life business had been excluded from the 2015, the average policyholder liability balance for 2015 would have been £41,814 million in total allocated £17,446 million, £13,940 million and £10,428 million for its with-profits business, unit-linked business and other business, respectively.

† 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 £27,266 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,302 million to the Hong Kong with-profits business (2015: £1,261 million). Including this amount the Asia with-profits policyholder liabilities are £28,568 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 £1,860 million to £5,782 million in 2016 after excluding Korea 2015 net inflows of £47 million from the comparative period reflecting increased flows from new business and growth in the in-force books.

(c) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 7.7 per cent in 2016, compared with 7.6 per cent in 2015 excluding Korea (2015: 8.7 per cent including Korea).

(d) Investment-related items and other movements for 2016 principally represent realised gains on equity markets and bonds during the year. The gains were mixed across the region with the greatest impact 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 2016 and 2015, taking account of expected future premiums and investment returns:

	2016 £m	**2015 £m**
Policyholder liabilities	**53,716**	41,255
Expected maturity:	**%**	%
0 to 5 years	**23**	23
5 to 10 years	**20**	20
10 to 15 years	**16**	17
15 to 20 years	**11**	12
20 to 25 years	**9**	9
Over 25 years	**21**	19

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 £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2015	81,741	45,005	126,746
Premiums	12,899	3,800	16,699
Surrenders	(4,357)	(2,402)	(6,759)
Maturities/Deaths	(655)	(809)	(1,464)
Net flows note (b)	7,887	589	8,476
Transfers from general to separate account	847	(847)	-
Investment-related items and other movements	(4,351)	527	(3,824)
Foreign exchange translation differences note (a)	4,898	2,617	7,515
At 31 December 2015/1 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 note (c)	**5,246**	**444**	**5,690**
Foreign exchange translation differences note (a)	**18,586**	**9,239**	**27,825**
At 31 December 2016	**120,411**	**57,215**	**177,626**
Average policyholder liability balances*			
2016	**105,717**	**52,553**	**158,270**
2015	86,382	46,448	132,830

* Averages have been based on opening and closing balances.

Notes

(a) Movements in the year have been translated at an average rate of US$1.35/£1.00 (2015: US$1.53/£1.00). The closing balances have been translated at closing rate of US$1.24/£1.00 (2015: US$1.47/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows were £5,198 million in 2016, reflecting continued strong in-flows into the variable annuity business.

(c) Positive investment-related items and other movements in variable annuity separate account liabilities of £5,246 million for 2016 primarily reflects the increases in equities and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £444 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 2016 and 2015:

	2016			**2015**		
	Fixed annuity and other business (including GICs and similar contracts) £m	Variable annuity separate account liabilities £m	Total £m	Fixed annuity and other business (including GICs and similar contracts) £m	Variable annuity separate account liabilities £m	Total £m
Policyholder liabilities	**57,215**	**120,411**	**177,626**	47,891	91,022	138,913
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	**49**	**43**	**45**	48	43	44
5 to 10 years	**26**	**29**	**28**	26	28	28
10 to 15 years	**11**	**14**	**14**	12	15	14
15 to 20 years	**7**	**8**	**7**	7	8	8
20 to 25 years	**3**	**4**	**3**	4	4	4
Over 25 years	**4**	**2**	**3**	3	2	2

C4.1(d) UK 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 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** £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
At 1 January 2015	99,427	23,300	31,709	154,436
Comprising:				
- Policyholder liabilities	89,079	23,300	31,709	144,088
- Unallocated surplus of with-profits funds	10,348	-	-	10,348
Premiums	6,546	1,115	2,031	9,692
Surrenders	(3,136)	(3,168)	(59)	(6,363)
Maturities/Deaths	(4,378)	(573)	(2,040)	(6,991)
Net flows note (a)	(968)	(2,626)	(68)	(3,662)
Shareholders' transfers post-tax	(214)	-	-	(214)
Switches	(189)	189	-	-
Investment-related items and other movements	1,999	579	(259)	2,319
Foreign exchange translation differences	14	-	-	14
At 31 December 2015/1 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 note (b)	**11,798**	**2,770**	**4,058**	**18,626**
Foreign exchange translation differences	**527**	**-**	**-**	**527**
At 31 December 2016	**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**
Average policyholder liability balances*				
2016	**95,511**	**21,781**	**32,711**	**150,003**
2015	89,303	22,371	31,545	143,219

*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 outflows improved from £3,662 million in 2015 to £2,527 million in 2016, 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 staged withdrawal from this market in the UK.

(b) Investment-related items and other movements of £18,626 million mainly reflects investment return earned in the year, attributable to policyholders. Gains on shareholder-backed annuity business reflects a fall in bond yields over 2016.

(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 2016 and 2015:

	2016 £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	**37,848**	**52,495**	**90,343**	**11,153**	**33,881**	**45,034**	**6,111**	**16,166**	**22,277**	**157,654**
	2016 %									
Expected maturity:										
0 to 5 years	37	37	37	29	25	26	40	34	37	34
5 to 10 years	23	29	26	24	22	23	23	23	23	25
10 to 15 years	15	16	16	18	18	18	12	17	15	17
15 to 20 years	9	10	10	12	14	13	7	12	10	11
20 to 25 years	7	4	5	7	9	9	4	7	6	6
over 25 years	9	4	6	10	12	11	14	7	9	7
	2015 £m									
Policyholder liabilities	35,962	42,736	78,698	10,828	30,983	41,811	6,028	15,813	21,841	142,350
	2015 %									
Expected maturity:										
0 to 5 years	40	40	40	33	26	27	42	36	39	36
5 to 10 years	23	27	25	25	22	23	26	23	24	24
10 to 15 years	14	17	16	18	18	18	13	17	15	16
15 to 20 years	9	10	10	11	13	13	7	12	10	11
20 to 25 years	6	4	5	6	9	9	4	6	5	6
over 25 years	8	2	4	7	12	10	8	6	7	7

- The cash flow projections of expected benefit payments used in the maturity profile table above are from value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts.
- Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.
- Shareholder-backed annuity business includes the ex-PRIL and the legacy PAC shareholder annuity business.
- Investment contracts under ‘Other’ comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.
- For business with no maturity term included within the contracts; for example, with-profits investment bonds such as Prudence Bonds, an assumption is made as to likely duration based on prior experience.

C5 Intangible assets

(a) Goodwill

	Attributable to: Shareholders	With-profits	2016 £m	2015 £m
Cost				
At beginning of year	**1,463**	**185**	**1,648**	1,769
Disposal of Japan life business	**-**	**-**	**-**	(120)
Charge for reclassification as held for sale	**(15)**	**(41)**	**(56)**	-
Additional consideration paid on previously acquired business	**1**	**6**	**7**	2
Exchange differences	**26**	**3**	**29**	(3)
Net book amount at end of year	**1,475**	**153**	**1,628**	1,648

Goodwill comprises:

	2016 £m	2015 £m
M&G – attributable to shareholders	**1,153**	**1,153**
Other – attributable to shareholders	**322**	**310**
Goodwill – attributable to shareholders	**1,475**	1,463
Venture fund investments – attributable to with-profits funds	**153**	185
	1,628	1,648

Other goodwill represents amounts allocated to entities in Asia and the US operations. These goodwill amounts are not individually material.

(b) Deferred acquisition costs and other intangible assets

	2016 £m	2015 £m
Deferred acquisition costs and other intangible assets attributable to shareholder	**10,755**	8,422
Deferred acquisition costs and other intangible assets attributable to with-profits funds	**52**	50
Total of deferred acquisition costs and other intangible assets	**10,807**	8,472

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2016 £m	2015 £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**9,114**	6,948
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**64**	74
	9,178	7,022
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**43**	45
Distribution rights and other intangibles	**1,534**	1,355
	1,577	1,400
Total of deferred acquisition costs and other intangible assets	**10,755**	8,422

	2016 £m						2015 £m
	Deferred acquisition costs						
	Asia	US	UK	Asset management	PVIF and other intangibles[1]	Total	Total
Balance at 1 January	**781**	**6,148**	**81**	**12**	**1,400**	**8,422**	7,261
Additions	**267**	**678**	**12**	**-**	**222**	**1,179**	1,190
Amortisation to the income statement:[2]							
Operating profit	**(147)**	**(434)**	**(14)**	**(4)**	**(87)**	**(686)**	(762)
Non-operating profit	**-**	**565**	**-**	**-**	**(8)**	**557**	93
	(147)	**131**	**(14)**	**(4)**	**(95)**	**(129)**	(669)
Disposals and transfers[3]	**(251)**	**-**	**-**	**-**	**(17)**	**(268)**	(8)
Exchange differences and other movements	**138**	**1,270**	**-**	**-**	**67**	**1,475**	311
Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income[2]	**-**	**76**	**-**	**-**	**-**	**76**	337
Balance at 31 December	**788**	**8,303**	**79**	**8**	**1,577**	**10,755**	8,422

[1] PVIF and other intangibles includes amounts in relation to software rights with additions of £38 million, amortisation of £32 million, reclassification to held for sale assets of £14 million, forex gains of £3 million and a balance at 31 December 2016 of £66 million.

[2] Under the Group' application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby deferred acquisition costs are amortised in line with the emergence of actual and expected gross profits which are determined using an assumption for long-term investment returns for the separate account of 7.4 per cent (2015: 7.4 per cent) (gross of asset management fees and other charges to policyholders ,but net of external fund management fees). The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items.

[3] The entire £251 million for the Asia's deferred acquisition costs and £14 million out of the £17 million for the PVIF and other intangibles within the Disposals and transfers line relate to the reclassification of the Korea life business as held for sale.

Note
PVIF and other intangibles comprise PVIF, distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time.

US insurance operations
The DAC amount in respect of US insurance operations comprises amounts in respect of:

	2016 £m	2015 £m
Variable annuity business	**7,844**	5,713
Other business	**696**	703
Cumulative shadow DAC (for unrealised gains booked in other comprehensive income)*	**(237)**	(268)
Total DAC for US operations	**8,303**	6,148

* Consequent upon the negative unrealised valuation movement in 2016 of £28 million (2015: negative unrealised valuation movement of £1,305 million), there is a gain of £76 million (2015: a gain of £337 million) for altered shadow DAC amortisation booked within other comprehensive income. These adjustments reflect movement from period to period, in the changes to the pattern of reported gross profits that would have occurred if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 31 December 2016, the cumulative shadow DAC balance as shown in the table above was negative £237 million (2015: negative £268 million).

Sensitivity of amortisation charge

The amortisation charge to the income statement is reflected in both operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises:

(i) A core amount that reflects a relatively stable proportion of underlying premiums or profit; and

(ii) An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor feature of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In 2016, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £93 million (2015: charge for accelerated amortisation of £2 million). The 2016 amount primarily reflects the impact of the positive separate account performance, which is higher than the assumed level for the year, and the effect of releasing the 2013 fund returns of 17 per cent from the mean reversion formula.

The application of the mean reversion formula, has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. In 2017, it would take approximate movements in separate account values of more than either negative 19 per cent or positive 63 per cent for the mean reversion assumption to move outside the corridor.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2016 £m	2015 £m
Holding company operations:[note (i)]		
Perpetual Subordinated Capital Securities (Tier 1)[note (i)]	**890**	746
Perpetual Subordinated Capital Securities (Tier 2)[note (i),(iv),(v)]	**2,754**	1,149
Subordinated Notes (Tier 2)[note (i)]	**2,128**	2,123
Subordinated debt total	**5,772**	4,018
Senior debt:[note (ii)]		
£300m 6.875% Bonds 2023	**300**	300
£250m 5.875% Bonds 2029	**249**	249
Holding company total	**6,321**	4,567
Prudential Capital bank loan[note (iii)]	**275**	275
Jackson US$250m 8.15% Surplus Notes 2027	**202**	169
Total (per consolidated statement of financial position)	**6,798**	5,011

Notes
(i) These debt tier classifications (including those noted for the comparative balances) are consistent with the treatment of capital for regulatory purposes under the Solvency II regime.
The Group has designated all US$4.5 billion (2015: US$2.8 billion) of its US dollar denominated subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.
(ii) The senior debt ranks above subordinated debt in the event of liquidation.
(iii) The Prudential Capital bank loan of £275 million is drawn at a cost of 12 month GBP LIBOR plus 0.4 per cent and matures on 20 December 2017.
(iv) In June 2016, the Company issued core structural borrowings of US$1,000 million 5.25 per cent Tier 2 perpetual subordinated notes. The proceeds, net of costs, were £681 million.
(v) In September 2016, the Company issued core structural borrowings of US$725 million 4.38 per cent Tier 2 perpetual subordinated notes. The proceeds, net of costs, were £546 million.

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively.

The financial strength of The Prudential Assurance Company Limited is rated AA by Standard & Poor's, Aa3 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's, AA by Fitch and A+ by AM Best.

Prudential Assurance Co. Singapore (Pte) Ltd.'s (Prudential Singapore) financial strength is rated AA by Standard & Poor's.

All ratings on Prudential and its subsidiaries have been reaffirmed on stable outlook except for PAC, which was placed on negative outlook by Moody's in June 2016 following the UK referendum on EU membership.

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2016 £m	2015 £m
Borrowings in respect of short-term fixed income securities programmes[note (i)]	**1,651**	1,705
Other borrowings [note (iii)]	**666**	255
Total[note (i)]	**2,317**	1,960

Notes

(i) In January and November 2015, the Company issued £300 million Medium Term Notes that will mature in January 2018 and November 2018 respectively. The proceeds, net of costs, were £299 million for the January 2015 issue and £299 million for the November 2015 issue.

(ii) Other borrowings mainly include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson. In addition, other borrowings include amounts whose repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(b) Borrowings attributable to with-profits operations

	2016 £m	2015 £m
Non-recourse borrowings of consolidated investment funds*	**1,189**	1,158
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc†	**100**	100
Other borrowings (predominantly obligations under finance leases)	**60**	74
Total	**1,349**	1,332

* In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds.

† The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

C7 Risk and sensitivity analysis

C7.1 Group overview

The Group's risk framework and the management of the risk including those attached to the Group's financial statements including financial assets, financial liabilities and insurance liabilities, together with the inter-relationship with the management of capital have been included in the Group Chief Risk Officer's Report on the risks facing our business and how these are managed.

The financial and insurance assets and liabilities on the Group's balance sheet are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks, including how they affect Group's operations and how these are managed are discussed in the Group Chief Risk Officer's report.

The most significant items that the IFRS shareholders' profit or loss and shareholders' equity for the Group's life assurance business is sensitive to, are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

Type of business	Market and credit risk			Insurance and lapse risk
	Investments/derivatives	Liabilities / unallocated surplus	Other exposure	
Asia insurance operations (see also section C7.2)				
All business	Currency risk			Mortality and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	
Non-participating business	Asset/liability mismatch risk			
	Credit risk Interest rate and price risk	Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements		
US insurance operations (see also section C7.3)				
All business	Currency risk			Persistency risk
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme			
Fixed index annuity business	Derivative hedge programme to the extent not fully hedged against liability	Incidence of equity participation features		
Fixed index annuities, Fixed annuities and GIC business	Credit risk Interest rate risk Profit and loss and shareholders' equity are volatile for these risks as they affect the values of derivatives and embedded derivatives and impairment losses. In addition, shareholders' equity is volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39		Spread difference between earned rate and rate credited to policyholders	Lapse risk, but the effects of extreme events are mitigated by the application of market value adjustments
UK insurance operations (see also section C7.4)				
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	Persistency risk to future shareholder transfers
SAIF sub-fund	Net neutral direct exposure (indirect exposure only)		Asset management fees earned by M&G	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	Persistency risk
	Asset/liability mismatch risk			
Shareholder-backed annuity business	Credit risk for assets covering liabilities and shareholder capital Interest rate risk for assets in excess of liabilities ie assets representing shareholder capital			Mortality experience and assumptions for longevity

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit are provided in notes C7.2, C7.3, C7.4 and C7.5. The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date. In the equity risk sensitivity analysis shown below, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time during which the Group would be able to put mitigating management actions in place. In addition, the equity risk sensitivity analysis provided assumed that all equity indices fall by the same percentage.

Impact of diversification on risk exposure
The Group benefits from significant diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. This arises because not all risk scenarios are likely to happen at the same time and across all geographic regions. Relevant correlation factors include:

Correlation across geographic regions:
- Financial risk factors; and
- Non-financial risk factors.

Correlation across risk factors:
- Longevity risk;
- Expenses;
- Persistency; and
- Other risks.

The effect of Group diversification across the Group's life businesses is to significantly reduce the aggregate standalone volatility risk to IFRS operating profit based on longer-term investment returns. The effect is almost wholly explained by the correlations across risk types, in particular mortality and longevity risk.

C7.2 Asia insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks
The Asia operations sell with-profits and unit-linked policies, and the investment portfolio of the with-profits funds contains a proportion of equities. Non-participating business is largely backed by debt securities or deposits. The Group's exposure to market risk arising from its Asia operations is therefore at modest levels. This reflects the fact that the Asia operations have a balanced portfolio of with-profits, unit-linked and other types of business.

In Asia, adverse persistency experience can impact the IFRS profitability of certain types of business written in the region. This risk is managed at a business unit level through regular monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection, as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, eg surrender charges, or through the availability of premium holiday or partial withdrawal policy features.

In summary, for Asia operations, the operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked persistency, and other insurance risks. At the total IFRS profit level the Asia result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business.

i Sensitivity to risks other than foreign exchange risk
Interest rate risk
Excluding its with-profits and unit-linked businesses, the results of the Asia business are sensitive to the vagaries of routine movements in interest rates.

For the purposes of analysing sensitivity to variations in interest rates, reference has been made to the movements in the 10-year government bond rates of the territories. At 31 December 2016, 10-year government bond rates vary from territory to territory and range from 1.2 per cent to 8.1 per cent (2015: 1.0 per cent to 8.9 per cent).

For the sensitivity analysis as shown in the table below, the reasonably possible interest rate movement used is 1 per cent for all territories.

The estimated sensitivity to the decrease and increase in interest rates at 31 December 2016 and 2015 is as follows:

	2016 £m		2015 £m	
	Decrease of 1%	**Increase of 1%**	**Decrease of 1%**	**Increase of 1%**
Profit before tax attributable to shareholders	**213**	**(509)**	185	(339)
Related deferred tax (where applicable)	**(41)**	**62**	(34)	59
Net effect on profit and shareholders' equity	**172**	**(447)**	151	(280)

The pre-tax impacts, if they arose, would mostly be recorded within the category short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from period-to-period. For example for those countries, such as those applying US GAAP, the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements.

In addition, the degree of sensitivity of the results shown in the table above is dependent on the interest rate level at that point of time. The low interest rates in certain countries have had an adverse impact on the degree of sensitivity to a decrease in interest rates.

An additional factor to the direction of the sensitivity of the Asia operations as a whole is movement in the country mix.

Equity price risk
The non-linked shareholder-backed business has limited exposure to equity and property investment (31 December 2016: £1,410 million). Generally changes in equity and property investment values are not directly offset by movements in non-linked policyholder liabilities.

The estimated sensitivity to a 10 per cent and 20 per cent change in equity and property prices for shareholder-backed Asia other business (including those held by the Group's joint venture and associate businesses), which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2016 and 2015 would be as follows:

	2016 £m		2015 £m	
	Decrease		**Decrease**	
	of 20%	**of 10%**	**of 20%**	**of 10%**
Profit before tax attributable to shareholders	**(386)**	**(192)**	(225)	(112)
Related deferred tax (where applicable)	**4**	**2**	21	10
Net effect on profit and shareholders' equity	**(382)**	**(190)**	(204)	(102)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

Insurance risk
Many of the territories in Asia are exposed to mortality/morbidity risk and provision is made within policyholder liabilities on a prudent regulatory basis to cover the potential exposure. If these prudent assumptions were strengthened by 5 per cent then it is estimated that post-tax profit and shareholders' equity would be decreased by approximately £61 million (2015: £43 million). Mortality and morbidity has a symmetrical effect on the portfolio and any weakening of these assumptions would have a similar equal and opposite impact.

ii Sensitivity to foreign exchange risk
Consistent with the Group's accounting policies, the profits of the Asia insurance operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2016, the rates for the most significant operations are given in note A1.

A 10 per cent increase (strengthening of the pound sterling) or decrease (weakening of the pound sterling) in these rates would have reduced or increased profit before tax attributable to shareholders, profit for the year and shareholders' equity, excluding goodwill attributable to Asia operations respectively as follows:

	A 10% increase in local currency to £ exchange rates		A 10% decrease in local currency to £ exchange rates	
	2016 £m	**2015 £m**	**2016 £m**	**2015 £m**
Profit before tax attributable to shareholders	**(97)**	(94)	**118**	115
Profit for the year	**(77)**	(79)	**94**	97
Shareholders' equity, excluding goodwill, attributable to Asia operations	**(442)**	(367)	**540**	449

C7.3 US insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks
At the level of operating profit based on longer-term investment returns, Jackson's results are sensitive to market conditions to the extent of income earned on spread-based products and indirectly in respect of variable annuity asset management fees.

Jackson's main exposures are to market risk through its exposure to interest rate risk and equity risk. Approximately 91 per cent (2015: 92 per cent) of its general account investments support fixed interest rate and fixed index annuities, variable annuity fixed account deposits and guarantees, life business and surplus and 9 per cent (2015: 8 per cent) support institutional businesses. All of these types of business contain considerable interest rate guarantee features and, consequently, require that the assets that support them are primarily fixed income or fixed maturity.

Jackson is exposed primarily to the following risks:

Risks	Risk of loss
Equity risk	• related to the incidence of benefits related to guarantees issued in connection with its variable annuity contracts; and • related to meeting contractual accumulation requirements in fixed index annuity contracts.
Interest rate risk	• related to meeting guaranteed rates of accumulation on fixed annuity products following a sharp and sustained fall in interest rates; • related to increases in the present value of projected benefits related to guarantees issued in connection with its variable annuity contracts following a sharp and sustained fall in interest rates in conjunction with a fall in equity markets; • related to the surrender value guarantee features attached to the Company's fixed annuity products and to policyholder withdrawals following a sharp and sustained increase in interest rates; and • the risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk and extension risk inherent in mortgage-backed securities.

Jackson's derivative programme is used to manage interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, interest rates and credit spreads materially affect the carrying value of derivatives that are used to manage the liabilities to policyholders and backing investment assets. Combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities which is largely insensitive to current period market movements, the Jackson total profit (ie including short-term fluctuations in investment returns) is sensitive to market movements. In addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (ie outside the income statement).

Jackson enters into financial derivative transactions, including those noted below to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows or quantity of, or a degree of exposure with respect to assets, liabilities or future cash flows, which Jackson has acquired or incurred.

Jackson uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, fixed index annuities, certain variable annuity features and reinsured Guaranteed Minimum Income Benefit variable annuity features contain embedded derivatives as defined by IAS 39, 'Financial Instruments: Recognition and Measurement'. Jackson does not account for such derivatives as either fair value or cash flow hedges as might be permitted if the specific hedge documentation requirements of IAS 39 were followed. Financial derivatives, including derivatives embedded in certain host liabilities that have been separated for accounting and financial reporting purposes are carried at fair value.

The principal types of derivatives used by Jackson and their purpose are as follows:

Derivative	Purpose
Interest rate swaps	These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used for hedging purposes.
Swaption contracts	These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson both purchases and writes swaptions in order to hedge against significant movements in interest rates.
Treasury futures contracts	These derivatives are used to hedge Jackson's exposure to movements in interest rates.
Equity index futures contracts and equity index options	These derivatives (including various call and put options and interest rate contingent options) are used to hedge Jackson's obligations associated with its issuance of certain VA guarantees. Some of these annuities and guarantees contain embedded options that are fair valued for financial reporting purposes.
Cross-currency swaps	Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations.
Credit default swaps	These swaps, represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement. Jackson does not write default protection using credit derivatives.

The estimated sensitivity of Jackson's profit and shareholders' equity to equity and interest rate risks provided below is net of the related changes in amortisation of DAC. The effect on the related changes in amortisation of DAC provided is based on the current 'grandfathered' US GAAP DAC basis but does not include any effect from an acceleration or deceleration of amortisation of DAC.

i Sensitivity to equity risk

At 31 December 2016 and 2015, Jackson had variable annuity contracts with guarantees, for which the net amount at risk ('NAR') is defined as the amount of guaranteed benefit in excess of current account value, as follows:

31 December 2016	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	**0-6%**	**93,512**	**2,483**	**65.6 years**	
GMWB - premium only	**0%**	**2,217**	**39**		
GMWB*	**0-5%****	**256**	**22**		
GMAB - premium only	**0%**	**44**	**-**		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		**8,798**	**346**	**66.0 years**	
GMWB - highest anniversary only		**2,479**	**125**		
GMWB*		**747**	**83**		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	**0-6%**	**5,309**	**699**	**68.7 years**	
GMIB†	**0-6%**	**1,595**	**595**		**0.5 years**
GMWB*	**0-8%****	**85,402**	**9,293**		

31 December 2015	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	0-6%	70,732	2,614	65.3 years	
GMWB - premium only	0%	1,916	56		
GMWB*	0-5%**	229	23		
GMAB - premium only	0%	45	-		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		7,008	587	65.4 years	
GMWB - highest anniversary only		2,025	202		
GMWB*		698	101		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	4,069	640	68.3 years	
GMIB†	0-6%	1,422	518		0.5 years
GMWB*	0-8%**	63,924	7,758		

* Amounts shown for GMWB comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).

** Ranges shown based on simple interest. The upper limits of 5 per cent or 8 per cent simple interest are approximately equal to 4.1 per cent and 6 per cent respectively, on a compound interest basis over a typical 10-year bonus period. For example 1 + 10 x 0.05 is similar to 1.04 growing at a compound rate of 4 per cent for a further nine years.

† The GMIB reinsurance guarantees are essentially fully reinsured.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

	2016 £m	2015 £m
Mutual fund type:		
Equity	**73,430**	55,488
Bond	**15,044**	11,535
Balanced	**17,441**	13,546
Money market	**994**	832
Total	**106,909**	81,401

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed index annuity liabilities and guarantees included in certain variable annuity benefits as illustrated above. This risk is managed using an equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases external futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling guaranteed benefit fees.

As a result of this hedging programme, if the equity markets were to increase further in the future, the net effect of Jackson's free-standing derivatives would decrease in value. However, over time, this movement would be broadly offset by increased separate account fees and reserve decreases, net of the related changes to amortisation of deferred acquisition costs. Due to the nature of the free-standing and embedded derivatives, this hedge, while highly effective on an economic basis, may not completely mute in the financial reporting the immediate impact of equity market movements as the free-standing derivatives reset immediately while the hedged liabilities reset more slowly and fees are recognised prospectively. The opposite impact would be observed if the equity markets were to decrease.

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

At 31 December 2016, the estimated sensitivity of Jackson's profit and shareholders' equity to immediate increases and decreases in equity markets is shown below. The sensitivities are shown net of related changes in DAC amortisation.

	2016 £m				2015 £m			
	Decrease		Increase		Decrease		Increase	
	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%
Pre-tax profit, net of related changes in amortisation of DAC	**1,061**	**488**	**370**	**59**	738	259	(86)	(128)
Related deferred tax effects	**(371)**	**(171)**	**(129)**	**(21)**	(258)	(91)	30	45
Net sensitivity of profit after tax and shareholders' equity	**690**	**317**	**241**	**38**	480	168	(56)	(83)

Note
The table above has been prepared to exclude the impact of the instantaneous equity movements on the separate account fees. In addition, the sensitivity movements shown include those relating to the fixed index annuity and the reinsurance of GMIB guarantees.

The above table provides sensitivity movements as at a point in time while the actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2016 and 2015.

ii Sensitivity to interest rate risk

Except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of fixed annuity liabilities of Jackson's products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The GMWB features attached to variable annuity business (other than 'for life' components) are accounted for as embedded derivatives which are fair valued and, therefore, will be sensitive to changes in interest rate.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a 1 per cent and 2 per cent decrease and increase in interest rates at 31 December 2016 and 2015 is as follows:

	2016 £m				2015 £m			
	Decrease		Increase		Decrease		Increase	
	of 2%	of 1%	of 1%	of 2%	of 2%	of 1%	of 1%	of 2%
Profit and loss:								
Pre-tax profit effect (net of related changes in amortisation of DAC)	**(2,899)**	**(1,394)**	**1,065**	**2,004**	(1,776)	(847)	628	1,120
Related effect on charge for deferred tax	**1,015**	**488**	**(373)**	**(701)**	621	296	(220)	(392)
Net profit effect	**(1,884)**	**(906)**	**692**	**1,303**	(1,155)	(551)	408	728
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	**3,364**	**1,883**	**(1,883)**	**(3,364)**	3,167	1,782	(1,782)	(3,167)
Related effect on movement in deferred tax	**(1,177)**	**(659)**	**659**	**1,177**	(1,108)	(624)	624	1,108
Net effect	**2,187**	**1,224**	**(1,224)**	**(2,187)**	2,059	1,158	(1,158)	(2,059)
Total net effect on shareholders' equity	**303**	**318**	**(532)**	**(884)**	904	607	(750)	(1,331)

These sensitivities are shown only for interest rates in isolation and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities. Similar to sensitivity to equity risk, the sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors.

iii Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2016, the average and closing rates were US$1.35 (2015: $1.53) and US$1.24 (2015: US$1.47) to £1.00 sterling, respectively. A 10 per cent increase (weakening of the dollar) or decrease (strengthening of the dollar) in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

	A 10% increase in US$:£ exchange rates		A 10% decrease in US$:£ exchange rates	
	2016 £m	**2015 £m**	**2016 £m**	**2015£m**
Profit before tax attributable to shareholders	**(48)**	(109)	**59**	133
Profit for the year	**(54)**	(87)	**66**	107
Shareholders' equity attributable to US insurance operations	**(473)**	(378)	**578**	462

iv Other sensitivities

The total profit of Jackson is sensitive to market risk on the assets covering liabilities other than variable annuity business segregated in the separate accounts.

For term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For interest-sensitive business, the key assumption is the expected long-term spread between the earned rate and the rate credited to policyholders, which is based on an annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges) all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual experience is measured by internally developed expense, mortality and persistency studies.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and GMDB reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.

Jackson is sensitive to lapse risk and other types of policyholder behaviour, such as the take-up of its GMWB product features. Jackson's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. In the absence of hedging, equity and interest rate movements can both cause a loss directly and cause an increased future sensitivity to policyholder behaviour. Jackson has an extensive derivative programme that seeks to manage the exposure to such altered equity markets and interest rates.

For variable annuity business, the key assumption is the expected long-term level of separate account returns, which for 2016 was 7.4 per cent (2015: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

- Through the projected expected gross profits that are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique; and
- The required level of provision for claims for guaranteed minimum death, 'for life' withdrawal, and income benefits.

C7.4 UK insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The IFRS basis results of the UK insurance operations are most sensitive to asset/liability matching, mortality and default rate experience and longevity assumptions and the difference between the return on corporate bond and risk-free rate for shareholder-backed annuity business of the Prudential Assurance Company non-profit sub-fund. Further details are described below.

The IFRS operating profit based on longer-term investment returns for UK insurance operations is sensitive to changes in longevity assumptions affecting the carrying value of liabilities to policyholders for UK shareholder-backed annuity business. At the total IFRS profit level, the result is particularly sensitive to temporary value movements on assets backing the capital of the shareholder-backed annuity business.

With-profits business

With-profits sub-fund business

The shareholder results of the UK with-profits business (including non-participating annuity business of the with-profits sub-fund are only sensitive to market risk through the indirect effect of investment performance on declared policyholder bonuses.

The investment assets of PAC with-profits funds are subject to market risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit and equity.

The shareholder results of the UK with-profits fund correspond to the shareholders' share of the cost of bonuses declared on the with-profits business which is currently one-ninth of the cost of bonuses declared. Investment performance is a key driver of bonuses, and hence the shareholders' share of the cost of bonuses. Due to the 'smoothed' basis of bonus declaration, the sensitivity to investment performance in a single year is low relative to movements in the period to period performance. However, over multiple periods, it is important as it may affect future expected shareholder transfers. Altered persistency trends may affect future expected shareholder transfers.

Shareholder-backed annuity business

Profits from shareholder-backed annuity business are most sensitive to:

- The extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts;
- Actual versus expected default rates on assets held;
- The difference between long-term rates of return on corporate bonds and risk-free rates;
- The variance between actual and expected mortality experience;
- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities; and
- Changes in renewal expense levels.

In addition the level of profit is affected by change in the level of reinsurance cover.

A decrease in assumed mortality rates of 1 per cent would decrease pre-tax profit by approximately £67 million (2015: £67 million). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £200 million (2015: £176 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase pre-tax profit by £41 million (2015: £35 million). The effect on profit would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. The net effect on profit after tax and shareholders' equity from all the changes in assumptions as described above would be an increase of approximately £144 million (2015: £115 million).

Unit-linked and other business

Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK insurance operations.

Due to the matching of policyholder liabilities to attaching asset value movements, the UK unit-linked business is not directly affected by market or credit risk. The liabilities of the other business are also broadly insensitive to market risk. Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders for management of assets, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and timing of death. The accounting impact of the latter is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

Sensitivity to interest rate risk and other market risk

By virtue of the fund structure, product features and basis of accounting, the policyholder liabilities of the UK insurance operations are, except annuity business, not generally exposed to interest rate risk. At 31 December 2016 annuity liabilities accounted for 98 per cent (2015: 98 per cent) of UK shareholder-backed business liabilities. For annuity business, liabilities are exposed to interest rate risk. However, the net exposure is very substantially ameliorated by virtue of the close matching of assets with appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors so it is possible for a degree of mis-matching profits or losses to arise.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under Solvency II reporting requirements and IFRS are not the same with additional assets used for the IFRS annuity liabilities . As a result, IFRS has a different sensitivity to interest rate and credit risk than under Solvency II.

The estimated sensitivity of the UK non-linked shareholder-backed business (principally annuities business) to a movement in interest rates is as follows:

	2016 £m				2015 £m			
	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%
Carrying value of debt securities and derivatives	**12,353**	**5,508**	**(4,527)**	**(8,313)**	10,862	4,812	(3,935)	(7,219)
Policyholder liabilities	**(10,023)**	**(4,466)**	**3,636**	**6,635**	(8,738)	(3,909)	3,208	5,872
Related deferred tax effects	**(396)**	**(177)**	**151**	**285**	(402)	(172)	138	257
Net sensitivity of profit after tax and shareholders' equity	**1,934**	**865**	**(740)**	**(1,393)**	1,722	731	(589)	(1,090)

In addition the shareholder-backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment properties. Excluding any second order effects on the measurement of the liabilities for future cash flows to the policyholder, a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax and shareholders' equity.

	2016 £m		2015 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit	**(326)**	**(163)**	(327)	(163)
Related deferred tax effects	**66**	**33**	66	33
Net sensitivity of profit after tax and shareholders' equity	**(260)**	**(130)**	(261)	(130)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements, and, therefore the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

C7.5 Asset management and other operations

a Asset management

i Sensitivities to foreign exchange risk

Consistent with the Group's accounting policies, the profits of Eastspring Investments and US asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. The rates for the functional currencies of most significant operations are shown in note A1.

A 10 per cent increase in the relevant exchange rates (strengthening of the pound sterling) would have reduced reported profit before tax attributable to shareholders, and shareholders' equity excluding goodwill attributable to Eastspring Investments and US asset management operations, by £12 million and £47 million respectively (2015: £11 million and £38 million, respectively).

ii Sensitivities to other financial risks for asset management operations

The principal sensitivities to other financial risk of asset management operations are credit risk on the bridging loan portfolio of the Prudential Capital operation and the indirect effect of changes to market values of funds under management. Due to the nature of the asset management operations there is limited direct sensitivity to movements in interest rates. Total debt securities held at 31 December 2016 by asset management operations were £2,359 million (2015: £2,204 million), the majority of which are held by the Prudential Capital's operation. Debt securities held by Prudential Capital are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact on profit or shareholders' equity. The Group's asset management operations do not hold significant investments in property or equities.

b Other operations

The Group holds certain derivatives that are used to manage foreign currency movements and macroeconomic exposures. The fair value of these derivatives is sensitive to the combined effect of movements in exchange rates, interest rates and inflation rates. The possible permutations cover a wide range of scenarios. For indicative purposes, a reasonably possible range of fair value movements could be plus or minus £150 million.

C8 Tax assets and liabilities
Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	Deferred tax assets		Deferred tax liabilities	
	2016 £m	**2015 £m**	**2016 £m**	**2015 £m**
Unrealised losses or gains on investments	**23**	21	**(1,534)**	(1,036)
Balances relating to investment and insurance contracts	**1**	1	**(730)**	(543)
Short-term temporary differences	**4,196**	2,752	**(3,071)**	(2,400)
Capital allowances	**16**	10	**(35)**	(31)
Unused tax losses	**79**	35	**-**	-
Total	**4,315**	2,819	**(5,370)**	(4,010)

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. For the 2016 full year results and financial position at 31 December 2016 the following tax benefits have not been recognised:

	2016		2015	
	Tax benefit £m	**Losses £bn**	**Tax benefit £m**	**Losses £bn**
Capital losses	**89**	**0.4**	98	0.5
Trading losses	**41**	**0.2**	52	0.3

Of the unrecognised trading losses, losses of £31 million will expire within the next seven years, £1 million will expire within 20 years and the rest have no expiry date.

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

The reduction in the UK corporation tax rate to 17 per cent from 1 April 2020 was substantively enacted on 6 September 2016, and, has had the effect of reducing the UK with-profits and shareholder-backed business element of the overall net deferred tax liabilities by £5 million as at 31 December 2016. The effects of these changes are reflected in the financial statements for the year ended 31 December 2016.

C9 Defined benefit pension schemes

(a) Background and summary economic and IAS 19 financial positions

The Group's businesses operate a number of pension schemes. The specific features of these schemes vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). PSPS accounts for 82 per cent (2015: 84 per cent) of the underlying scheme liabilities of the Group's defined benefit schemes.

The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies the principles of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', whereby a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. Further, the IFRS financial position recorded, reflects the higher of any underlying IAS 19 deficit and any obligation for committed deficit funding where applicable.

The Group asset/liability in respect of defined benefit pension schemes is as follows:

	2016 £m					2015 £m				
	PSPS note (i)	**SASPS** note (ii)	**M&GGPS**	**Other schemes**	**Total**	**PSPS** note (i)	**SASPS** note (ii)	**M&GGPS**	**Other schemes**	**Total**
Underlying economic surplus (deficit)	**717**	**(237)**	**84**	**(1)**	**563**	969	(82)	75	(1)	961
Less: unrecognised surplus note (i)	**(558)**	**-**	**-**	**-**	**(558)**	(800)	-	-	-	(800)
Economic surplus (deficit) (including investment in Prudential insurance policies)	**159**	**(237)**	**84**	**(1)**	**5**	169	(82)	75	(1)	161
Attributable to:										
PAC with-profits fund	**111**	**(95)**	**-**	**-**	**16**	118	(33)	-	-	85
Shareholder-backed operations	**48**	**(142)**	**84**	**(1)**	**(11)**	51	(49)	75	(1)	76
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies note (iii)	**-**	**-**	**(134)**	**-**	**(134)**	-	-	(77)	-	(77)
IAS 19 pension asset (liability) on the Group statement of financial position note (iv)	**159**	**(237)**	**(50)**	**(1)**	**(129)**	169	(82)	(2)	(1)	84

Notes

(i) For PSPS, the Group does not have an unconditional right of refund to any surplus of the scheme. The PSPS pension asset represents the present value of the economic benefit (impact) of the Company from the difference between future ongoing contributions to the scheme and estimated accrued cost of service. No deficit or other funding is required for PSPS. Deficit funding, where applicable, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed considerations in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

(ii) The deficit of SASPS has been allocated 40 per cent to the PAC with-profits fund and 60 per cent to the shareholders' fund as at 31 December 2016 and 2015.

(iii) The underlying position on an economic basis reflects the assets (including investments in Prudential insurance policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes.

(iv) At 31 December 2016, the PSPS pension asset of £159 million (2015: £169 million) and the other schemes' pension liabilities of £288 million (2015: £85 million) are included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position.

Triennial actuarial valuations
Defined benefit pension schemes in the UK are generally required to be subject to full actuarial valuations every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

The information on the latest completed actuarial valuation for the UK schemes is shown in the table below:

	PSPS	SASPS	M&GGPS
Last completed actuarial valuation date	5 April 2014	31 March 2014	31 December 2014
Valuation actuary, all Fellows of the Institute and Faculty of Actuaries	C G Singer Towers Watson Limited	Jonathan Seed Xafinity Consulting	Paul Belok AON Hewitt Limited
Funding level at the last valuation	107 per cent	78 per cent	99 per cent
Deficit funding arrangement agreed with the Trustees based on the last valuation	No deficit or other funding required. Ongoing contributions for active members are at the minimum level required under the scheme rules (approximately £6 million per annum excluding expenses)	Deficit funding of £21 million per annum from 1 January 2015 until 31 March 2024, or earlier if the scheme's funding level reaches 100 per cent before this date. The deficit funding will be reviewed every three years at subsequent valuations	No deficit funding required from 1 January 2016

(b) Assumptions
The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

	2016 %	2015 %
Discount rate*	**2.6**	3.8
Rate of increase in salaries	**3.2**	3.0
Rate of inflation**		
Retail prices index (RPI)	**3.2**	3.0
Consumer prices index (CPI)	**2.2**	2.0
Rate of increase of pensions in payment for inflation:		
PSPS:		
Guaranteed (maximum 5%)	**2.5**	2.5
Guaranteed (maximum 2.5%)	**2.5**	2.5
Discretionary	**2.5**	2.5
Other schemes	**3.2**	3.0

* The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities.
** The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.

The calculations are based on current mortality estimates with an allowance made for future improvements in mortality. This allowance was updated in 2016 to reflect the CMI's 2014 mortality improvements model, with scheme-specific calibrations. For immediate annuities in payment, in 2016 and 2015, a long-term mortality improvement rate of 1.75 per cent per annum and 1.25 per cent per annum was applied for males and females, respectively.

(c) Estimated pension scheme surpluses and deficits
The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. At 31 December 2016, the investments in Prudential insurance policies comprise £134 million (2015: £77 million) for the M&GGPS and there were no investments in Prudential insurance policies for PSPS and SASPS (2015: £125 million for PSPS). In principle, on consolidation the investments are eliminated against policyholder liabilities of UK insurance operations, so that the formal IAS 19 position for the scheme in isolation excludes these items. This treatment applies to the M&GGPS investments. However, in 2015 as a substantial portion of the Company's interest in the underlying surplus of PSPS was not recognised, the adjustment was not necessary for the PSPS investments.

Movements on the pension scheme deficit determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

	2016 £m				
	Surplus (deficit) in schemes at 1 Jan 2016	**(Charge) credit to income statement**	**Actuarial gains and losses in other comprehensive income**	**Contributions paid**	**Surplus (deficit) in schemes at 31 Dec 2016**
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**961**	**(1)**	**(442)**	**45**	**563**
Less: amount attributable to PAC with-profits fund	**(658)**	**(12)**	**261**	**(16)**	**(425)**
Shareholders' share:					
Gross of tax surplus (deficit)	**303**	**(13)**	**(181)**	**29**	**138**
Related tax	**(60)**	**3**	**36**	**(6)**	**(27)**
Net of shareholders' tax	**243**	**(10)**	**(145)**	**23**	**111**
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	**(800)**	**(32)**	**274**	**-**	**(558)**
Less: amount attributable to PAC with-profits fund	**573**	**21**	**(185)**	**-**	**409**
Shareholders' share:					
Gross of tax	**(227)**	**(11)**	**89**	**-**	**(149)**
Related tax	**45**	**2**	**(18)**	**-**	**29**
Net of shareholders' tax	**(182)**	**(9)**	**71**	**-**	**(120)**
With the effect of IFRIC 14					
Surplus (deficit)	**161**	**(33)**	**(168)**	**45**	**5**
Less: amount attributable to PAC with-profits fund	**(85)**	**9**	**76**	**(16)**	**(16)**
Shareholders' share:					
Gross of tax surplus (deficit)	**76**	**(24)**	**(92)**	**29**	**(11)**
Related tax	**(15)**	**5**	**18**	**(6)**	**2**
Net of shareholders' tax	**61**	**(19)**	**(74)**	**23**	**(9)**

Underlying investments of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plans' assets at 31 December comprise the following investments:

	2016				**2015**			
	PSPS £m	**Other schemes £m**	**Total £m**	**%**	**PSPS £m**	**Other schemes £m**	**Total £m**	**%**
Equities								
UK	**18**	**85**	**103**	**1**	126	70	196	3
Overseas	**293**	**368**	**661**	**7**	151	329	480	6
Bonds								
Government	**5,411**	**550**	**5,961**	**66**	4,795	427	5,222	67
Corporate	**1,169**	**196**	**1,365**	**15**	970	145	1,115	14
Asset-backed securities	**144**	**6**	**150**	**2**	135	21	156	2
Derivatives	**252**	**(2)**	**250**	**3**	183	(5)	178	2
Properties	**71**	**109**	**180**	**2**	70	62	132	2
Other assets	**269**	**67**	**336**	**4**	298	42	340	4
Total value of assets**	**7,627**	**1,379**	**9,006**	**100**	6,728	1,091	7,819	100

(d) Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivity is calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded.

The sensitivity of the underlying pension scheme liabilities as shown above does not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and SASPS to the PAC with-profits fund as described above.

	Assumption applied		Sensitivity change in assumption	Impact of sensitivity on scheme liabilities on IAS 19 basis		
	2016	**2015**			**2016**	**2015**
Discount rate	**2.6%**	3.8%	**Decrease by 0.2%**	**Increase in scheme liabilities by:**		
				PSPS	**3.5%**	3.3%
				Other schemes	**5.3%**	5.0%
Discount rate	**2.6%**	3.8%	**Increase by 0.2%**	**Decrease in scheme liabilities by:**		
				PSPS	**3.5%**	3.1%
				Other schemes	**5.0%**	4.6%
Rate of inflation	**3.2%**	3.0%	**RPI: Decrease by 0.2%**	**Decrease in scheme liabilities by:**		
	2.2%	2.0%	**CPI: Decrease by 0.2% with consequent reduction in salary increases**	**PSPS**	**0.6%**	0.5%
				Other schemes	**4.1%**	4.0%
Mortality rate			**Increase life expectancy by 1 year**	**Increase in scheme liabilities by:**		
				PSPS	**3.5%**	3.2%
				Other schemes	**3.7%**	2.8%

C10 Share capital, share premium and own shares

Issued shares of 5p each fully paid	2016 Number of ordinary shares	2016 Share capital £m	2016 Share premium £m	2015 Number of ordinary shares	2015 Share capital £m	2015 Share premium £m
At 1 January	**2,572,454,958**	**128**	**1,915**	2,567,779,950	128	1,908
Shares issued under share-based schemes	**8,606,615**	**1**	**12**	4,675,008	-	7
At 31 December	**2,581,061,573**	**129**	**1,927**	2,572,454,958	128	1,915

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 31 December 2016, there were options outstanding under save as you earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
31 December 2016	**7,068,884**	**466p**	**1,155p**	**2022**
31 December 2015	8,795,617	288p	1,155p	2021

Transactions by Prudential plc and its subsidiaries in Prudential plc shares
The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £226 million as at 31 December 2016 (2015: £219 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2016, 10.7 million (2015: 10.5 million) Prudential plc shares with a market value of £175 million (2015: £161 million) were held in such trusts all of which are for employee incentive plans. The maximum number of shares held during 2016 was 11.2 million which was in June 2016.

The Company purchased the following number of shares in respect of employee incentive plans. The shares purchased each month are as follows:

	2016 Number of shares	2016 Share price Low £	2016 Share price High £	2016 Cost £	2015 Number of shares	2015 Share price Low £	2015 Share price High £	2015 Cost £
January	67,625	13.73	14.00	932,711	52,474	14.83	15.11	786,584
February	79,077	11.96	12.01	947,993	49,423	16.01	16.14	795,683
March	735,361	13.09	13.72	9,686,101	4,660,458	16.44	17.01	78,940,633
April	84,848	12.91	13.31	1,115,919	52,371	16.78	17.24	892,795
May	2,272,344	13.17	13.31	30,238,832	145,542	16.07	16.61	2,357,705
June	576,386	11.28	13.09	6,604,231	160,078	15.65	16.20	2,563,060
July	84,883	11.96	12.32	1,040,732	55,208	15.04	15.99	868,713
August	73,602	14.01	14.25	1,040,528	57,653	15.07	15.17	868,091
September	173,166	13.69	14.14	2,372,037	154,461	13.57	14.31	2,149,244
October	71,253	14.37	14.50	1,026,260	58,087	15.14	15.22	879,999
November	69,976	13.49	15.40	1,044,194	56,948	15.01	15.61	866,033
December	71,626	15.76	16.37	1,134,181	61,441	15.00	15.08	923,600
Total	**4,360,147**			**57,183,719**	5,564,144			92,892,140

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2016 was 6.0 million (2015: 6.1 million) and the cost of acquiring these shares of £61 million (2015: £54 million) is included in the cost of own shares. The market value of these shares as at 31 December 2016 was £97 million (2015: £94 million). During 2016, these funds made net disposals of 77,423 Prudential shares (2015: net disposals of 1,402,697) for a net increase of £7.9 million to book cost (2015: net increase of £13 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during 2016 or 2015.

D OTHER NOTES

D1 Held for sale Korea life business

On 10 November 2016, the Group announced that it had reached an agreement to sell 100 per cent of its life insurance subsidiary in Korea, PCA Life Insurance Co. Ltd. ('PCA Life Korea'), to Mirae Asset Life Insurance Co. Ltd. ('Mirae'), for KRW170 billion (equivalent to £114 million at 31 December 2016 closing exchange rate). The transaction is subject to regulatory approval.

The Korea life business has been classified as held for sale in these consolidated financial statements in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'. Consistent with its classification as held for sale, the IFRS carrying value of the Korea life business and its related goodwill has been set to £105 million at 31 December 2016, representing the proceeds, net of £9 million of related expenses. This has resulted in a charge for 'Remeasurement of Korea Life business classified as held for sale' of £(238) million in the income statement.

To facilitate comparisons of businesses retained by the Group, the supplementary analysis of profit shown in note B1.1 shows separately the results of the Korea life business for both 2016 and 2015. For 2016 the result for the year, including short-term fluctuations in investment returns, together with the adjustment to the carrying value have given rise to an aggregate loss of £(227) million (2015: £56 million profit). This comprises:

	2016 £m	AER 2015 £m	CER 2015 £m
Remeasurement of carrying value on classification as held for sale	**(238)**	-	-
Amounts that would otherwise be classified within:			
Operating profit based on longer-term investment returns	**20**	38	42
Short-term fluctuations in investment returns	**(9)**	18	20
(Loss) profit attaching to held for sale Korea life business	**(227)**	56	62
Related tax charge	**(4)**	(14)	(15)

The assets and liabilities of the Korea life business classified as held for sale on the statement of financial position as at 31 December 2016 are as follows:

	2016 £m
Assets	
Investments including cash and cash equivalents[1]	3,722
Other assets including goodwill[2]	379
	4,101
Adjustment for remeasurement of the carrying value of the business to fair value less costs to sell[2]	(238)
Assets held for sale	3,863
Liabilities	
Policyholder liabilities[3]	3,325
Other liabilities	433
Liabilities held for sale	3,758
Net assets	105

[1] The investments of the Korea life business comprise primarily equity securities and portfolio holdings in unit trusts (£2,527 million as at 31 December 2016).

[2] The remeasurement adjustment of £238 million comprises the write down of goodwill of £15 million and other non-current assets within the scope of IFRS 5 of £16 million (£14 million of software and £2 million of property, plant and equipment) and an additional remeasurement of £207 million to adjust the carrying value of the business to fair value less costs to sell.

[3] The Korea life business has non-linked liabilities and linked liabilities at 31 December 2016 of £749 million and £2,576 million respectively (2015: £625 million and £2,187 million respectively).

D2 Contingencies and related obligations

Litigation and regulatory matters

In addition to the matters set out in note B4(b) in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in various litigation and regulatory issues. These may from time to time include class actions involving Jackson. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

D3 Post balance sheet events

Dividends

The second interim ordinary dividend for the year ended 31 December 2016, that was approved by the Board of Directors after 31 December 2016 is described in note B7.

Additional Unaudited IFRS Financial Information

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

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

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

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

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

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

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

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

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

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

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

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

See notes at the end of this section.

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

See notes at the end of this section.

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

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

	Asia note (vi)								
	2016			2015 AER			2015 CER note (iii)		
	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**192**	**13,299**	**144**	149	10,428	143	164	11,466	143
Fee income	**174**	**15,643**	**111**	154	13,940	110	170	14,944	114
With-profits	**48**	**22,823**	**21**	45	17,446	26	50	19,247	26
Insurance margin	**1,040**			756			841		
Margin on revenues	**1,919**			1,643			1,821		
Expenses:									
Acquisition costs[note (i)]	**(1,285)**	**3,599**	**(36)%**	(1,075)	2,712	(40)%	(1,194)	3,020	(40)%
Administration expenses	**(832)**	**28,942**	**(287)**	(669)	24,368	(274)	(736)	26,410	(279)
DAC adjustments[note (v)]	**148**			97			108		
Expected return on shareholder assets	**99**			71			79		
Operating profit based on longer-term investment return	**1,503**			1,171			1,303		

See notes at the end of this section.

Analysis of Asia operating profit drivers:

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

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

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

– Margin on revenues increased by £96 million on a constant exchange rate basis from £1,821 million to £1,919 million in 2016, primarily reflecting higher regular premium income recognised in the year.

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

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

Margin analysis of long-term insurance business – US

	US								
	2016			2015 AER			2015 CER note (iii)		
	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)
Long-term business	£m	£m	bps	£m	£m	bps	£m	£m	bps
Spread income	**802**	**37,044**	**217**	746	30,927	241	845	35,015	241
Fee income	**1,942**	**102,027**	**190**	1,672	86,921	192	1,886	98,402	192
Insurance margin	**888**			796			898		
Expenses									
Acquisition costs[note (i)]	**(877)**	**1,561**	**(56)%**	(939)	1,729	(54)%	(1,059)	1,950	(54)%
Administration expenses	**(959)**	**146,043**	**(66)**	(828)	125,380	(66)	(934)	141,924	(66)
DAC adjustments	**244**			218			246		
Expected return on shareholder assets	**12**			26			26		
Operating profit based on longer-term investment returns	**2,052**			1,691			1,908		

See notes at the end of this section.

Analysis of US operating profit drivers:

- Spread income declined on a constant exchange rate basis by 5 per cent to £802 million in 2016 (AER increased by 8 per cent). The reported spread margin decreased to 217 basis points from 241 basis points in 2015, primarily due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 153 basis points (2015 CER: 167 basis points and AER: 166 basis points).
- Fee income increased on a constant exchange rate basis by 3 per cent to £1,942 million in 2016 (AER: 16 per cent), primarily due to positive net inflows from variable annuity business and fund appreciation during the second half of the year. Fee income margin has remained broadly in line with the prior year at 190 basis points (2015 CER and AER: 192 basis points).
- Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin of £888 million in 2016 was broadly in line with last year on a constant exchange rate basis, with higher income from the variable annuity guarantees offset by a decline in the contribution from the closed books of acquired business.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 17 per cent at a constant exchange rate basis, largely due to lower sales in 2016.
- Administration expenses increased to £959 million in 2016 compared to £934 million for 2015 at constant exchange rates (AER £828 million), primarily as a result of higher asset-based commissions. These are paid on policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be 34 basis points (2015 CER and AER: 36 basis points).

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

	2016 £m				2015 AER £m				2015 CER £m note (iii)			
		Acquisition costs				Acquisition costs				Acquisition costs		
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	**2,685**			**2,685**	2,412			2,412	2,721			2,721
Less new business strain		**(877)**	**678**	**(199)**		(939)	734	(205)		(1,059)	828	(231)
Other DAC adjustments - amortisation of previously deferred acquisition costs:												
Normal			**(527)**	**(527)**			(514)	(514)			(580)	(580)
(Accelerated)/Decelerated			**93**	**93**			(2)	(2)			(2)	(2)
Total	**2,685**	**(877)**	**244**	**2,052**	2,412	(939)	218	1,691	2,721	(1,059)	246	1,908

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

	2016 £m	2015 £m		%	
		AER	CER	2016 vs 2015 AER	2016 vs 2015 CER
Spread business[note (a)]	**323**	380	428	(15)%	(25)%
Fee business[note (b)]	**1,523**	1,114	1,257	37%	21%
Life and other business[note (c)]	**206**	197	223	5%	(8)%
Total insurance operations	**2,052**	1,691	1,908	21%	8%
US asset management and broker-dealer	**(4)**	11	13	n/a	n/a
Total US operations	**2,048**	1,702	1,921	20%	7%

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

a) Spread business is the net operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.
b) Fee business represents profits from variable annuity products. As well as fee income, revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.
c) Life and other business includes the profits from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs. Insurance margin forms the vast majority of revenue.

Margin analysis of long-term insurance business – UK

	UK					
	2016			2015 note (v)		
	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)
Long-term business	£m	£m	bps	£m	£m	bps
Spread income	**177**	**32,711**	**54**	258	31,545	82
Fee income	**59**	**21,781**	**27**	62	22,371	28
With-profits	**269**	**95,511**	**28**	269	89,303	30
Insurance margin	**63**			119		
Margin on revenues	**207**			179		
Acquisition costs[note (i)]	**(89)**	**1,160**	**(8)%**	(86)	1,025	(8)%
Administration expenses	**(152)**	**54,492**	**(28)**	(159)	53,916	(29)
DAC adjustments	**(2)**			(2)		
Expected return on shareholder assets	**110**			127		
	642			767		
Longevity reinsurance and other management actions to improve solvency	**332**			400		
Provision for review of past annuity sales	**(175)**			-		
Operating profit based on longer-term investment returns	**799**			1,167		

See notes at the end of this section.

Analysis of UK operating profit drivers:

- Spread income reduced from £258 million in 2015 to £177 million in 2016, mainly due to lower annuity sales. Spread income has two components:
  - A contribution from new annuity business which was lower at £41 million in 2016 compared to £123 million in 2015, as we withdrew our participation from this business. IFRS accounting (based on grandfathered GAAP) permits upfront recognition of a considerable proportion of the spread to be earned over the entire term of the new contracts.
  - A contribution from in-force annuity and other business, which was broadly in line with last year at £136 million (2015: £135 million), equivalent to 42 basis points of average reserves (2015: 43 basis points).
- Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arises within our UK asset management business. Excluding these schemes, the fee margin on the remaining balances was 40 bps (2015: 43 bps).
- The lower 2016 insurance margin mainly reflects the more positive experience variance seen in 2015 compared to 2016 together with the fall in annual mortality profits following the extension of our longevity reinsurance programme in 2015 and 2016.
- Margin on revenues represents premium charges for expenses and other sundry net income received by the UK
- Acquisition costs incurred were broadly consistent with 2015 at £89 million, equivalent to 8 per cent of total APE sales in 2016 (2015: 8 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of

total APE sales. The year on year comparison of the ratio is therefore impacted by the level of with-profits business (where acquisition costs are funded by the estate) in the year and the contribution from the bulk annuities transactions in the prior year. Acquisition costs expressed as a percentage of shareholder-backed APE sales (excluding the bulk annuity transactions) were 37 per cent (2015: 36 per cent).

– The contribution from longevity reinsurance and other management actions to improve solvency during 2016 was £332 million (2015: £400 million). Further explanation and analysis is provided in Additional Unaudited IFRS Financial Information section I(d).
– The 2016 provision for the cost of undertaking a review of past non-advised annuity sales and potential redress of £175 million is explained in note B4(b).

Notes to sources of earnings tables

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

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

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

(iv) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for Jackson is generally derived from month end balances throughout the year, as opposed to opening and closing balances only. In 2016, given the significant equity market fluctuations in certain months during the year, average liabilities for fee income in Jackson have been calculated using daily balances instead of month end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. The 2015 average liabilities for fee income in Jackson have been calculated based on average of month end balances. The alternative use of the daily balances to calculate the average would have resulted in no change to the margin on the CER basis. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the year.

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

(vi) In order to show the Asia long-term business on a comparable basis, the 2015 comparative results exclude the contribution from the held for sale Korea life business.

I(b) Asia operations – analysis of IFRS operating profit by territory

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

	2016 £m	AER 2015 £m	CER 2015 £m	2015 AER vs 2016	2015 CER vs 2016
Hong Kong	**238**	150	170	59%	40%
Indonesia	**428**	356	404	20%	6%
Malaysia	**147**	120	128	23%	15%
Philippines	**38**	32	35	19%	9%
Singapore	**235**	204	229	15%	3%
Thailand	**92**	70	76	31%	21%
Vietnam	**114**	86	94	33%	21%
South-east Asia Operations inc. Hong Kong	**1,292**	1,018	1,136	27%	14%
China	**64**	32	35	100%	83%
Taiwan	**35**	25	28	40%	25%
Other	**49**	38	42	29%	17%
Non-recurrent items[note (ii)]	**67**	62	66	8%	2%
Total insurance operations[note (i),(iii)]	**1,507**	1,175	1,307	28%	15%
Development expenses	**(4)**	(4)	(4)	0%	0%
Total long-term business operating profit	**1,503**	1,171	1,303	28%	15%
Eastspring Investments	**141**	115	128	23%	10%
Total Asia operations [note (iii)]	**1,644**	1,286	1,431	28%	15%

Notes

(i) Analysis of operating profit between new and in-force business

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

	2016 £m	2015 £m AER	2015 £m CER
New business strain*	**(29)**	5	7
Business in force	**1,469**	1,108	1,234
Non-recurrent items[note (ii)]	**67**	62	66
Total	**1,507**	1,175	1,307

* The IFRS new business strain corresponds to approximately (0.8) per cent of new business APE premiums for 2016 (2015: approximately 0.2 per cent of new business APE).

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

(ii) Other non-recurrent items of £67 million in 2016 (2015: £62 million) represent a number of items, including a gain from entering into a reinsurance contract in the year.

(iii) In order to show the Asia long-term business on a comparable basis, the 2015 comparative results exclude the contribution from the held for sale Korea life business.

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

	2016 £m				
	M&G note (ii)	**Eastspring Investments** note (ii)	**Prudential Capital**	**US**	**Total**
Operating income before performance-related fees	**923**	**353**	**118**	**235**	**1,629**
Performance-related fees	**33**	**7**	**-**	**-**	**40**
Operating income (net of commission)note (i)	**956**	**360**	**118**	**235**	**1,669**
Operating expensenote (i)	**(544)**	**(198)**	**(91)**	**(239)**	**(1,072)**
Share of associate's results	**13**	**-**	**-**	**-**	**13**
Group's share of tax on joint ventures' operating profit	**-**	**(21)**	**-**	**-**	**(21)**
Operating profit based on longer-term investment returns	**425**	**141**	**27**	**(4)**	**589**
Average funds under management	**£250.4bn**	**£109.0bn**			
Margin based on operating income*	**37bps**	**32bps**			
Cost/income ratio**	**59%**	**56%**			

	2015 £m				
	M&G note (ii)	**Eastspring Investments** note (ii)	**Prudential Capital**	**US**	**Total**
Operating income before performance-related fees	939	304	118	321	1,682
Performance-related fees	22	3	-	-	25
Operating income (net of commission)note (i)	961	307	118	321	1,707
Operating expensenote (i)	(533)	(176)	(99)	(310)	(1,118)
Share of associate's results	14	-	-		14
Group's share of tax on joint ventures' operating profit	-	(16)	-		(16)
Operating profit based on longer-term investment returns	442	115	19	11	587
Average funds under management	£252.5bn	£85.1bn			
Margin based on operating income*	37bps	36bps			
Cost/income ratio**	57%	58%			

Notes

(i) Operating income and expense includes the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in note B2 of the IFRS financial statements, these amounts are netted and tax deducted and shown as a single amount.

(ii) M&G and Eastspring Investments can be further analysed as follows:

M&G						
	Operating income before performance related fees					
	Retail £m	**Margin of FUM* bps**	**Institutional† £m**	**Margin of FUM* bps**	**Total £m**	**Margin of FUM* bps**
2016	**504**	**86**	**419**	**22**	**923**	**37**
2015	582	87	357	19	939	37

Eastspring Investments						
	Operating income before performance related fees					
	Retail £m	**Margin of FUM* bps**	**Institutional† £m**	**Margin of FUM* bps**	**Total £m**	**Margin of FUM* bps**
2016	**211**	**58**	**142**	**20**	**353**	**32**
2015	188	61	116	21	304	36

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

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

† Institutional includes internal funds.

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

During 2016 management actions were taken to improve the solvency of UK insurance operations and to mitigate market risks. These actions included extending the reinsurance of longevity risk to cover a further £5.4 billion of IFRS annuity liabilities. As at 31 December 2016, the total IFRS annuity liabilities subject to longevity reinsurance were £14.4 billion. Management actions also repositioned the fixed income asset portfolio to improve the trade-off between yield and credit risk and to increase the proportion of the annuity business that benefits from the matching adjustment under Solvency II.

During 2015, longevity risk of £6.4 billion on a Pillar 1 basis was reinsured. In addition, a number of other management actions were also taken to reposition the fixed income portfolio and improve matching adjustment efficiency.

The effect of these actions on the UK's long-term IFRS operating profit, underlying free surplus generation and EEV operating profit is shown in the tables below.

IFRS operating profit of UK long-term business

	First half 2016 £m	Second half 2016 £m	Full year 2016 £m	Full year 2015 £m
Shareholder-backed annuity new business:				
Retail	**27**	**14**	**41**	34
Bulks	**-**	**-**	**-**	89
	27	**14**	**41**	123
In-force business:				
Longevity reinsurance transactions	**66**	**131**	**197**	231
Other management actions to improve solvency	**74**	**61**	**135**	169
Provision for the review of past annuity sales	**-**	**(175)**	**(175)**	-
	140	**17**	**157**	400
With-profits and other in-force	**306**	**295**	**601**	644
Total Life IFRS operating profit	**473**	**326**	**799**	1,167

Underlying free surplus generation of UK long-term business*

	First half 2016 £m	Second half 2016 £m	Full year 2016 £m	Full year 2015 £m
Expected in-force and return on net worth	**334**	**359**	**693**	620
Longevity reinsurance transactions	**53**	**73**	**126**	200
Other management actions to improve solvency	**137**	**88**	**225**	75
Provision for the review of past annuity sales	**-**	**(145)**	**(145)**	-
	190	**16**	**206**	275
Changes in operating assumptions, experience variances and Solvency II and other restructuring costs	**31**	**(23)**	**8**	(17)
Underlying free surplus generated from in-force business	**555**	**352**	**907**	878
New business strain	**(56)**	**(73)**	**(129)**	(65)
Total underlying free surplus generation	**499**	**279**	**778**	813

EEV post-tax operating profit of UK long-term businesses*

	First half 2016 £m	Second half 2016 £m	Full year 2016 £m	Full year 2015 £m
Unwind of discount and other expected return	**205**	**240**	**445**	488
Longevity reinsurance transactions	**(10)**	**(80)**	**(90)**	(134)
Other management actions to improve solvency	**41**	**69**	**110**	75
Provision for the review of past annuity sales	**-**	**(145)**	**(145)**	-
	31	**(156)**	**(125)**	(59)
Changes in operating assumptions and experience variances	**23**	**32**	**55**	116
Operating profit from in-force business	**259**	**116**	**375**	545
New business profit:				
Shareholder-backed annuity	**17**	**15**	**32**	148
Other products	**108**	**128**	**236**	170
	125	**143**	**268**	318
Total post-tax Life EEV operating profit	**384**	**259**	**643**	863

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

II Other information

II(a) Holding company cash flow*

	2016 £m	2015 £m
Net cash remitted by business units:		
UK life net remittances to the Group		
With-profits remittance	**215**	201
Shareholder-backed business remittance	**85**	100
	300	301
Other UK paid to the Group	**147**	30
Total UK net remittances to the Group	**447**	331
US remittances to the Group	**420**	470
Asia net remittances to the Group		
Asia paid to the Group:		
Long-term business	**546**	494
Other operations	**81**	74
	627	568
Group invested in Asia:		
Long-term business	**(10)**	(5)
Other operations (including funding of regional head office costs)	**(101)**	(96)
	(111)	(101)
Total Asia net remittances to the Group	**516**	467
M&G remittances to the Group	**290**	302
PruCap remittances to the Group	**45**	55
Net remittances to the Group from business units[1]	**1,718**	1,625
Net interest paid	**(333)**	(290)
Tax received	**132**	145
Corporate activities	**(215)**	(209)
Total central outflows	**(416)**	(354)
Operating holding company cash flow before dividend	**1,302**	1,271
Dividend paid	**(1,267)**	(974)
Operating holding company cash flow after dividend*	**35**	297
Non-operating net cash flow[2]	**335**	376
Total holding company cash flow	**370**	673
Cash and short-term investments at beginning of year	**2,173**	1,480
Foreign exchange movements	**83**	20
Cash and short-term investments at end of year[3]	**2,626**	2,173

* The holding company cash flow differs from the IFRS cash flow statement, which includes all cash flows in the period including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

1 Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
2 Non-operating net cash flow principally relates to the issue of subordinated debt less the repayment of debt and payments for distribution rights.
3 Including central finance subsidiaries.

II(b) Funds under management

(a) Summary

	2016 £bn	2015 £bn
Business area:		
Asia operations	**69.6**	54.0
US operations	**173.3**	134.6
UK operations	**185.0**	168.4
Prudential Group funds under management note (i)	**427.9**	357.0
External funds note (ii)	**171.4**	151.6
Total funds under management	**599.3**	508.6

Notes

(i) Prudential Group funds under management comprise:

	2016 £bn	2015 £bn
Total investments per the consolidated statement of financial position	**421.7**	352.0
Less: investments in joint ventures and associates accounted for using the equity method	**(1.2)**	(1.0)
Investment properties which are held for sale or occupied by the Group (included in other IFRS captions)	**0.4**	0.4
Internally managed funds held in joint ventures	**7.0**	5.6
Prudential Group funds under management	**427.9**	357.0

(ii) External funds shown above as at 31 December 2016 of £171.4 billion (2015: £151.6 billion) comprise £182.5 billion (2015: £162.7 billion) of funds managed by M&G and Eastspring Investments as shown in note (b) below less £11.1 billion (2015: £11.1 billion) that are classified within Prudential Group's funds.

(b) Investment products – external funds under management

	2016 £m			2015 £m		
	Eastspring Investments note	M&G	Group total	Eastspring Investments note	M&G	Group total
1 January	**36,287**	**126,405**	**162,692**	30,133	137,047	167,180
Market gross inflows	**164,004**	**22,841**	**186,845**	110,396	33,626	144,022
Redemptions	**(161,766)**	**(30,931)**	**(192,697)**	(103,360)	(40,634)	(143,994)
Market exchange translation and other movements	**7,231**	**18,448**	**25,679**	(882)	(3,634)	(4,516)
31 December	**45,756**	**136,763**	**182,519**	36,287	126,405	162,692

Note

The £182.5 billion (2015: £162.7 billion) investment products comprise £174.8 billion (2015: £156.7 billion) plus Asia Money Market Funds of £7.7 billion (2015: £6.0 billion).

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

	Eastspring Investments		M&G	
	2016 £bn	2015 £bn	2016 £bn	2015 £bn
	note	note		
External funds under management	**45.7**	36.3	**136.8**	126.4
Internal funds under management	**72.2**	52.8	**128.1**	119.7
Total funds under management	**117.9**	89.1	**264.9**	246.1

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 31 December 2016 of £7.7 billion (2015: £6.0 billion).

II(c) Solvency II capital position at 31 December 2016

The estimated Group shareholder Solvency II surplus at 31 December 2016 was £12.5 billion, before allowing for payment of the 2016 second interim ordinary dividend and after allowing for recalculation of transitional measures as at 31 December 2016.

Estimated Group shareholder Solvency II capital position*	31 Dec 2016 £bn	31 Dec 2015 £bn
Own funds	24.8	20.1
Solvency capital requirement	12.3	10.4
Surplus	**12.5**	**9.7**
Solvency ratio	201%	193%

* The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced With-Profit Funds and staff pension schemes in surplus. The 31 December 2016 estimated solvency position includes the impact of recalculated transitionals at the valuation date which has reduced the Group shareholder surplus from £12.9 billion to £12.5 billion.

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

- Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital requirement. As agreed with the Prudential Regulation Authority, this is incorporated in the result above as follows:
  - Own funds: represents Jackson's local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level);
  - Solvency Capital Requirement: represents 150 per cent of Jackson's local US Risk Based Capital requirement (Company Action Level); and
  - No diversification benefits are taken into account between Jackson and the rest of the Group.

- Matching adjustment for UK annuities and Volatility adjustment for US dollar denominated Hong Kong with-profits business, based on approvals from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority; and
- UK transitional measures, which have been recalculated at the valuation date, reducing the estimated Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.

The Group shareholder Solvency II capital position excludes:

- A portion of Solvency II surplus capital (£1.4 billion at 31 December 2016) relating to the Group's Asian life operations, including due to 'contract boundaries';
- The contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds in surplus (representing £3.7 billion of surplus capital from UK with-profits funds at 31 December 2016) and from the shareholders' share of the estate of with-profits funds; and
- The contribution to Own Funds and the Solvency Capital Requirement from pension funds in surplus.

It also excludes unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates. At Jackson's request, the Department of Insurance Financial Services renewed its approval to carry these instruments at book value in the local statutory returns for the period 31 December 2016 to 1 October 2017. At 31 December 2016, this approval had the effect of decreasing local statutory capital and surplus (and by extension Solvency II Own Funds and Solvency II surplus) by £0.3 billion, net of tax. This arrangement reflects an elective longstanding practice first put in place in 2009, which can be unwound at Jackson's discretion.

Korea is included in the Solvency II results above, pending local regulatory approval for the sale, which once complete will increase the shareholder Solvency II ratio by around 1 percentage point.

Analysis of movement in Group capital position

A summary of the estimated movement in Group Solvency II surplus from £9.7 billion at year end 2015 to £12.5 billion at year end 2016 is set out in the table below. The movement from the previously reported economic capital basis solvency surplus at 31 December 2014 to the Solvency II surplus at 31 December 2015 is included for comparison.

Analysis of movement in Group shareholder surplus	Full year 2016 £bn	Full year 2015 £bn
Estimated Solvency II surplus at 1 January 2016/economic capital surplus at 1 January 2015	**9.7**	**9.7**
Underlying operating experience	2.3	2.0
Management actions	0.4	0.4
Operating experience	2.7	2.4
Non-operating experience (including market movements)	(1.1)	(0.6)
Other capital movements		
Subordinated debt issuance	1.2	0.6
Foreign currency translation impacts	1.6	0.2
Dividends paid	(1.3)	(1.0)
Methodology and calibration changes		
Changes to Own Funds (net of transitionals) and SCR calibration strengthening	(0.3)	(0.2)
Effect of partial derecognition of Asia Solvency II surplus	-	(1.4)
Estimated Solvency II surplus at end of period	**12.5**	**9.7**

The estimated movement in Group Solvency II surplus over 2016 is driven by:

– *Operating experience of £2.7 billion:* generated by in-force business and new business written in 2016 and also the impact of one-off management optimisations implemented in 2016;
– *Non-operating experience of £(1.1) billion:* mainly arising from negative market experience during 2016, allowing for the recalculation of UK transitional measures at the valuation date;
– *Other capital movements:* comprising a gain from foreign currency translation effects and the issuance of debt during 2016 offset by a reduction in surplus from payment of dividends; and
– *Methodology and calibration changes £(0.3) billion*: reflecting model changes during 2016 and true-ups relating to opening balance estimates.

Analysis of Group Solvency Capital Requirements

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

	31 Dec 2016		31 Dec 2015	
Split of the Group's estimated Solvency Capital Requirements	**% of undiversified Solvency Capital Requirements**	**% of diversified Solvency Capital Requirements**	**% of undiversified Solvency Capital Requirements**	**% of diversified Solvency Capital Requirements**
Market	**55%**	**68%**	**55%**	**72%**
Equity	12%	19%	11%	16%
Credit	25%	41%	28%	47%
Yields (interest rates)	13%	7%	13%	6%
Other	5%	1%	3%	3%
Insurance	**28%**	**23%**	**27%**	**20%**
Mortality/morbidity	5%	2%	5%	2%
Lapse	16%	19%	14%	14%
Longevity	7%	2%	8%	4%
Operational/expense	**11%**	**7%**	**11%**	**7%**
FX translation	**6%**	**2%**	**7%**	**1%**

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds	31 Dec 2016 £bn	31 Dec 2015 £bn
IFRS shareholders' equity	**14.7**	**13.0**
Restate US insurance entities from IFRS onto local US statutory basis	(2.2)	(1.5)
Remove DAC, goodwill and intangibles	(3.8)	(3.7)
Add subordinated debt	6.3	4.4
Impact of risk margin (net of transitionals)	(3.4)	(2.5)
Add value of shareholder transfers	4.0	3.1
Liability valuation differences	10.5	8.6
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	(1.3)	(0.9)
Other	0.0	(0.4)
Estimated Solvency II Shareholder Own Funds	24.8	20.1

The key items of the reconciliation as at 31 December 2016 are:

- £2.2 billion represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis. This item also reflects a derecognition of Own Funds of £0.9 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;
- £3.8 billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;
- £6.3 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;
- £3.4 billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of £2.5 billion transitionals, all of which are not applicable under IFRS;
- £4.0 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholders' share of the with-profits estate, for which no credit is given under Solvency II), which is excluded from the determination of the Group's IFRS shareholders' funds;
- £10.5 billion due to differences in insurance valuation requirements between Solvency II and IFRS, with Solvency II Own Funds partially capturing the value of in-force business which is excluded from IFRS; and
- £1.3 billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above.

Sensitivity analysis

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

Impact of market sensitivities	31 Dec 2016		31 Dec 2015	
	Surplus £bn	**Ratio**	**Surplus £bn**	**Ratio**
Base position	**12.5**	**201%**	**9.7**	**193%**
Impact of:				
20% instantaneous fall in equity markets	0.0	3%	(1.0)	(7)%
40% fall in equity markets[1]	(1.5)	(7)%	(1.8)	(14)%
50 basis points reduction in interest rates[2,3]	(0.6)	(9)%	(1.1)	(14)%
100 basis points increase in interest rates[3]	1.0	13%	1.1	17%
100 basis points increase in credit spreads [4]	(1.1)	(3)%	(1.2)	(6)%

1 Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.
2 Subject to a floor of zero.
3 Allowing for further transitional recalculation after the interest rate stress.
4 US Risk Based Capital solvency position included using a stress of 10 times expected credit defaults.

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

UK Solvency II capital position[1, 2]

On the same basis as above, the estimated UK shareholder Solvency II surplus at 31 December 2016 was £4.6 billion, after allowing for recalculation of transitional measures as at 31 December 2016. This relates to shareholder-backed business including future with-profits shareholder transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements.

Estimated UK shareholder Solvency II capital position*	31 Dec 2016 £bn	31 Dec 2015 £bn
Own funds	12.0	10.5
Solvency capital requirement	7.4	7.2
Surplus	**4.6**	**3.3**
Solvency ratio	163%	146%

** The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced With-Profit Funds and staff pension schemes in surplus. The estimated solvency position at 31 December 2016 includes the impact of recalculated transitionals at the valuation date which has reduced the UK shareholder surplus from £5.0 billion to £4.6 billion.*

While the surplus position of the UK with-profits funds remains strong on a Solvency II basis, it is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK shareholder Solvency II surplus results. The estimated UK with-profits funds Solvency II surplus at 31 December 2016 was £3.7 billion, after allowing for recalculation of transitional measures as at 31 December 2016.

Estimated UK with-profits Solvency II capital position	31 Dec 2016 £bn	31 Dec 2015 £bn
Own funds	8.4	7.6
Solvency capital requirement	4.7	4.4
Surplus	**3.7**	**3.2**
Solvency ratio	179%	175%

Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II Own Funds[2]

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

Reconciliation of UK with-profits funds	31 Dec 2016 £bn	31 Dec 2015 £bn
IFRS unallocated surplus of UK with-profits funds	11.7	10.5
Adjustments from IFRS basis to Solvency II		
Value of shareholder transfers	(2.3)	(2.1)
Risk margin (net of transitional)	(0.7)	(0.7)
Other valuation differences	(0.3)	(0.1)
Estimated Solvency II Own Funds	**8.4**	**7.6**

Annual regulatory reporting

The group will publish its Solvency and Financial Condition Report and related quantitative templates no later than 1 July 2017. The templates will require us to combine the Group shareholder solvency position with those of all other ring fenced funds across the Group. In combining these solvency positions, the contribution to own funds from these ring fenced funds will be set equal to their aggregate solvency capital requirements, estimated at £6.2 billion (i.e. the solvency surplus in these ring fenced funds will not be captured in the templates). There will be no impact on the reported Group Solvency II surplus.

Statement of independent review

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

Notes:

1 The UK shareholder capital position represents the consolidated capital position of the shareholder funds of The Prudential Assurance Company Ltd ('PAC') and all its subsidiaries.

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

European Embedded Value (EEV) basis results

Notes on the EEV basis results

Additional EEV financial information*

Description of EEV basis reporting

In broad terms, IFRS profit for long-term business reflects the aggregate of results on a traditional accounting basis. By contrast, EEV is a way of reporting the value of the life insurance business.

The EEV basis results have been prepared in accordance with the amended EEV Principles dated April 2016, prepared by the CFO Forum of major European insurers. The 2016 results for UK insurance operations have been prepared to reflect the Solvency II regime. The 2015 results for UK insurance operations were prepared reflecting the Solvency I basis, being the regime applicable for the year. There is no change to the basis of preparation for Asia and US operations. The EEV Principles provide consistent definitions, a framework for setting actuarial assumptions, and an approach to the underlying methodology and disclosures.

Results prepared under the EEV Principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected profits, full allowance is made for the risks attached to their emergence and the associated cost of capital, taking into account recent experience in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 14 and 15.

* *The additional financial information is not covered by the KPMG independent audit opinion.*

European Embedded Value (EEV) Basis Results

POST-TAX OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS

Results analysis by business area

	Note	2016 £m	2015 £m notes (iii),(vi)
Asia operations			
New business	4	**2,030**	1,482
Business in force	5	**1,044**	798
Long-term business		**3,074**	2,280
Eastspring Investments		**125**	101
Total		**3,199**	2,381
US operations			
New business	4	**790**	809
Business in force	5	**1,181**	999
Long-term business		**1,971**	1,808
Broker-dealer and asset management		**(3)**	7
Total		**1,968**	1,815
UK operationsnote (iv)			
New business:note (v)			
Excluding UK bulk annuities	4	**268**	201
UK bulk annuities		**-**	117
		268	318
Business in force	5	**375**	545
Long-term business		**643**	863
General insurance commission		**23**	22
Total UK insurance operations		**666**	885
M&G		**341**	358
Prudential Capital		**22**	18
Total		**1,029**	1,261
Other income and expenditurenote (i)		**(679)**	(566)
Solvency II and restructuring costsnote (ii)		**(57)**	(51)
Interest received from tax settlement		**37**	-
Operating profit based on longer-term investment returns		**5,497**	4,840
Analysed as profit (loss) from:			
New business:note (v)			
Excluding UK bulk annuities	4	**3,088**	2,492
UK bulk annuities		**-**	117
		3,088	2,609
Business in force	5	**2,600**	2,342
Long-term business		**5,688**	4,951
Asset management and general insurance commission		**508**	506
Other results		**(699)**	(617)
		5,497	4,840

Notes

(i) EEV basis other income and expenditure represents the post-tax IFRS basis result less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 14(a)(vii)).

(ii) Solvency II and restructuring costs comprise the net-of-tax charge recognised on an IFRS basis and the additional amount recognised on an EEV basis for the shareholders' share incurred by the PAC with-profits fund.

(iii) The comparative results have been prepared using previously reported average exchange rates for the year.

(iv) The EEV basis results have been prepared in accordance with the amended EEV Principles dated April 2016, prepared by the CFO Forum of major European insurers. The 2016 results for UK insurance operations have been prepared to reflect the Solvency II regime. The 2015 results for UK insurance operations were prepared reflecting the Solvency I basis being the regime applicable for the year. There is no change to the basis of preparation for Asia and US operations.

(v) Following Prudential's withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

(vi) The Group agreed in November 2016 to sell, subject to regulatory approval, its life business in Korea. Accordingly, the presentation of the 2015 comparative EEV basis results and related notes have been adjusted from those previously published for the reclassification of the result attributable to the held for sale Korea life business, as described in note 17. This approach has been adopted consistently throughout this supplementary information.

POST-TAX SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	2016 £m	2015* £m
Asia operations		**3,199**	2,381
US operations		**1,968**	1,815
UK operations**		**1,029**	1,261
Other income and expenditure		**(679)**	(566)
Solvency II and restructuring costs		**(57)**	(51)
Interest received on tax settlement		**37**	-
Operating profit based on longer-term investment returns		**5,497**	4,840
Short-term fluctuations in investment returns	6	**(507)**	(1,215)
Effect of changes in economic assumptions	7	**(60)**	66
Mark to market value movements on core borrowings		**(4)**	221
Loss attaching to the held for sale Korea life business	17	**(410)**	39
Total non-operating results		**(981)**	(889)
Profit for the year attributable to equity holders of the Company		**4,516**	3,951

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

Basic earnings per share

	2016	2015
Based on post-tax operating profit including longer-term investment returns (in pence)*	**214.7p**	189.6p
Based on post-tax profit attributable to equity holders of the Company (in pence)	**176.4p**	154.8p
Average number of shares (millions)	**2,560**	2,553

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

MOVEMENT IN SHAREHOLDERS' EQUITY

	Note	2016 £m	2015 £m
Profit for the year attributable to equity shareholders		**4,516**	3,951
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges	9	**4,211**	244
External dividends	9	**(1,267)**	(974)
Mark to market value movements on Jackson assets backing surplus and required capital	9	**(11)**	(76)
Other movements	9	**(367)**	53
Net increase in shareholders' equity	9	**7,082**	3,198
Shareholders' equity at beginning of year			
As previously reported	9	**32,359**	29,161
Effect of implementation of Solvency II on 1 January 2016*	2	**(473)**	-
		31,886	29,161
Shareholders' equity at end of year	9	**38,968**	32,359

Comprising:	**31 Dec 2016 £m**			31 Dec 2015 £m		
	Long-term business operations	**Asset management and other operations**	**Total**	Long-term business operations	Asset management and other operations	Total
Asia operations	**18,717**	**383**	**19,100**	13,876	306	14,182
US operations	**11,805**	**204**	**12,009**	9,487	182	9,669
UK insurance operations*	**10,307**	**25**	**10,332**	9,647	22	9,669
M&G	**-**	**1,820**	**1,820**	-	1,774	1,774
Prudential Capital	**-**	**22**	**22**	-	70	70
Other operations	**-**	**(4,315)**	**(4,315)**	-	(3,005)	(3,005)
Shareholders' equity at end of year	**40,829**	**(1,861)**	**38,968**	33,010	(651)	32,359
Representing:						
Net assets excluding acquired goodwill and holding company net borrowings	**40,584**	**961**	**41,545**	32,777	866	33,643
Acquired goodwill	**245**	**1,230**	**1,475**	233	1,230	1,463
Holding company net borrowings at market value[note 8]	-	**(4,052)**	**(4,052)**	-	(2,747)	(2,747)
	40,829	**(1,861)**	**38,968**	33,010	(651)	32,359

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

SUMMARY STATEMENT OF FINANCIAL POSITION

	Note	**31 Dec 2016 £m**	31 Dec 2015 £m
Total assets less liabilities, before deduction for insurance funds*		**407,928**	340,666
Less insurance funds:**			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		**(393,262)**	(327,711)
Less shareholders' accrued interest in the long-term business	9	**24,302**	19,404
		(368,960)	(308,307)
Total net assets	9	**38,968**	32,359
Share capital		**129**	128
Share premium		**1,927**	1,915
IFRS basis shareholders' reserves		**12,610**	10,912
Total IFRS basis shareholders' equity	9	**14,666**	12,955
Additional EEV basis retained profit***	9	**24,302**	19,404
Total EEV basis shareholders' equity (excluding non-controlling interests)	9	**38,968**	32,359

* Following its classification as held for sale, Korea life business is included in total assets at a carrying value of £105 million (see note 17 for details).
** Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.
*** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

Net asset value per share

	31 Dec 2016	31 Dec 2015
Based on EEV basis shareholders' equity of £38,968 million (2015: £32,359 million) (in pence)**	**1,510p**	1,258p
Number of issued shares at year end (millions)	**2,581**	2,572
Annualised return on embedded value*	**17%**	17%

* Annualised return on embedded value is based on EEV post-tax operating profit, as a percentage of opening EEV basis shareholders' equity.
** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

NOTES ON THE EEV BASIS RESULTS

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, prepared by the European Insurance CFO Forum. There is no change to the EEV methodology. The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, as discussed in note 2 below. The 2015 comparative results for UK insurance operations were prepared reflecting the Solvency I basis, being the regime applicable for the year. There is no change to the basis of preparation for Asia and the US operations. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The auditors have reported on the 2016 EEV basis results supplement to the Company's statutory accounts for 2016. Their report was (i) unqualified, and (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report. Except for the change in presentation of the results of the operating and non-operating results for Asia operations to show separately the contribution from the held for sale Korea life business (see note 17 for details), the 2015 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2015. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 14.

2 Effect of Solvency II implementation on EEV basis results on 1 January 2016

The Solvency II framework is effective from 1 January 2016. For our operations in Asia and the US there is no impact on the EEV results since Solvency II does not act as the local constraint on the ability to distribute profits to the Group. The embedded value for these businesses will continue to be driven by local regulatory and target capital requirements. For the UK insurance operations, Solvency II has an impact on the EEV results as it changes the local regulatory valuation of net worth and capital requirements, affecting the components of the EEV.

The impact of Solvency II on EEV shareholders' equity on 1 January 2016 is shown below:

Total EEV basis shareholders' equity	**£m**
As reported at 31 December 2015	**32,359**
Opening adjustment at 1 January 2016 for long-term business operations	
Effect of implementation of Solvency II on net worth[note (a)]	**2,760**
Effect of implementation of Solvency II on net value of in-force business (VIF)[note (b)]	**(3,233)**
	(473)
Group total shareholders' equity as at 1 January 2016[note (c)]	**31,886**

Notes

(a) The Solvency II framework requires technical provisions to be valued on a best estimate basis and capital requirements to be risk-based. It also requires the establishment of a risk margin (which for business in force at 31 December 2015 can be broadly offset by transitional measures). As a result of applying this framework the EEV net worth increased by £2,760 million reflecting the release of the prudent regulatory margins previously included under Solvency I, and also from the recognition within net worth of a portion of future shareholder transfers expected from the with-profits fund. The higher net worth incorporated increases in required capital reflecting the higher solvency capital requirements of the new regime.

(b) The net value of in-force business (VIF) is correspondingly impacted as follows:
- the release of prudent regulatory margins and recognition of a portion of future with-profits business shareholders' transfers within net worth lead to a corresponding reduction in the VIF;
- the run-off of the risk margin, net of transitional measures, is now captured in VIF; and
- the cost of capital deducted from the gross VIF increases as a result of the higher Solvency II capital requirements.

The overall impact of these changes was to reduce the value of in-force by £(3,233) million.

(c) At 1 January 2016 the effect of these changes was a net reduction in EEV shareholders' equity of £(473) million.

The impact of Solvency II in 2016 for UK insurance operations is estimated to have reduced total operating profit from new and in-force business by £(39) million.

3 Results analysis by business area

The 2015 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2015 CER comparative results are translated at 2016 average exchange rates.

Annual premium equivalents (APE)[note 16]

	Note	2016 £m	2015* £m AER	2015* £m CER	% change AER	% change CER
Asia operations		**3,599**	2,712	3,020	33%	19%
US operations		**1,561**	1,729	1,950	(10)%	(20)%
UK retail operations***		**1,160**	874	874	33%	33%
Group total excluding UK bulk annuities	4	**6,320**	5,315	5,844	19%	8%
UK bulk annuities***		**-**	151	151	(100)%	(100)%
Group total		**6,320**	5,466	5,995	16%	5%

Post-tax operating profit

	Note	2016 £m	2015* £m AER	2015* £m CER	% change AER	% change CER
Asia operations						
New business	4	**2,030**	1,482	1,660	37%	22%
Business in force	5	**1,044**	798	895	31%	17%
Long-term business		**3,074**	2,280	2,555	35%	20%
Eastspring Investments		**125**	101	112	24%	12%
Total		**3,199**	2,381	2,667	34%	20%
US operations						
New business	4	**790**	809	913	(2)%	(13)%
Business in force	5	**1,181**	999	1,127	18%	5%
Long-term business		**1,971**	1,808	2,040	9%	(3)%
Broker-dealer and asset management		**(3)**	7	8	(143)%	(138)%
Total		**1,968**	1,815	2,048	8%	(4)%
UK operations						
New business***						
UK retail operations	4	**268**	201	201	33%	33%
UK bulk annuities		**-**	117	117	(100)%	(100)%
		268	318	318	(16)%	(16)%
Business in force	5	**375**	545	545	(31)%	(31)%
Long-term business**		**643**	863	863	(25)%	(25)%
General insurance commission		**23**	22	22	5%	5%
Total UK insurance operations**		**666**	885	885	(25)%	(25)%
M&G		**341**	358	358	(5)%	(5)%
Prudential Capital		**22**	18	18	22%	22%
Total**		**1,029**	1,261	1,261	(18)%	(18)%
Other income and expenditure		**(679)**	(566)	(566)	(20)%	(20)%
Solvency II and restructuring costs		**(57)**	(51)	(51)	(12)%	(12)%
Interest received on tax settlement		**37**	-	-	n/a	n/a
Operating profit based on longer-term investment returns**		**5,497**	4,840	5,359	14%	3%
Analysed as profit (loss) from:						
New business:***						
Life operations excluding UK bulk annuities	4	**3,088**	2,492	2,774	24%	11%
UK bulk annuities		**-**	117	117	(100)%	(100)%
		3,088	2,609	2,891	18%	7%
Business in force	5	**2,600**	2,342	2,567	11%	1%
Total long-term business**		**5,688**	4,951	5,458	15%	4%
Asset management and general insurance commission		**508**	506	518	0%	(2)%
Other results		**(699)**	(617)	(617)	(13)%	(13)%
Operating profit based on longer-term investment returns**		**5,497**	4,840	5,359	14%	3%

Post-tax profit

	Note	2016 £m	2015* £m AER	2015* £m CER	% change AER	% change CER
Operating profit based on longer-term investment returns**		**5,497**	4,840	5,359	14%	3%
Short-term fluctuations in investment returns	6	**(507)**	(1,215)	(1,343)	58%	62%
Effect of changes in economic assumptions	7	**(60)**	66	66	(191)%	(191)%
Mark to market value movements on core borrowings		**(4)**	221	220	(102)%	(102)%
(Loss) profit attaching to the held for sale Korea life business	17	**(410)**	39	42	n/a	n/a
Total non-operating loss		**(981)**	(889)	(1,015)	(10)%	3%
Profit for the year attributable to shareholders		**4,516**	3,951	4,344	14%	4%

Basic earnings per share (in pence)

	2016	2015		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns*,**	**214.7p**	189.6p	209.9p	13%	2%
Based on post-tax profit**	**176.4p**	154.8p	170.2p	14%	4%

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

*** Following Prudential's withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

4 Analysis of new business contribution

(i) Group summary

	2016				
	Annual premium and contribution equivalents (APE)	**Present value of new business premiums (PVNBP)**	**New business contribution**	**New business margin**	
				APE	**PVNBP**
	£m	**£m**	**£m**	**%**	**%**
	note 16	note 16	note		
Asia operations[note (ii)]	**3,599**	**19,271**	**2,030**	**56**	**10.5**
US operations	**1,561**	**15,608**	**790**	**51**	**5.1**
UK insurance operations**	**1,160**	**10,513**	**268**	**23**	**2.5**
Group total	**6,320**	**45,392**	**3,088**	**49**	**6.8**

	2015*				
	Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	New business contribution	New business margin	
				APE	PVNBP
	£m	£m	£m	%	%
	note 16	note 16	note		
Asia operations[note (ii)]	2,712	14,428	1,482	55	10.3
US operations	1,729	17,286	809	47	4.7
UK retail operations**,***	874	7,561	201	23	2.7
Total excluding UK bulk annuities	5,315	39,275	2,492	47	6.3
UK bulk annuities***	151	1,508	117	77	7.8
Group total	5,466	40,783	2,609	48	6.4

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

*** Following Prudential's withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

Note

The increase in new business contribution of £596 million from £2,492 million for 2015 (excluding the contributions from UK bulk annuities) to £3,088 million for 2016 comprises an increase on a CER basis of £314 million and an increase of £282 million for foreign exchange effects. The increase of £314 million on a CER basis comprises a contribution of £226 million for higher retail sales volumes in 2016, a £17 million effect of movement in long-term interest rates, generated by the active basis of setting economic assumptions (analysed as Asia £14 million, US £13 million and UK £(10) million), and a £71 million impact of pricing, product and other actions.

(ii) Asia operations – new business contribution by territory

	2016 £m	2015* £m	
		AER	CER
China	**63**	30	32
Hong Kong	**1,363**	835	941
Indonesia	**175**	229	260
Taiwan	**31**	28	31
Other	**398**	360	396
Total Asia operations	**2,030**	1,482	1,660

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

5 Operating profit from business in force

(i) Group summary

	2016 £m			
	Asia operations note (ii)	**US operations** note (iii)	**UK insurance operations** note (iv)	**Total** note
Unwind of discount and other expected returns	**866**	**583**	**445**	**1,894**
Effect of changes in operating assumptions	**54**	**170**	**25**	**249**
Experience variances and other items	**124**	**428**	**(95)**	**457**
Total	**1,044**	**1,181**	**375**	**2,600**

	2015* £m			
	Asia operations* note (ii)	US operations note (iii)	UK insurance operations** note (iv)	Total note
Unwind of discount and other expected returns	725	472	488	1,685
Effect of changes in operating assumptions	12	115	55	182
Experience variances and other items	61	412	2	475
Total	798	999	545	2,342

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

Note

The movement in operating profit from business in force of £258 million from £2,342 million for 2015 to £2,600 million for 2016 comprises:

	£m
Movement in unwind of discount and other expected returns:	
Effects of changes in:	
Growth in opening value	**126**
Interest rates	**(28)**
Foreign exchange	**141**
Implementation of Solvency II on 1 January 2016	**(30)**
	209
Movement in effect of changes in operating assumptions, experience variances and other items (including foreign exchange of £84 million)	**49**
Net movement in operating profit from business in force	**258**

(ii) Asia operations

	2016 £m	2015* £m
Unwind of discount and other expected returns[note (a)]	**866**	725
Effect of changes in operating assumptions:		
Mortality and morbidity	**33**	63
Persistency and withdrawals[note (b)]	**(47)**	(46)
Expense	**15**	(1)
Other[note (c)]	**53**	(4)
	54	12
Experience variances and other items:		
Mortality and morbidity[note (d)]	**71**	54
Persistency and withdrawals[note (e)]	**52**	17
Expense[note (f)]	**(23)**	(32)
Other	**24**	22
	124	61
Total Asia operations	**1,044**	798

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

Notes

(a) The increase in unwind of discount and other expected returns of £141 million from £725 million for 2015 to £866 million for 2016 comprises a positive £61 million impact for the growth in the opening in-force value, a positive £81 million foreign exchange effect and a net £(1) million effect for movements in long-term interest rates.

(b) The 2016 charge of £(47) million (2015: £(46) million) for persistency assumption changes comprises positive and negative contributions from our various operations, with positive persistency updates on health and protection products being more than offset by negative effects for unit-linked business.

(c) The 2016 credit of £53 million for other assumption changes reflects a number of offsetting items, including modelling improvements and those arising from asset allocation changes in a number of territories.

(d) The positive mortality and morbidity experience variance in 2016 of £71 million (2015: £54 million) mainly reflects better than expected experience in a number of territories.

(e) The positive £52 million for persistency and withdrawals experience in 2016 (2015: £17 million) comprises positive and negative contributions from various operations, with positive persistency experience on health and protection products which more than offsets negative experience on unit-linked products.

(f) The negative expense experience variance in 2016 of £(23) million (2015: £(32) million) principally arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan).

(iii) US operations

	2016 £m	2015 £m
Unwind of discount and other expected returns[note (a)]	**583**	472
Effect of changes in operating assumptions[note (b)]	**170**	115
Experience variances and other items:		
Spread experience variance[note (c)]	**119**	149
Amortisation of interest-related realised gains and losses[note (d)]	**88**	70
Other[note (e)]	**221**	193
	428	412
Total US operations	**1,181**	999

Notes

(a) The increase in unwind of discount and other expected returns of £111 million from £472 million for 2015 to £583 million for 2016 comprises a positive £40 million effect for the underlying growth in the in-force book, a positive £60 million foreign exchange effect and an £11 million impact of the 20 basis points increase in the US 10-year treasury yield during the year.

(b) The 2016 credit of £170 million comprises assumption updates for mortality, persistency and expense, together with an increase in the assumed level of tax relief reflecting recent experience.

(c) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 15(ii)). The spread experience variance in 2016 of £119 million (2015: £149 million) includes the positive effect of transactions previously undertaken to more closely match the overall asset and liability duration. The reduction compared to the prior year reflects the effects of declining yields in the portfolio caused by the prolonged low interest rate environment.

(d) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(e) Other experience variances of £221 million in 2016 (2015: £193 million) include the effects of positive persistency experience and other variances.

(iv) UK insurance operations

	2016 £m	2015* £m
Unwind of discount and other expected returns[note (a)]	**445**	488
Reduction in future UK corporate tax rate[note (b)]	**25**	55
Other[note (c)]	**(95)**	2
Total UK insurance operations	**375**	545

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

Notes

(a) The decrease in unwind of discount and expected returns of £(43)million from 2015 of £488 million to £445 million for 2016 comprises a positive £25 million effect for the underlying growth in the in-force book, more than offset by a £(38) million effect driven by the 70 basis points decrease in the 15-year gilt yield during the year and a negative £(30) million representing the net effect of adopting the Solvency II regime.

(b) The credit of £25 million (2015: £55 million) for the reduction in UK corporate tax rate reflects the beneficial effect of applying a lower corporation tax rate (see note 15) to future life profits from in-force business in the UK.

(c) Other items comprise the following:

	2016 £m	2015 £m
Longevity reinsurance	**(90)**	(134)
Impact of specific management actions to improve solvency position[note (d)]	**110**	75
Provision for cost of undertaking past non-advised annuity sales review and potential redress[note (e)]	**(145)**	-
Other items[note (f)]	**30**	61
	(95)	2

(d) The 2016 benefit of £110 million (2015: £75 million) arises from the specific management actions to improve solvency, including the effect of repositioning the fixed income asset portfolio.

(e) In response to the findings of the FCA's Thematic Review of Annuities Sales Practices, the UK business will review all internally vesting annuities sold without advice after 1 July 2008. Reflecting this, the UK 2016 result includes a provision of £145 million (post-tax) for the estimated cost of the review and any appropriate customer redress, but excludes any potential for insurance recoveries.

(f) The 2016 credit of £30 million (2015: £61 million) comprises assumption updates and experience variances for mortality, expense, persistency and other items.

6 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns included in profit for the year arise as follows:

(i) Group summary

	2016 £m	2015* £m
Asia operations[note (ii)]	(100)	(213)
US operations[note (iii)]	(1,102)	(753)
UK insurance operations[note (iv)]	869	(194)
Other operations[note (v)]	(174)	(55)
Total	(507)	(1,215)

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

(ii) Asia operations

The short-term fluctuations in investment returns for Asia operations comprise:

	2016 £m	2015* £m
Hong Kong	(105)	(144)
Singapore	52	(104)
Other	(47)	35
Total Asia operations[note]	(100)	(213)

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

Note

For 2016, the charge of £(100) million mainly reflects the impact of interest rate movements on bonds and other investment returns, with losses due to increased long-term interest rates in Hong Kong, partly offset by gains in Singapore (as shown in note 15(i)).

(iii) US operations

The short-term fluctuations in investment returns for US operations comprise:

	2016 £m	2015 £m
Investment return related experience on fixed income securities[note (a)]	(85)	(17)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current year separate account return, net of related hedging activity and other items[note (b)]	(1,017)	(736)
Total US operations	(1,102)	(753)

Notes

(a) The charge relating to fixed income securities comprises the following elements:
- the impact on portfolio yields of changes in the asset portfolio in the year;
- the excess of actual realised gains and losses over the amortisation of interest-related realised gains and losses recorded in the profit and loss account; and
- credit experience (versus the longer-term assumption).

(b) This item reflects the net impact of:
- changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values in the current year of 8.9 per cent and that assumed at the start of the year of 6.0 per cent; and
- related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

(iv) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations comprise:

	2016 £m	2015* £m
Shareholder-backed annuity business[note (a)]	431	(88)
With-profits and other business[note (b)]	438	(106)
Total UK insurance operations	869	(194)

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:
- gains (losses) on surplus assets compared to the expected long-term rate of return reflecting reductions (increases) in corporate bond and gilt yields;
- the difference between actual and expected default experience; and
- the effect of mismatching for assets and liabilities of different durations.

(b) The £438 million fluctuations in 2016 for with-profits and other business represent the impact of achieving a 13.6 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 5.0 per cent (2015: total return of 3.1 per cent compared to assumed rate of 5.4 per cent), together with the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from movements in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns for other operations of negative £(174) million (2015: negative £(55) million) include unrealised value movements on investments held outside of the main life operations.

7 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business included in the profit for the year arise as follows:

(i) Group summary

	2016 £m	2015* £m
Asia operations[note (ii)]	**70**	(139)
US operations[note (iii)]	**45**	109
UK insurance operations[note (iv)]	**(175)**	96
Total	**(60)**	66

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations comprises:

	2016 £m	2015* £m
Hong Kong	**85**	100
Indonesia	**46**	(15)
Malaysia	**(20)**	(30)
Singapore	**(60)**	(50)
Taiwan	**12**	(97)
Other	**7**	(47)
Total Asia operations[note]	**70**	(139)

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

Note

The positive effect for 2016 of £70 million largely arises from the movements in long-term interest rates (see note 15(i)). Non-operating profits arise from higher interest rates and hence fund earned rates in Hong Kong, together with the beneficial impact of valuing future health and protection profits at lower discount rates in Indonesia. Losses arise from a fall in interest rates in Singapore and a higher discount rate in Malaysia.

(iii) US operations

The effect of changes in economic assumptions for US operations comprises:

	2016 £m	2015 £m
Variable annuity business	**86**	104
Fixed annuity and other general account business	**(41)**	5
Total US operations[note]	**45**	109

Note

For 2016, the credit of £45 million mainly reflects the increase in the assumed separate account return and reinvestment rates for variable annuity business, following the 20 basis points increase in the US 10-year treasury yield, resulting in higher projected fee income and a decrease in projected benefit costs. For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income of applying a higher discount rate on the opening value of the in-force book.

(iv) UK insurance operations

The effect of changes in economic assumptions for UK insurance operations comprises:

	2016 £m	2015* £m
Shareholder-backed annuity business[note (a)]	**(113)**	(56)
With-profits and other business[note (b)]	**(62)**	152
Total UK insurance operations	**(175)**	96

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

Notes

(a) For shareholder-backed annuity business the overall negative effect of £(113) million for 2016 (2015: £(56) million) reflects an increase in the cost of capital, driven by the lower interest rates, partially offset by the change in the present value of projected spread income arising mainly from the adoption of lower risk discount rates as shown in note 15(iii).

(b) The charge of £(62) million for 2016 (2015: credit of £152 million) reflects the net effect of changes in expected future fund earned rates and risk discount rates (as shown in note 15(iii)).

8 Net core structural borrowings of shareholder-financed operations

	31 Dec 2016 £m			31 Dec 2015 £m		
	IFRS basis	**Mark to market value adjustment**	**EEV basis at market value**	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company (including central finance subsidiaries) cash and short-term investments	**(2,626)**	**-**	**(2,626)**	(2,173)	-	(2,173)
Central funds[note]						
Subordinated debt	**5,772**	**182**	**5,954**	4,018	211	4,229
Senior debt	**549**	**175**	**724**	549	142	691
	6,321	**357**	**6,678**	4,567	353	4,920
Holding company net borrowings	**3,695**	**357**	**4,052**	2,394	353	2,747
Prudential Capital bank loan	**275**	**-**	**275**	275	-	275
Jackson surplus notes	**202**	**65**	**267**	169	55	224
Net core structural borrowings of shareholder-financed operations	**4,172**	**422**	**4,594**	2,838	408	3,246

Note
In June 2016, the Company issued core structural borrowings of US$1,000 million 5.25 per cent Tier 2 perpetual subordinated notes. The proceeds net of costs were £681 million. In September 2016, the Company issued core structural borrowings of US$725 million 4.38 per cent Tier 2 perpetual subordinated notes. The proceeds net of costs were £546 million. The movement in IFRS basis core structural borrowings from 2015 to 2016 also includes foreign exchange effects.

9 Reconciliation of movement in shareholders' equity

	2016 £m						
	Long-term business operations						
	Asia operations note (i)	US operations	UK insurance operations*	Total long-term business operations	Asset management and UK general insurance commission	Other operations note (i)	Group Total
Operating profit based on longer-term investment returns:							
Long-term business:							
New business[note 4]	**2,030**	**790**	**268**	**3,088**	**-**	**-**	**3,088**
Business in force[note 5]	**1,044**	**1,181**	**375**	**2,600**	**-**	**-**	**2,600**
	3,074	**1,971**	**643**	**5,688**		**-**	**5,688**
Asset management and general insurance commission	**-**	**-**	**-**	**-**	**508**	**-**	**508**
Other results	**-**	**-**	**(33)**	**(33)**	**-**	**(666)**	**(699)**
Post-tax operating profit	**3,074**	**1,971**	**610**	**5,655**	**508**	**(666)**	**5,497**
Loss attaching to the held for sale Korea life business[note 17]	**(395)**	**-**	**-**	**(395)**	**-**	**(15)**	**(410)**
Other non-operating (loss) profit	**(30)**	**(1,057)**	**694**	**(393)**	**(38)**	**(140)**	**(571)**
Profit for the year	**2,649**	**914**	**1,304**	**4,867**	**470**	**(821)**	**4,516**
Other items taken directly to equity:							
Exchange movements on foreign operations and net investment hedges	**2,714**	**1,878**	**-**	**4,592**	**83**	**(464)**	**4,211**
Intra-group dividends and investment in operations[note (ii)]	**(594)**	**(388)**	**(281)**	**(1,263)**	**(462)**	**1,725**	**-**
External dividends	**-**	**-**	**-**		**-**	**(1,267)**	**(1,267)**
Mark to market value movements on Jackson assets backing surplus and required capital	**-**	**(11)**	**-**	**(11)**	**-**	**-**	**(11)**
Other movements[note (iii)]	**(6)**	**(75)**	**(169)**	**(250)**	**9**	**(126)**	**(367)**
Net increase in shareholders' equity	**4,763**	**2,318**	**854**	**7,935**	**100**	**(953)**	**7,082**
Shareholders' equity at beginning of year:							
As previously reported	**13,643**	**9,487**	**9,647**	**32,777**	**2,354**	**(2,772)**	**32,359**
Effect of implementation of Solvency II[note 2]	**-**	**-**	**(473)**	**(473)**	**-**	**-**	**(473)**
Other opening adjustments[note (v)]	**66**	**-**	**279**	**345**	**-**	**(345)**	**-**
	13,709	**9,487**	**9,453**	**32,649**	**2,354**	**(3,117)**	**31,886**
Shareholders' equity at end of year	**18,472**	**11,805**	**10,307**	**40,584**	**2,454**	**(4,070)**	**38,968**
Representing:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	**4,747**	**5,204**	**5,974**	**15,925**	**1,224**	**(3,958)**	**13,191**
Goodwill	**-**	**-**	**-**	**-**	**1,230**	**245**	**1,475**
Total IFRS basis shareholders' equity	**4,747**	**5,204**	**5,974**	**15,925**	**2,454**	**(3,713)**	**14,666**
Additional retained profit (loss) on an EEV basis[note (iv)]	**13,725**	**6,601**	**4,333**	**24,659**	**-**	**(357)**	**24,302**
EEV basis shareholders' equity	**18,472**	**11,805**	**10,307**	**40,584**	**2,454**	**(4,070)**	**38,968**
Balance at beginning of year:*							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	3,789	4,154	5,397	13,340	1,124	(2,972)	11,492
Goodwill	-	-	-	-	1,230	233	1,463
Total IFRS basis shareholders' equity	3,789	4,154	5,397	13,340	2,354	(2,739)	12,955
Additional retained profit (loss) on an EEV basis[note (iv)]	9,920	5,333	4,056	19,309	-	(378)	18,931
EEV basis shareholders' equity	13,709	9,487	9,453	32,649	2,354	(3,117)	31,886

* The balance at the beginning of the year has been presented after the adjustments for the impact of Solvency II for UK insurance operations at 1 January 2016 (see note 2 for details), together with the effect of a classification change (see note (v) below).

Notes

(i) Other operations of £(4,070) million represents the shareholders' equity of £(4,315) million for other operations as shown in the movement in shareholders' equity and includes goodwill of £245 million (2015: £233 million) related to Asia long-term operations.

(ii) Intra-group dividends represent dividends that have been declared in the year and investments in operations reflect increases in share capital. The amounts included in note 11 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.

(iii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments and treasury shares.

(iv) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(357) million (2015: £(353) million), as shown in note 8.

(v) Other opening adjustments represents the effect of a classification change of £345 million from Other operations to UK insurance operations of £279 million and to Asia insurance operations of £66 million in order to align with Solvency II segmental reporting, which has no overall effect on the Group's EEV.

10 Analysis of movement in net worth and value of in-force for long-term business

	2016 £m				
	Free surplus note 11	Required capital	Total net worth	Value of in-force business note	Total long-term business operations
Group					
Shareholders' equity at beginning of year:					
As previously reported	**5,642**	**4,704**	**10,346**	**22,431**	**32,777**
Opening adjustments*	**(1,473)**	**4,578**	**3,105**	**(3,233)**	**(128)**
	4,169	**9,282**	**13,451**	**19,198**	**32,649**
New business contribution	**(903)**	**595**	**(308)**	**3,396**	**3,088**
Existing business – transfer to net worth	**3,060**	**(637)**	**2,423**	**(2,423)**	**-**
Expected return on existing business[note 5]	**99**	**193**	**292**	**1,602**	**1,894**
Changes in operating assumptions and experience variances[note 5]	**857**	**(231)**	**626**	**80**	**706**
Solvency II and restructuring costs	**(33)**	**-**	**(33)**	**-**	**(33)**
Post-tax operating profit	**3,080**	**(80)**	**3,000**	**2,655**	**5,655**
Loss attaching to held for sale Korea life business[note 9]	**(86)**	**-**	**(86)**	**(309)**	**(395)**
Other non-operating items	**(932)**	**505**	**(427)**	**34**	**(393)**
Profit for the year from long-term business	**2,062**	**425**	**2,487**	**2,380**	**4,867**
Exchange movements on foreign operations and net investment hedges	**633**	**589**	**1,222**	**3,370**	**4,592**
Intra-group dividends and investment in operations	**(1,263)**	**-**	**(1,263)**	**-**	**(1,263)**
Other movements	**(250)**	**-**	**(250)**	**(11)**	**(261)**
Shareholders' equity at end of year*	**5,351**	**10,296**	**15,647**	**24,937**	**40,584**
Asia operations					
New business contribution	**(476)**	**139**	**(337)**	**2,367**	**2,030**
Existing business – transfer to net worth	**1,157**	**(92)**	**1,065**	**(1,065)**	**-**
Expected return on existing business[note 5]	**39**	**54**	**93**	**773**	**866**
Changes in operating assumptions and experience variances[note 5]	**14**	**94**	**108**	**70**	**178**
Post-tax operating profit	**734**	**195**	**929**	**2,145**	**3,074**
Loss attaching to held for sale Korea life business[note 9]	**(86)**	**-**	**(86)**	**(309)**	**(395)**
Other non-operating items	**(91)**	**29**	**(62)**	**32**	**(30)**
Profit for the year from long-term business	**557**	**224**	**781**	**1,868**	**2,649**
US operations					
New business contribution	**(298)**	**324**	**26**	**764**	**790**
Existing business – transfer to net worth	**1,223**	**(213)**	**1,010**	**(1,010)**	**-**
Expected return on existing business[note 5]	**47**	**53**	**100**	**483**	**583**
Changes in operating assumptions and experience variances[note 5]	**596**	**5**	**601**	**(3)**	**598**
Post-tax operating profit	**1,568**	**169**	**1,737**	**234**	**1,971**
Non-operating items	**(770)**	**(108)**	**(878)**	**(179)**	**(1,057)**
Profit for the year from long-term business	**798**	**61**	**859**	**55**	**914**
UK insurance operations					
New business contribution	**(129)**	**132**	**3**	**265**	**268**
Existing business – transfer to net worth	**680**	**(332)**	**348**	**(348)**	**-**
Expected return on existing business[note 5]	**13**	**86**	**99**	**346**	**445**
Changes in operating assumptions and experience variances[note 5]	**247**	**(330)**	**(83)**	**13**	**(70)**
Solvency II and restructuring costs	**(33)**	**-**	**(33)**	**-**	**(33)**
Post-tax operating profit	**778**	**(444)**	**334**	**276**	**610**
Non-operating items	**(71)**	**584**	**513**	**181**	**694**
Profit for the year from long-term business	**707**	**140**	**847**	**457**	**1,304**

* Opening adjustments represent the impact of implementation of Solvency II for UK insurance operations at 1 January 2016 (see note 2 for details), together with the effect of a classification change, as discussed in note 9(v).

Note

The net value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital as shown below:

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	**15,371**	**8,584**	**3,468**	**27,423**	11,280	7,355	3,043	21,678
Cost of capital	**(477)**	**(319)**	**(692)**	**(1,488)**	(438)	(229)	(713)	(1,380)
Cost of time value of guarantees	**(87)**	**(911)**	**-**	**(998)**	(88)	(1,012)	-	(1,100)
Net value of in-force business	**14,807**	**7,354**	**2,776**	**24,937**	10,754	6,114	2,330	19,198
Total net worth	**3,665**	**4,451**	**7,531**	**15,647**	2,955	3,373	7,123	13,451
Total embedded value[note 9]	**18,472**	**11,805**	**10,307**	**40,584**	13,709	9,487	9,453	32,649

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results in the table above are presented after the adjustments for the impact of Solvency II for UK insurance operations at 1 January 2016, together with the effect of a classification change, as discussed in note 9(v).

11 Analysis of movement in free surplus

For EEV covered business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles. Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity for central operations, net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

Free surplus for insurance and asset management operations and Group total free surplus, including other operations, are shown in the tables below.

(i) Underlying free surplus generated – insurance and asset management operations

The 2015 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2015 CER comparative results are translated at 2016 average exchange rates.

	2016 £m	2015* £m		% change	
		AER	CER	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	**1,210**	951	1,064	27%	14%
Investment in new business[note (iii)(a)]	**(476)**	(386)	(426)	(23)%	(12)%
Long-term business	**734**	565	638	30%	15%
Eastspring Investments[note (iii)(b)]	**125**	101	112	24%	12%
Total	**859**	666	750	29%	15%
US operations					
Underlying free surplus generated from in-force life business	**1,866**	1,426	1,608	31%	16%
Investment in new business[note (iii)(a)]	**(298)**	(267)	(301)	(12)%	1%
Long-term business	**1,568**	1,159	1,307	35%	20%
Broker-dealer and asset management[note (iii)(b)]	**(3)**	7	8	(143)%	(138)%
Total	**1,565**	1,166	1,315	34%	19%
UK insurance operations					
Underlying free surplus generated from in-force life business	**907**	878	878	3%	3%
Investment in new business[note (iii)(a)]	**(129)**	(65)	(65)	(98)%	(98)%
Long-term business**	**778**	813	813	(4)%	(4)%
General insurance commission[note (iii)(b)]	**23**	22	22	5%	5%
Total	**801**	835	835	(4)%	(4)%
M&G	**341**	358	358	(5)%	(5)%
Prudential Capital	**22**	18	18	22%	22%
Underlying free surplus generated from insurance and asset management operations	**3,588**	3,043	3,276	18%	10%
Representing:					
Long-term business:					
Expected in-force cash flows (including expected return on net assets)	**3,159**	2,693	2,941	17%	7%
Effects of changes in operating assumptions, experience variances and other items	**824**	562	609	47%	35%
Underlying free surplus generated from in-force life business	**3,983**	3,255	3,550	22%	12%
Investment in new business[note (iii)(a)]	**(903)**	(718)	(792)	(26)%	(14)%
Total long-term business*,**	**3,080**	2,537	2,758	21%	12%
Asset management and general insurance commission[note (iii)(b)]	**508**	506	518	0%	(2)%
	3,588	3,043	3,276	18%	10%

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

(ii) Underlying free surplus generated – total Group

	2016 £m	2015* £m		% change	
		AER	CER	AER	CER
Underlying free surplus generated from insurance and asset management operations[note (i)]	**3,588**	3,043	3,276	18%	10%
Other income and expenditure net of restructuring and Solvency II costs[note (iii)(b)]	**(703)**	(588)	(588)	(20)%	(20)%
Interest received on tax settlement	**37**	-	-	n/a	n/a
Group total underlying free surplus generated, including other operations	**2,922**	2,455	2,688	19%	9%

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

(iii) Movement in free surplus – long-term business and asset management operations

	2016 £m				
	Long-term business note 10	**Asset management and UK general insurance commission** note (b)	**Total insurance and asset management operations**	**Central and other operations** note (b)	**Group total**
Underlying free surplus generated	**3,080**	**508**	**3,588**	**(666)**	**2,922**
Loss attaching to held for sale Korea life business[note 10]	**(86)**	**-**	**(86)**	**-**	**(86)**
Other non-operating items[note (c)]	**(932)**	**(38)**	**(970)**	**(169)**	**(1,139)**
	2,062	**470**	**2,532**	**(835)**	**1,697**
Net cash flows to parent company[note (d)]	**(1,236)**	**(482)**	**(1,718)**	**1,718**	**-**
External dividends			**-**	**(1,267)**	**(1,267)**
Exchange rate movements, timing differences and other items[note (e)]	**356**	**112**	**468**	**1,144**	**1,612**
Net movement in free surplus	**1,182**	**100**	**1,282**	**760**	**2,042**
Balance at 1 January 2016:					
Balance at beginning of year	**5,642**	**1,124**	**6,766**	**1,224**	**7,990**
Opening adjustments*	**(1,473)**	**-**	**(1,473)**	**(345)**	**(1,818)**
	4,169	**1,124**	**5,293**	**879**	**6,172**
Balance at end of year	**5,351**	**1,224**	**6,575**	**1,639**	**8,214**
Representing:					
Asia operations			**2,142**	**-**	**2,142**
US operations			**2,418**	**-**	**2,418**
UK operations			**2,015**	**-**	**2,015**
Other operations			**-**	**1,639**	**1,639**
			6,575	**1,639**	**8,214**
Balance at 1 January 2016:*					
Asia operations			1,814	-	1,814
US operations			1,733	-	1,733
UK operations			1,746	-	1,746
Other operations			-	879	879
			5,293	879	6,172

* Opening adjustments represent the impact of implementation of Solvency II at 1 January 2016 (see note 2 for details), together with the effect of a reclassification between long-term business and other operations, as discussed in note 9(v). Balance at 1January 2016 has been presented after the opening adjustments.

	2015* £m				
	Long-term business	Asset management and UK general insurance commission note (b)	Total insurance and asset management operations	Central and other operations note (b)	Group total
Underlying free surplus generated	2,537	506	3,043	(588)	2,455
Disposal of Japan life business	23	-	23	-	23
Results of the held for sale Korea life business[note 17]	15	-	15	-	15
Other non-operating items[note (c)]	(415)	(53)	(468)	29	(439)
	2,160	453	2,613	(559)	2,054
Net cash flows to parent company[note (d)]	(1,271)	(354)	(1,625)	1,625	-
External dividends	-	-	-	(974)	(974)
Exchange rate movements, timing differences and other items[note (e)]	560	159	719	(307)	412
Net movement in free surplus	1,449	258	1,707	(215)	1,492
Balance at beginning of year	4,193	866	5,059	1,439	6,498
Balance at end of year	5,642	1,124	6,766	1,224	7,990

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

Notes

(a) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.

(b) Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

(c) Non-operating items are principally short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.

(d) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(e) Exchange rate movements, timing differences and other items represent:

	2016 £m				
	Long-term business	**Asset management and UK general insurance commission**	**Total insurance and asset management operations**	**Central and other operations**	**Group total**
Exchange rate movements	**633**	**83**	**716**	**48**	**764**
Mark to market value movements on Jackson assets backing surplus and required capital[note 9]	**(11)**	**-**	**(11)**	**-**	**(11)**
Other items[note (f)]	**(266)**	**29**	**(237)**	**1,096**	**859**
	356	**112**	**468**	**1,144**	**1,612**

	2015 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	67	3	70	10	80
Mark to market value movements on Jackson assets backing surplus and required capital	(76)	-	(76)	-	(76)
Other items[note (f)]	569	156	725	(317)	408
	560	159	719	(307)	412

(f) Other items include the movements in subordinated debt for Other operations, together with the effect of intra-group loans and other non-cash items. The 2015 results also included the effect of a classification change of £702 million from Other operations to UK insurance operations in order to align with Solvency II segmental reporting, with no overall effect on the Group's EEV.

12 Expected transfer of value of in-force business and required capital to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2016 and 2015 totals for the emergence of free surplus as follows:

	2016 £m	2015* £m
Required capital[note 10]	**10,296**	9,282
Value of in-force business (VIF)[note 10]	**24,937**	19,198
Add back: deduction for cost of time value of guarantees[note 10]	**998**	1,100
Expected free surplus generation from the sale of Korea life business[note 17]	**(76)**	-
Other items[note]	**(1,430)**	(1,714)
Total	**34,725**	27,866

* In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).

Note
'Other items' represent amounts incorporated into VIF where there is no definitive timeframe for when the payments will be made or receipts received. In particular, other items include the deduction of the shareholders' interest in the estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital is modelled as emerging into free surplus over future years.

		2016 £m					
		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
	2016 Total as shown above	**1-5 years**	**6-10 years**	**11-15 years**	**16-20 years**	**21-40 years**	**40+ years**
Asia operations*	**16,393**	**5,141**	**3,331**	**2,209**	**1,515**	**3,118**	**1,079**
US operations	**10,556**	**5,542**	**3,203**	**1,240**	**372**	**199**	**-**
UK insurance operations	**7,776**	**2,890**	**1,931**	**1,119**	**901**	**899**	**36**
Total	**34,725**	**13,573**	**8,465**	**4,568**	**2,788**	**4,216**	**1,115**
	100%	**39%**	**25%**	**13%**	**8%**	**12%**	**3%**

* Asia operations exclude the cash flows in respect of the held for sale Korea life business.

		2015 £m					
		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
	2015 Total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations	11,858	3,916	2,552	1,669	1,115	2,055	551
US operations	8,740	4,361	2,752	1,129	383	115	-
UK insurance operations**	7,268	2,446	1,812	1,198	866	920	26
Total**	27,866	10,723	7,116	3,996	2,364	3,090	577
	100%	38%	26%	14%	9%	11%	2%

** In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).

13 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2016 and 31 December 2015 and the new business contribution after the effect of required capital for 2016 and 2015 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 0.5 per cent decrease in interest rates* (1 per cent decrease for 2015), including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level by contrast to EEV basis required capital for (embedded value only); and
- 5 basis points increase in UK long-term expected defaults.

* To reflect the current level of low interest rates, the sensitivity of new business contribution and embedded value to a 0.5 per cent reduction in interest rates is shown for 2016.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

New business contribution

	2016 £m				2015 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations*	US operations	UK insurance operations**	Total long-term business operations
New business contribution[note 4]	**2,030**	**790**	**268**	**3,088**	1,482	809	318	2,609
Discount rates – 1% increase	**(375)**	**(43)**	**(32)**	**(450)**	(254)	(38)	(40)	(332)
Interest rates – 1% increase	**51**	**64**	**27**	**142**	30	80	7	117
Interest rates – 1% decrease	**-**	**-**	**-**	**-**	(78)	(127)	(9)	(214)
Interest rates – 0.5% decrease	**(30)**	**(49)**	**(15)**	**(94)**	-	-	-	-
Equity/property yields – 1% rise	**129**	**91**	**28**	**248**	71	95	20	186
Long-term expected defaults – 5 bps increase	**-**	**-**	**(2)**	**(2)**	-	-	(8)	(8)

* In order to show the Asia long-term business on a comparable basis, the 2015 comparatives for new business contribution have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

Embedded value of long-term business operations

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Shareholders' equity[note 9]	**18,472**	**11,805**	**10,307**	**40,584**	13,643	9,487	9,647	32,777
Discount rates – 1% increase	**(2,078)**	**(379)**	**(809)**	**(3,266)**	(1,448)	(271)	(586)	(2,305)
Interest rates – 1% increase	**(701)**	**(241)**	**(638)**	**(1,580)**	(380)	(46)	(328)	(754)
Interest rates – 1% decrease	**-**	**-**	**-**	**-**	132	(93)	426	465
Interest rates – 0.5% decrease	**248**	**25**	**369**	**642**	-	-	-	-
Equity/property yields – 1% rise	**771**	**653**	**314**	**1,738**	506	514	271	1,291
Equity/property market values – 10% fall	**(361)**	**(11)**	**(399)**	**(771)**	(246)	(411)	(373)	(1,030)
Statutory minimum capital	**150**	**223**	**-**	**373**	148	162	4	314
Long-term expected defaults – 5 bps increase	**-**	**-**	**(138)**	**(138)**	-	-	(141)	(141)

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumptions shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for changes in interest rates, the effect shown above for Jackson would also be recorded within the fair value movements on assets backing surplus and required capital, which are taken directly to shareholders' equity.

(b) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2016 and 31 December 2015 and the new business contribution after the effect of required capital for 2016 and 2015 to:

— 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
— 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
— 5 per cent proportionate decrease in base mortality and morbidity rates (ie increased longevity).

New business contribution

	2016 £m				2015 £m			
	Asia operations	**US operations**	**UK insurance operations**	**Total long-term business operations**	Asia operations*	US operations	UK insurance operations**	Total long-term business operations
New business contribution[note 4]	**2,030**	**790**	**268**	**3,088**	1,482	809	318	2,609
Maintenance expenses – 10% decrease	**33**	**10**	**3**	**46**	27	8	2	37
Lapse rates – 10% decrease	**132**	**26**	**11**	**169**	104	25	9	138
Mortality and morbidity – 5% decrease	**57**	**4**	**(4)**	**57**	49	1	(13)	37
Change representing effect on:								
Life business	**57**	**4**	**-**	**61**	49	1	1	51
UK annuities	**-**	**-**	**(4)**	**(4)**	-	-	(14)	(14)

* In order to show the Asia long-term business on a comparable basis, the 2015 comparatives for new business contribution have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

** The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

Embedded value of long-term business operations

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	**US operations**	**UK insurance operations****	**Total long-term business operations**	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Shareholders' equity[note 9]	**18,472**	**11,805**	**10,307**	**40,584**	13,643	9,487	9,647	32,777
Maintenance expenses – 10% decrease	**187**	**104**	**91**	**382**	153	80	68	301
Lapse rates – 10% decrease	**659**	**533**	**79**	**1,271**	508	394	75	977
Mortality and morbidity – 5% decrease	**554**	**192**	**(302)**	**444**	449	172	(299)	322
Change representing effect on:								
Life business	**554**	**192**	**12**	**758**	449	172	11	632
UK annuities	**-**	**-**	**(314)**	**(314)**	-	-	(310)	(310)

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

14 Methodology and accounting presentation

(a) Methodology

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- the present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - the cost of locked-in required capital; and
  - the time value of cost of options and guarantees;
- locked-in required capital; and
- the shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results as explained in note 14(b)(iii), no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 14(b)(i).

(i) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business, including the Group's investments in joint venture and associate insurance operations, for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's asset management and other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 14(a)(vii).

The definition of long-term business operations comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group's long-term business operations, with two exceptions:

- the closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court-Approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.
- the presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

(ii) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency, mortality and morbidity, as described in note 15. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating assumptions as at the end of the year.

For UK immediate annuity business and single premium Universal Life products in Asia, primarily in Singapore, the new business contribution is determined by applying economic assumptions reflecting point-of-sale market conditions. This is consistent with how the business is priced as crediting rates are linked to yields on specific assets and the yield is locked in when the assets are purchased at the point of sale of the policy. For other business within the Group, end-of-year economic assumptions are used.

New business profitability is a key metric for the Group's management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of regular premium new business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Valuation movements on investments
With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on an IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the EEV result for Jackson acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that, broadly speaking, are held for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation (depreciation) on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

(iii) Cost of capital
A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

(iv) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia operations
Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US operations (Jackson)
The principal financial options and guarantees in Jackson are associated with the fixed annuity (FA) and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for both years, depending on the particular product, jurisdiction where issued, and date of issue. For 2016, 87 per cent (2015: 87 per cent) of the account values on fixed annuities are for policies with guarantees of 3 per cent or less. The average guarantee rate is 2.6 per cent (2015: 2.6 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable upon depletion of funds (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)), or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholders' value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities (FIA) that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

UK insurance operations
For covered business, the only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses - annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The PAC with-profits fund also held a provision on the Solvency II basis of £62 million at 31 December 2016 (Pillar I Peak 2 basis at 31 December 2015: £47 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in the UK is through the non-covered business of SAIF. A provision on the Solvency II basis of £571 million was held in SAIF at 31 December 2016 (Pillar I Peak 2 basis at 31 December 2015: £412 million) to honour the guarantees. As described in note 14(a)(i), the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders' funds.

Time value

The value of financial options and guarantees comprises two parts:

— The first part arises from a deterministic valuation on best estimate assumptions (the intrinsic value).
— The second part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 15(iv), (v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

(v) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets subject to it being at least the local statutory minimum requirements.

For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. Following the implementation of Solvency II which became effective on 1 January 2016, a portion of future shareholder transfers expected from the with-profits fund is recognised within net worth, together with the associated capital requirements.

For shareholder-backed business the following capital requirements apply:

— Asia operations: the level of required capital has been set to an amount at least equal to the higher of local statutory requirements and the internal target;
— US operations: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
— UK insurance operations: the capital requirements are set at the Solvency II Solvency Capital Requirement (SCR) for shareholder-backed business as a whole; for 2015, the capital requirements were set to an amount at least equal to the higher of Solvency I Pillar I and Pillar II requirements for shareholder-backed business as a whole.

(vi) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

(vii) Internal asset management

The in-force and new business results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current year profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the year. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the assets for covered business.

(viii) Allowance for risk and risk discount rates

Overview
Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin.

For Asia and US operations, the risk-free rates are based on 10-year local government bond yields.

For UK insurance operations, following the implementation of Solvency II on 1 January 2016, the EEV risk-free rate is based on the full term structure of interest rates, ie a yield curve, rather than using a flat 15-year gilt yield (as for 2015). This yield curve is used to determine the embedded value at the end of the reporting period.

The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance
The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product-specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance
The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

- expected long-term defaults;
- credit risk premium (to reflect the volatility in downgrade and default levels); and
- short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below:

Asia operations
For Asia operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly, no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

US operations (Jackson)
For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve (RMR) charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults as shown in note 15(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

- How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
- Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment return rates credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in-force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

UK operations

(1) Shareholder-backed annuity business

For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, as the assets are generally held to maturity to match liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on the Solvency II allowance for credit risk. The Solvency II allowance is set by European Insurance and Occupational Pensions Authority (EIOPA) using a prudent assumption that all future downgrades will be replaced annually, and allowing for the credit spread floor.

For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for a best estimate credit risk allowance. The remaining elements of prudence within the Solvency II allowance are incorporated into the risk margin included in the discount rate, shown in note 14(iii).

In 2015, the allowance for liquidity premium was based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for expected long-term defaults, a credit risk premium, an allowance for a 1-notch downgrade of the asset portfolio subject to credit risk; and an allowance for short-term downgrades and defaults.

(2) With-profits fund non-profit annuity business

For UK non-profit annuity business including that attributable to the PAC with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

(3) With-profits fund holdings of debt securities

The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over risk free, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's Asia operations in China, Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. For the Group's US business and UK business, no additional allowance is necessary.

In 2015, for UK shareholder-backed annuity business, a further allowance of 50 basis points was used to reflect the longevity risk, which is covered by the solvency capital requirements following the implementation of Solvency II from 1 January 2016.

(ix) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year-end exchange rates. The principal exchange rates are shown in note A1 of the IFRS financial statements.

(x) Taxation

In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting period.

(xi) Inter-company arrangements

The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to the PAC non-profit sub-fund.

(b) Accounting presentation

(i) Analysis of post-tax profit

To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 14(b)(ii) below) and incorporate the following:

— new business contribution, as defined in note 14(a)(ii);
— unwind of discount on the value of in-force business and other expected returns, as described in note 14(b)(iii) below;
— the impact of routine changes of estimates relating to operating assumptions, as described in note 14(b)(iv) below; and
— operating experience variances, as described in note 14(b)(v) below.

Non-operating results comprise the recurrent items of:

— short-term fluctuations in investment returns;
— the mark to market value movements on core borrowings; and
— the effect of changes in economic assumptions.

In addition, non-operating profit also includes the effect of adjustment to the carrying value of the held for sale Korea life business in 2016 and a reclassification of the result attributable to the held for sale Korea life business in both years (see note 17 for details).

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

(ii) Investment returns included in operating profit
For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 14(b)(iii) below.

For the purpose of determining the long-term returns for debt securities of US operations for FA and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end-of-period risk-free rates and equity risk premium. For US VA separate account business, operating profit includes the unwind of discount on the opening value of in-force business adjusted to reflect end-of-period projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the operating result for the year.

(iii) Unwind of discount and other expected returns
The unwind of discount and other expected returns is determined by reference to:

— the value of in-force business at the beginning of the year (adjusted for the effect of current year economic and operating assumption changes); and
— required capital and surplus assets.

UK operations
In applying this general approach, the unwind of discount included in operating profit is determined by reference to the following:

— The unwind is determined by reference to an implied single risk discount rate for 2016. Following the implementation of Solvency II the EEV risk-free rate is based on a yield curve (as set out in note 14a(viii) above), which is used to derive a single implied discount rate which, if this rate had been used, would reproduce the same embedded value as that calculated by reference to the yield curve. The difference between the operating profit determined using the single implied discount rate and that derived using the yield curve is included within non-operating profit.
— For with-profits business, the opening value of in-force is adjusted for the effect of short-term investment volatility due to market movements (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2016, the shareholders' interest in the smoothed surplus assets used for this purpose only were £77 million lower (31 December 2015: £58 million lower) than the surplus assets carried in the statement of financial position.

(iv) Effect of changes in operating assumptions
Operating profit includes the effect of changes to non-economic assumptions on the value of in-force at the end of the year. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force as operating assumption changes, with the experience variances subsequently being determined by reference to the end-of-period assumptions (see note 14(b)(v) below).

(v) Operating experience variances
Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality and morbidity, expenses and other factors, which are calculated with reference to the end-of-period assumptions.

(vi) Effect of changes in economic assumptions
Movements in the value of in-force business at the beginning of the year caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results. For UK insurance operations, the effect is after allowing for the recalculation of transitional measures on technical provisions.

15 Assumptions

Principal economic assumptions

The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to year-end risk-free rates of return (defined below for each of the Group's insurance operations). Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the year.

(i) Asia operations[notes (b), (c)]

The risk-free rates of return for Asia operations are defined as 10-year government bond yields at the end of the year.

	Risk discount rate %				10-year government bond yield %		Expected long-term Inflation %	
	New business		In-force business					
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015	**31 Dec 2016**	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
China	**9.6**	9.4	**9.6**	9.4	**3.1**	2.9	**2.5**	2.5
Hong Kong[notes (b), (d)]	**3.9**	3.7	**3.9**	3.7	**2.5**	2.3	**2.3**	2.3
Indonesia	**12.0**	12.8	**12.0**	12.8	**8.1**	8.9	**5.0**	5.0
Malaysia[note (d)]	**6.8**	6.6	**6.9**	6.7	**4.3**	4.2	**2.5**	2.5
Philippines	**11.6**	11.3	**11.6**	11.3	**4.8**	4.6	**4.0**	4.0
Singapore[note (d)]	**4.2**	4.3	**5.0**	5.1	**2.5**	2.6	**2.0**	2.0
Taiwan	**4.0**	4.0	**4.0**	3.9	**1.2**	1.0	**1.0**	1.0
Thailand	**9.4**	9.3	**9.4**	9.3	**2.7**	2.5	**3.0**	3.0
Vietnam	**13.0**	13.8	**13.0**	13.8	**6.3**	7.1	**5.5**	5.5
Total weighted risk discount rate[note (a)]	**5.3**	5.9	**6.1**	6.4				

Notes

(a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each country's risk discount rates by reference to the post-tax EEV basis new business contribution and the closing value of in-force business. The changes in the risk discount rates for individual Asia territories reflect the movements in 10-year government bond yields, together with the effects of movements in the allowance for market risk and changes in product mix.

(b) For Hong Kong the assumptions shown are for US dollar denominated business. For other territories, the assumptions are for local currency denominated business.

(c) Equity risk premiums in Asia range from 3.5 per cent to 8.7 per cent (2015: from 3.5 per cent to 8.6 per cent).

(d) The mean equity return assumptions for the most significant equity holdings of the Asia operations are:

	31 Dec 2016 %	31 Dec 2015 %
Hong Kong	**6.5**	6.3
Malaysia	**10.2**	10.2
Singapore	**8.5**	8.6

(ii) US operations

The risk-free rates of return for US operations are defined as 10-year treasury bond yield at the end of the year.

	31 Dec 2016 %	31 Dec 2015 %
Assumed new business spread margins:*		
Fixed annuity business:**		
January to June issues	**1.25**	1.25
July to December issues	**1.25**	1.50
Fixed index annuity business:		
January to June issues	**1.50**	1.50
July to December issues	**1.50**	1.75
Institutional business	**0.50**	0.70
Allowance for long-term defaults included in projected spread[note 14(a)(viii)]	**0.21**	0.24
Risk discount rate:		
Variable annuity:		
Risk discount rate	**6.9**	6.8
Additional allowance for credit risk included in risk discount rate[note 14(a)(viii)]	**0.2**	0.2
Non-variable annuity:		
Risk discount rate	**4.1**	3.9
Additional allowance for credit risk included in risk discount rate[note 14(a)(viii)]	**1.0**	1.0
Weighted average total:		
New business	**6.8**	6.7
In-force business	**6.5**	6.2
US 10-year treasury bond yield	**2.5**	2.3
Pre-tax expected long-term nominal rate of return for US equities	**6.5**	6.3
Expected long-term rate of inflation	**3.0**	2.8
Equity risk premium	**4.0**	4.0
S&P equity return volatility[note (v)]	**18.0**	18.0

* including the proportion of variable annuity business invested in the general account and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

** including the proportion of variable annuity business invested in the general account.

(iii) UK insurance operations
Effective from 1 January 2016, following the implementation of Solvency II, the EEV risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period. For 2016, these yield curves are used to derive pre-tax expected long-term nominal rates of investment return and risk discount rates. For the purpose of determining the unwind of discount in the analysis of operating profit, these yield curves are used to derive a single implied risk discount rate, as explained in note 14(a)(viii).

For 2015, risk-free rates of return and risk discount rates were based on a flat 15-year gilt yield at the end of the year.

The key economic assumptions are shown below for both years, for 2016 the single implied risk discount rate is shown, along with the 15-year nominal rate of return based on the yield curve. For 2015 the long-term nominal rates of return are shown.

	31 Dec 2016 %	31 Dec 2015 %
Shareholder-backed annuity business:[note (a)]		
Risk discount rate:		
New business	**3.9**	5.7
In-force business	**4.5**	7.4
Pre-tax expected 15-year / long-term nominal rates of investment return:[note (b)]		
New business	**3.0**	3.5
In-force business	**2.8**	3.5
With-profits and other business:		
Risk discount rate:*		
New business	**4.7**	5.6
In-force business	**4.9**	5.7
Pre-tax expected 15-year / long-term nominal rates of investment return:[note (b)]		
Overseas equities	**6.2 to 9.4**	6.3 to 9.4
Property	**4.5**	5.2
15-year gilt yield	**1.7**	2.4
Corporate bonds	**3.5**	4.1
Expected 15-year / long-term rate of inflation	**3.6**	3.1
Equity risk premium	**4.0**	4.0

* The risk discount rates for with-profits and other business shown above represents a weighted average total of the rates applied to determine the present value of future cash flows, including a portion of future with-profits business shareholders' transfers recognised in net worth

Notes

(a) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates for new and in-force businesses reflect the effect of changes in asset yields (based on average yields for new business).

(b) The table below shows the pattern of the UK risk-free Solvency II spot yield curve at the end of 31 December 2016:

	31 Dec 2016				
Year	**1**	**5**	**10**	**15**	**20**
Risk-free rate (%)	0.4	0.7	1.1	1.3	1.3

Stochastic assumptions
Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 14(a)(iv).

(iv) Asia operations

— The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore and Taiwan operations.
— The principal asset classes are government and corporate bonds.
— The asset return models are similar to the models as described for UK insurance operations below.
— The volatility of equity returns ranges from 18 per cent to 35 per cent, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 per cent for both years.

(v) US operations (Jackson)

— Interest rates and equity returns are projected using a log-normal generator reflecting historical market data.
— Corporate bond returns are based on treasury yields plus a spread that reflects current market conditions.
— The volatility of equity returns ranges from 18 per cent to 27 per cent for both years, and the standard deviation of interest rates ranges from 2.3 per cent to 2.6 per cent (2015: from 2.2 per cent to 2.5 per cent).

(vi) UK insurance operations

— Interest rates are projected using a stochastic interest rate model calibrated to the current market yields.
— Equity returns are assumed to follow a log-normal distribution.
— The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread.
— Property returns are also modelled on a risk-free return plus a risk premium with a stochastic process reflecting total property returns.
— The standard deviation of equities and property ranges from 15 per cent to 20 per cent for both years.

Operating assumptions

Best estimate assumptions
Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions
Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

Expense assumptions
Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered. For businesses which are currently sub-scale (China, Malaysia Takaful and Taiwan), expense overruns are reported where these are expected to be short-lived.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia regional head office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

— expenditure for Group head office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, which are charged to the EEV basis results as incurred; and
— expenditure of the Asia regional head office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate related activities and are included within corporate expenditure.

Tax rates
The assumed long-term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 14(a)(x).

The local standard corporate tax rates applicable for the most significant operations for 2016 and 2015 are as follows:

Standard corporate tax rates	%
Asia operations:	
Hong Kong	16.5 per cent on 5 per cent of premium income
Indonesia	25.0
Malaysia	2015: 25.0; from 2016: 24.0
Singapore	17.0
US operations	35.0
UK operations*	2015: 20.0; from 2017: 19.0; from 2020: 17.0

* The Finance Bill included a reduction in the UK corporate tax rate from 18 per cent to 17 per cent effective from 1 April 2020. The impact of this reduction on the UK in-force business is shown in note 5(iv)(b).

16 New business premiums and contributions[note (i)]

	Single premiums		Regular premiums		Annual premium and contribution equivalents (APE) note 14(a)(ii)		Present value of new business premiums (PVNBP)* note 14(a)(ii)	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Group insurance operations								
Asia**	**2,397**	1,938	**3,359**	2,518	**3,599**	2,712	**19,271**	14,428
US	**15,608**	17,286	**-**	-	**1,561**	1,729	**15,608**	17,286
UK***	**9,836**	6,955	**177**	179	**1,160**	874	**10,513**	7,561
Group total excluding UK bulk annuities**	**27,841**	26,179	**3,536**	2,697	**6,320**	5,315	**45,392**	39,275
UK bulk annuities***	**-**	1,508	**-**	-	**-**	151	**-**	1,508
Group total**	**27,841**	27,687	**3,536**	2,697	**6,320**	5,466	**45,392**	40,783
Asia insurance operations								
Cambodia	**-**	-	**14**	8	**14**	8	**66**	38
Hong Kong	**1,140**	546	**1,798**	1,158	**1,912**	1,213	**10,930**	7,007
Indonesia	**236**	230	**255**	303	**279**	326	**1,048**	1,224
Malaysia	**110**	100	**233**	201	**244**	211	**1,352**	1,208
Philippines	**91**	146	**61**	44	**70**	59	**278**	287
Singapore	**523**	454	**299**	264	**351**	309	**2,627**	2,230
Thailand	**80**	69	**81**	88	**89**	95	**404**	422
Vietnam	**6**	6	**115**	82	**116**	83	**519**	343
SE Asia operations including Hong Kong	**2,186**	1,551	**2,856**	2,148	**3,075**	2,304	**17,224**	12,759
China[note (ii)]	**124**	308	**187**	111	**199**	142	**880**	739
Taiwan	**36**	45	**146**	127	**150**	131	**499**	442
India[note (iii)]	**51**	34	**170**	132	**175**	135	**668**	488
Total Asia insurance operations**	**2,397**	1,938	**3,359**	2,518	**3,599**	2,712	**19,271**	14,428
US insurance operations								
Variable annuities	**10,653**	11,977	**-**	-	**1,065**	1,198	**10,653**	11,977
Elite Access (variable annuity)	**2,056**	3,144	**-**	-	**206**	314	**2,056**	3,144
Fixed annuities	**555**	477	**-**	-	**55**	48	**555**	477
Fixed index annuities	**508**	458	**-**	-	**51**	46	**508**	458
Wholesale	**1,836**	1,230	**-**	-	**184**	123	**1,836**	1,230
Total US insurance operations	**15,608**	17,286	**-**	-	**1,561**	1,729	**15,608**	17,286
UK and Europe insurance operations								
Individual annuities	**546**	565	**-**	-	**55**	57	**546**	565
Bonds	**3,834**	3,327	**-**	-	**384**	333	**3,835**	3,328
Corporate pensions	**110**	175	**121**	135	**132**	152	**479**	600
Individual pensions	**2,532**	1,185	**35**	32	**289**	150	**2,681**	1,295
Income drawdown	**1,649**	1,024	**-**	-	**165**	102	**1,649**	1,024
Other products	**1,165**	679	**21**	12	**135**	80	**1,323**	749
Total Retail	**9,836**	6,955	**177**	179	**1,160**	874	**10,513**	7,561
Wholesale	**-**	1,508	**-**	-	**-**	151	**-**	1,508
Total UK and Europe insurance operations	**9,836**	8,463	**177**	179	**1,160**	1,025	**10,513**	9,069
Group total**	**27,841**	27,687	**3,536**	2,697	**6,320**	5,466	**45,392**	40,783
Group total excluding UK bulk annuities**	**27,841**	26,179	**3,536**	2,697	**6,320**	5,315	**45,392**	39,275

* For 2016, the risk discount rates used to calculate PVNBP for UK insurance operations are on a basis that reflects the Solvency II regime effective on 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

** The new business premiums and contributions exclude the results attributable to the held for sale Korea life business (see note 17 for details). The 2015 comparatives have been similarly adjusted.

*** Following Prudential's withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

Notes

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement. A reconciliation of APE and gross earned premiums on an IFRS basis is provided in Note E within the EEV unaudited financial information.

(ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

17 Agreement to sell Korea life business

In November 2016, the Group reached an agreement to sell the life insurance subsidiary in Korea, PCA Life Insurance, to Mirae Asset Life Insurance for KRW 170 billion (£114 million at 31 December 2016 closing exchange rate). Completion of the transaction is subject to regulatory approval.

Consistent with the classification of the business as held for sale for IFRS reporting, the EEV carrying value has been set to £105 million at 31 December 2016, representing the estimated proceeds, net of £9 million of related expenses.

In order to facilitate comparisons of the Group's retained businesses, the EEV basis operating profit excludes the contribution from the Korea life business. The 2015 comparative results have been similarly adjusted. For 2016, the post-tax result for the year of £5 million, including short-term fluctuations in investment returns and the effect of changes in economic assumptions, together with the £(415) million adjustment to the carrying value have given rise to an aggregate loss of £(410) million. The 2015 amount of £39 million represents the previously reported profit after tax for this business.

The tables below show the results of the held for sale Korea life business which were included in the Group's results for half year 2016 and full year 2015.

EEV post-tax results

	Half year 2016 £m	Full year 2015 £m
Operating profit		
New business contribution	3	8
Profit from business in force	3	33
	6	41
Non-operating loss	(17)	(2)
Total profit after tax	(11)	39
Underlying free surplus generated		
New business contribution	(9)	(27)
Profit from business in force	3	34
	(6)	7
Non-operating profit	17	8
Total free surplus generated	11	15

New business premiums and contributions

	Single premiums £m	Regular premiums £m	Annual premium and contribution equivalents (APE) £m	Present value of new business premiums (PVNBP) £m
Half year 2016	42	46	50	276
Full year 2015	182	123	141	780

Additional EEV financial information*

A New Business

BASIS OF PREPARATION

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, ie falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under Prudential Regulation Authority regulations.

The details shown for insurance products include contributions for contracts that are classified under IFRS 4 'Insurance Contracts' as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK Insurance Operations, and Guaranteed Investment Contracts and similar funding agreements written in US Operations.

New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option. New business premiums reflect those premiums attaching to covered business, including premiums for contracts designed as investment products for IFRS reporting.

Investment products referred to in the tables for funds under management are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

Post-tax New Business Profit has been determined using the European Embedded Value (EEV) methodology set out in our EEV basis results supplement. The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

In determining the EEV basis value of new business written in the period policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

Annual premium equivalent (APE) sales are subject to rounding.

Notes to Schedules A(i) to A(v)

(1) Prudential plc reports its results using both actual exchange rates (AER) and constant exchange rates (CER) so as to eliminate the impact of exchange translation.

	Average rate**			Closing rate		
Local Currency: £	**2016**	**2015**	**% appreciation (depreciation) of local currency against GBP**	**31 Dec 2016**	**31 Dec 2015**	**% appreciation (depreciation) of local currency against GBP**
China	**8.99**	9.61	7%	**8.59**	9.57	11%
Hong Kong	**10.52**	11.85	13%	**9.58**	11.42	19%
Indonesia	**18,026.11**	20,476.93	14%	**16,647.30**	20,317.71	22%
Malaysia	**5.61**	5.97	6%	**5.54**	6.33	14%
Singapore	**1.87**	2.10	12%	**1.79**	2.09	17%
Thailand	**47.80**	52.38	10%	**44.25**	53.04	20%
US	**1.35**	1.53	13%	**1.24**	1.47	19%
Vietnam	**30,292.79**	33,509.21	11%	**28,136.99**	33,140.64	18%

** Average rate is for the 12 month period to 31 December.

* *The additional financial information is not covered by the KPMG independent audit opinion.*

(1a) Insurance new business for overseas operations are converted using the year-to-date average exchange rate applicable at the time (AER). The sterling results for the second half of the year represent the difference between the year-to-date reported sterling results at the year end and the results for the first half of the year. The second half results therefore include the true up between the first half and full year average exchange rates applied to the first half sales.

(1b) Insurance new business for overseas operations for 2015 has been calculated using constant exchange rates (CER).

(2) Annual Equivalents, calculated as regular new business contributions plus 10 per cent of single new business contributions, are subject to rounding. Present value of new business premiums (PVNBPs) are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit. For 2016, the risk discount rates used to calculate PVNBP for UK insurance operations are on a basis that reflects the Solvency II regime effective on 1 January 2016. The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

(3) Balance includes segregated and pooled pension funds, private finance assets and other institutional clients. Other movements reflect the net flows arising from the cash component of a tactical asset allocation fund managed by PPM South Africa.

(4) New business in India is included at Prudential's 26 per cent interest in the India life operation.

(5) Balance Sheet figures have been calculated at the closing exchange rate.

(6) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(7) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.

(8) Investment flows for the period exclude year-to-date Eastspring Money Market Funds (MMF) gross inflows of £146,711 million (2015: £89,553 million) and net inflows of £403 million (2015: net inflows £1,066 million).

(9) Total Group Investment Operations funds under management exclude MMF funds under management of £7,714 million at 31 December 2016 (31 December 2015: £6,006 million).

(10) The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

(11) Following Prudential’s withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

(12) The 2015 comparatives for Asia insurance operations have been adjusted to exclude the contribution from the held for sale Korea life business (APE sales of £141 million, PVNBP of £780 million, and new business contribution of £8 million).

Schedule A(i) New Business Insurance Operations (Actual Exchange Rates)

	Single premium			Regular premium			Annual Equivalents			PVNBP		
	2016 YTD £m	2015 YTD £m	+/- (%)	2016 YTD £m	2015 YTD £m	+/- (%)	2016 YTD £m	2015 YTD £m	+/- (%)	2016 YTD £m	2015 YTD £m	+/- (%)
Group Insurance Operations												
Asia[(1a) (12)]	**2,397**	1,938	24%	**3,359**	2,518	33%	**3,599**	2,712	33%	**19,271**	14,428	34%
US[(1a)]	**15,608**	17,286	(10)%	**-**	-	-	**1,561**	1,729	(10)%	**15,608**	17,286	(10)%
UK retail[(11)]	**9,836**	6,955	41%	**177**	179	(1)%	**1,160**	874	33%	**10,513**	7,561	39%
Group total excluding UK bulk annuities[(12)]	**27,841**	26,179	6%	**3,536**	2,697	31%	**6,320**	5,315	19%	**45,392**	39,275	16%
UK bulk annuities[(11)]	**-**	1,508	(100)%	**-**	-	-	**-**	151	(100)%	**-**	1,508	(100)%
Group Total[(12)]	**27,841**	27,687	1%	**3,536**	2,697	31%	**6,320**	5,466	16%	**45,392**	40,783	11%
Asia Insurance Operations[(1a)]												
Cambodia	**-**	-	-	**14**	8	75%	**14**	8	75%	**66**	38	74%
Hong Kong	**1,140**	546	109%	**1,798**	1,158	55%	**1,912**	1,213	58%	**10,930**	7,007	56%
Indonesia	**236**	230	3%	**255**	303	(16)%	**279**	326	(14)%	**1,048**	1,224	(14)%
Malaysia	**110**	100	10%	**233**	201	16%	**244**	211	16%	**1,352**	1,208	12%
Philippines	**91**	146	(38)%	**61**	44	39%	**70**	59	19%	**278**	287	(3)%
Singapore	**523**	454	15%	**299**	264	13%	**351**	309	14%	**2,627**	2,230	18%
Thailand	**80**	69	16%	**81**	88	(8)%	**89**	95	(6)%	**404**	422	(4)%
Vietnam	**6**	6	-	**115**	82	40%	**116**	83	40%	**519**	343	51%
SE Asia Operations including Hong Kong	**2,186**	1,551	41%	**2,856**	2,148	33%	**3,075**	2,304	33%	**17,224**	12,759	35%
China[(6)]	**124**	308	(60)%	**187**	111	68%	**199**	142	40%	**880**	739	19%
Taiwan	**36**	45	(20)%	**146**	127	15%	**150**	131	15%	**499**	442	13%
India[(4)]	**51**	34	50%	**170**	132	29%	**175**	135	30%	**668**	488	37%
Total Asia Insurance Operations[(12)]	**2,397**	1,938	24%	**3,359**	2,518	33%	**3,599**	2,712	33%	**19,271**	14,428	34%
US Insurance Operations[(1a)]												
Variable annuities	**10,653**	11,977	(11)%	**-**	-	-	**1,065**	1,198	(11)%	**10,653**	11,977	(11)%
Elite Access (variable annuity)	**2,056**	3,144	(35)%	**-**	-	-	**206**	314	(34)%	**2,056**	3,144	(35)%
Fixed annuities	**555**	477	16%	**-**	-	-	**55**	48	15%	**555**	477	16%
Fixed index annuities	**508**	458	11%	**-**	-	-	**51**	46	11%	**508**	458	11%
Wholesale	**1,836**	1,230	49%	**-**	-	-	**184**	123	50%	**1,836**	1,230	49%
Total US Insurance Operations	**15,608**	17,286	(10)%	**-**	-	-	**1,561**	1,729	(10)%	**15,608**	17,286	(10)%
UK & Europe Insurance Operations												
Individual annuities	**546**	565	(3)%	**-**	-	-	**55**	57	(4)%	**546**	565	(3)%
Bonds	**3,834**	3,327	15%	**-**	-	-	**384**	333	15%	**3,835**	3,328	15%
Corporate pensions	**110**	175	(37)%	**121**	135	(10)%	**132**	152	(13)%	**479**	600	(20)%
Individual pensions	**2,532**	1,185	114%	**35**	32	9%	**289**	150	93%	**2,681**	1,295	107%
Income drawdown	**1,649**	1,024	61%	**-**	-	-	**165**	102	62%	**1,649**	1,024	61%
Other products	**1,165**	679	72%	**21**	12	75%	**135**	80	69%	**1,323**	749	77%
Total UK Retail	**9,836**	6,955	41%	**177**	179	(1)%	**1,160**	874	33%	**10,513**	7,561	39%
UK bulk annuities	**-**	1,508	(100)%	**-**	-	-	**-**	151	(100)%	**-**	1,508	(100)%
Total UK & Europe Insurance Operations	**9,836**	8,463	16%	**177**	179	(1)%	**1,160**	1,025	13%	**10,513**	9,069	16%
Group Total[(12)]	**27,841**	27,687	1%	**3,536**	2,697	31%	**6,320**	5,466	16%	**45,392**	40,783	11%
Group total excluding UK bulk annuities[(11) (12)]	**27,841**	26,179	6%	**3,536**	2,697	31%	**6,320**	5,315	19%	**45,392**	39,275	16%

Schedule A(ii) New Business Insurance Operations (Constant Exchange Rates)

Note: In schedule A(ii) constant exchange rates (CER) have been used to calculate insurance new business for overseas operations for 2015.

	Single premium			Regular premium			Annual Equivalents			PVNBP		
	2016 YTD £m	2015 YTD £m	+/- (%)	2016 YTD £m	2015 YTD £m	+/- (%)	2016 YTD £m	2015 YTD £m	+/- (%)	2016 YTD £m	2015 YTD £m	+/- (%)
Group Insurance Operations												
Asia[1a] [1b] [12]	**2,397**	2,150	11%	**3,359**	2,805	20%	**3,599**	3,020	19%	**19,271**	16,081	20%
US[1a] [1b]	**15,608**	19,499	(20)%	**-**	-	-	**1,561**	1,950	(20)%	**15,608**	19,499	(20)%
UK retail[11]	**9,836**	6,955	41%	**177**	179	(1)%	**1,160**	874	33%	**10,513**	7,561	39%
Group total excluding UK bulk annuities[11] [12]	**27,841**	28,604	(3)%	**3,536**	2,984	18%	**6,320**	5,844	8%	**45,392**	43,141	5%
UK bulk annuities	-	1,508	(100)%	-	-	-	**-**	151	(100)%	**-**	1,508	(100)%
Group Total[12]	**27,841**	30,112	(8)%	**3,536**	2,984	18%	**6,320**	5,995	5%	**45,392**	44,649	2%
Asia Insurance Operations[1a] [1b]												
Cambodia	**-**	-	-	**14**	8	75%	**14**	8	75%	**66**	43	53%
Hong Kong	**1,140**	616	85%	**1,798**	1,306	38%	**1,912**	1,368	40%	**10,930**	7,895	38%
Indonesia	**236**	262	(10)%	**255**	345	(26)%	**279**	371	(25)%	**1,048**	1,391	(25)%
Malaysia	**110**	106	4%	**233**	214	9%	**244**	225	8%	**1,352**	1,287	5%
Philippines	**91**	158	(42)%	**61**	48	27%	**70**	63	11%	**278**	311	(11)%
Singapore	**523**	510	3%	**299**	296	1%	**351**	347	1%	**2,627**	2,507	5%
Thailand	**80**	76	5%	**81**	96	(16)%	**89**	103	(14)%	**404**	462	(13)%
Vietnam	**6**	6	-	**115**	91	26%	**116**	92	26%	**519**	379	37%
SE Asia Operations including Hong Kong	**2,186**	1,734	26%	**2,856**	2,404	19%	**3,075**	2,577	19%	**17,224**	14,275	21%
China[6]	**124**	329	(62)%	**187**	119	57%	**199**	152	31%	**880**	789	12%
Taiwan	**36**	50	(28)%	**146**	141	4%	**150**	146	3%	**499**	491	2%
India[4]	**51**	37	38%	**170**	141	21%	**175**	145	21%	**668**	526	27%
Total Asia Insurance Operations[12]	**2,397**	2,150	11%	**3,359**	2,805	20%	**3,599**	3,020	19%	**19,271**	16,081	20%
US Insurance Operations[1a] [1b]												
Variable annuities	**10,653**	13,512	(21)%	**-**	**-**	-	**1,065**	1,351	(21)%	**10,653**	13,512	(21)%
Elite Access (variable annuity)	**2,056**	3,547	(42)%	**-**	-	-	**206**	355	(42)%	**2,056**	3,547	(42)%
Fixed annuities	**555**	538	3%	**-**	-	-	**55**	54	2%	**555**	538	3%
Fixed index annuities	**508**	517	(2)%	**-**	-	-	**51**	52	(2)%	**508**	517	(2)%
Wholesale	**1,836**	1,385	33%	**-**	-	-	**184**	138	33%	**1,836**	1,385	33%
Total US Insurance Operations	**15,608**	19,499	(20)%	**-**	-	-	**1,561**	1,950	(20)%	**15,608**	19,499	(20)%
UK & Europe Insurance Operations												
Individual annuities	**546**	565	(3)%	**-**	-	-	**55**	57	(4)%	**546**	565	(3)%
Bonds	**3,834**	3,327	15%	**-**	-	-	**384**	333	15%	**3,835**	3,328	15%
Corporate pensions	**110**	175	(37)%	**121**	135	(10)%	**132**	152	(13)%	**479**	600	(20)%
Individual pensions	**2,532**	1,185	114%	**35**	32	9%	**289**	150	93%	**2,681**	1,295	107%
Income drawdown	**1,649**	1,024	61%	**-**	-	-	**165**	102	62%	**1,649**	1,024	61%
Other products	**1,165**	679	72%	**21**	12	75%	**135**	80	69%	**1,323**	749	77%
Total UK Retail	**9,836**	6,955	41%	**177**	179	(1)%	**1,160**	874	33%	**10,513**	7,561	39%
UK bulk annuities	-	1,508	(100)%	**-**	**-**	-	**-**	151	(100)%	**-**	1,508	(100)%
Total UK & Europe Insurance Operations	**9,836**	8,463	16%	**177**	179	(1)%	**1,160**	1,025	13%	**10,513**	9,069	16%
Group Total[12]	**27,841**	30,112	(8)%	**3,536**	2,984	18%	**6,320**	5,995	5%	**45,392**	44,649	2%
Group total excluding UK bulk annuities[11] [12]	**27,841**	28,604	(3)%	**3,536**	2,984	18%	**6,320**	5,844	8%	**45,392**	43,141	5%

Schedule A(iii) Total Insurance New Business APE (Actual and Constant Exchange Rates)

Note: In schedule A(iii) amounts for the first half (H1) and second half (H2) of 2015 are presented on both actual exchange rate (AER) and constant exchange rate (CER).

	AER				CER			
	2015		2016		2015		2016	
	H1	H2	H1	H2	H1	H2	H1	H2
	£m	£m	£m	£m	£m	£m	£m	£m
Group Insurance Operations								
Asia[(1a) (12)]	1,292	1,420	1,605	1,994	1,408	1,612	1,700	1,899
US[(1a)]	857	872	782	779	965	985	827	734
UK retail[(11)]	393	481	593	567	393	481	593	567
Group total excluding UK bulk annuities[(11) (12)]	**2,542**	**2,773**	**2,980**	**3,340**	**2,766**	**3,078**	**3,120**	**3,200**
UK bulk annuities	117	34	-	-	117	34	-	-
Group Total[(12)]	**2,659**	**2,807**	**2,980**	**3,340**	**2,883**	**3,112**	**3,120**	**3,200**
Asia Insurance Operations[(1a)]								
Cambodia	3	5	6	8	4	4	6	8
Hong Kong	519	694	868	1,044	582	786	919	993
Indonesia	183	143	125	154	200	171	133	146
Malaysia	105	106	109	135	104	121	115	129
Philippines	29	30	30	40	31	32	32	38
Singapore	153	156	142	209	168	179	151	200
Thailand	48	47	43	46	50	53	46	43
Vietnam	34	49	44	72	37	55	46	70
SE Asia Operations including Hong Kong	**1,074**	**1,230**	**1,367**	**1,708**	**1,176**	**1,401**	**1,448**	**1,627**
China[(6)]	89	53	109	90	94	58	114	85
Taiwan	61	70	56	94	66	80	61	89
India[(4)]	68	67	73	102	72	73	77	98
Total Asia Insurance Operations[(12)]	**1,292**	**1,420**	**1,605**	**1,994**	**1,408**	**1,612**	**1,700**	**1,899**
US Insurance Operations[(1a)]								
Variable annuities	606	592	500	565	682	669	529	536
Elite Access (variable annuity)	166	148	99	107	187	168	104	102
Fixed annuities	23	25	28	27	27	27	30	25
Fixed index annuities	21	25	28	23	24	28	30	21
Wholesale	41	82	127	57	45	93	134	50
Total US Insurance Operations	**857**	**872**	**782**	**779**	**965**	**985**	**827**	**734**
UK & Europe Insurance Operations								
Individual annuities	28	29	33	22	28	29	33	22
Bonds	156	177	196	188	156	177	196	188
Corporate pensions	76	76	74	58	76	76	74	58
Individual pensions	62	88	134	155	62	88	134	155
Income drawdown	39	63	81	84	39	63	81	84
Other products	32	48	75	60	32	48	75	60
Total UK Retail	**393**	**481**	**593**	**567**	**393**	**481**	**593**	**567**
UK bulk annuities	117	34	-	-	117	34	-	-
Total UK & Europe Insurance Operations	**510**	**515**	**593**	**567**	**510**	**515**	**593**	**567**
Group Total[(12)]	**2,659**	**2,807**	**2,980**	**3,340**	**2,883**	**3,112**	**3,120**	**3,200**
Group total excluding UK bulk annuities[(11) (12)]	**2,542**	**2,773**	**2,980**	**3,340**	**2,766**	**3,078**	**3,120**	**3,200**

Schedule A(iv) Investment Operations (Actual Exchange Rates)

	2015		2016	
	H1	H2	H1	H2
	£m	£m	£m	£m
Group Investment Operations				
Opening FUM	162,380	163,488	156,686	162,384
Net Flows:[8]	2,186	(3,223)	(7,378)	1,123
- Gross Inflows	32,078	22,392	15,894	24,239
- Redemptions	(29,892)	(25,615)	(23,272)	(23,116)
Other Movements	(1,078)	(3,579)	13,076	11,298
Total Group Investment Operations[9]	**163,488**	**156,686**	**162,384**	**174,805**
M&G				
Retail				
Opening FUM	74,289	69,158	60,801	59,217
Net Flows:	(3,418)	(7,440)	(6,122)	(131)
- Gross Inflows	14,264	6,836	6,160	9,625
- Redemptions	(17,682)	(14,276)	(12,282)	(9,756)
Other Movements	(1,713)	(917)	4,538	5,123
Closing FUM	**69,158**	**60,801**	**59,217**	**64,209**
Comprising amounts for:				
UK	38,701	35,738	34,308	35,208
Europe (excluding UK)	28,726	23,524	23,020	26,905
South Africa	1,731	1,539	1,889	2,096
	69,158	**60,801**	**59,217**	**64,209**
Institutional[3]				
Opening FUM	62,758	64,242	65,604	70,439
Net Flows:	1,043	2,807	(844)	(993)
- Gross Inflows	6,161	6,365	3,571	3,485
- Redemptions	(5,118)	(3,558)	(4,415)	(4,478)
Other Movements	441	(1,445)	5,679	3,108
Closing FUM	**64,242**	**65,604**	**70,439**	**72,554**
Total M&G Investment Operations	**133,400**	**126,405**	**129,656**	**136,763**
PPM South Africa FUM included in Total M&G	**5,108**	**4,365**	**5,354**	**6,047**
Eastspring - excluding MMF[8]				
Third Party Retail[7]				
Opening FUM	21,893	26,017	25,541	27,155
Net Flows:	4,235	616	(787)	1,237
- Gross Inflows	11,089	8,165	5,650	9,875
- Redemptions	(6,854)	(7,549)	(6,437)	(8,638)
Other Movements	(111)	(1,092)	2,401	2,401
Closing FUM[5]	**26,017**	**25,541**	**27,155**	**30,793**
Third Party Institutional Mandates				
Opening FUM	3,440	4,071	4,740	5,573
Net Flows:	326	794	375	1,010
- Gross Inflows	564	1,026	513	1,254
- Redemptions	(238)	(232)	(138)	(244)
Other Movements	305	(125)	458	666
Closing FUM[5]	**4,071**	**4,740**	**5,573**	**7,249**
Total Eastspring Investment Operations	**30,088**	**30,281**	**32,728**	**38,042**

Schedule A(v) Total Insurance New Business Profit (Actual and Constant Exchange Rates)

Note: In schedule A(v) amounts for half year (HY) and full year (FY) 2015 and 2016 are presented on both actual exchange rates (AER) and constant exchange rates (CER) basis.

	AER				CER			
	2015		2016		2015		2016	
	HY	FY	HY	FY	HY	FY	HY	FY
	£m	£m	£m	£m	£m	£m	£m	£m
New Business Profit[1a] [b]								
Total Asia Insurance Operations[12]	660	1,482	821	2,030	723	1,660	869	2,030
Total US Insurance Operations	371	809	311	790	417	913	329	790
Total UK retail[10] [11]	80	201	125	268	80	201	125	268
Group total excluding UK bulk annuities[10] [11] [12]	**1,111**	**2,492**	**1,257**	**3,088**	**1,220**	**2,774**	**1,323**	**3,088**
UK bulk annuities	75	117	-	-	75	117	-	-
Group Total[12]	**1,186**	**2,609**	**1,257**	**3,088**	**1,295**	**2,891**	**1,323**	**3,088**
Annual Equivalent[1a] [b] [2]								
Total Asia Insurance Operations[12]	1,292	2,712	1,605	3,599	1,408	3,020	1,698	3,599
Total US Insurance Operations	857	1,729	782	1,561	965	1,950	827	1,561
Total UK retail[11]	393	874	593	1,160	393	874	593	1,160
Group total excluding UK bulk annuities[11] [12]	**2,542**	**5,315**	**2,980**	**6,320**	**2,766**	**5,844**	**3,118**	**6,320**
UK bulk annuities	117	151	-	-	117	151	-	-
Group Total[12]	**2,659**	**5,466**	**2,980**	**6,320**	**2,883**	**5,995**	**3,118**	**6,320**
New Business Margin (NBP as % of APE)								
Total Asia Insurance Operations[12]	51%	55%	51%	56%	51%	55%	51%	56%
Total US Insurance Operations	43%	47%	40%	51%	43%	47%	40%	51%
Total UK retail[10] [11]	20%	23%	21%	23%	20%	23%	21%	23%
Group total excluding UK bulk annuities[10] [11] [12]	**44%**	**47%**	**42%**	**49%**	**44%**	**47%**	**42%**	**49%**
UK bulk annuities	64%	77%	N/A	N/A	64%	77%	N/A	N/A
Group Total	**45%**	**48%**	**42%**	**49%**	**45%**	**48%**	**42%**	**49%**
PVNBP[1a] [b] [2]								
Total Asia Insurance Operations[12]	6,942	14,428	8,679	19,271	7,579	16,081	9,178	19,271
Total US Insurance Operations	8,574	17,286	7,816	15,608	9,645	19,499	8,268	15,608
Total UK retail[10] [11]	3,355	7,561	5,267	10,513	3,355	7,561	5,267	10,513
Group total excluding UK bulk annuities[10] [11] [12]	**18,871**	**39,275**	**21,762**	**45,392**	**20,579**	**43,141**	**22,713**	**45,392**
UK bulk annuities	1,169	1,508	-	-	1,169	1,508	-	-
Group Total[12]	**20,040**	**40,783**	**21,762**	**45,392**	**21,748**	**44,649**	**22,713**	**45,392**
New Business Margin (NBP as % of PVNBP)								
Total Asia Insurance Operations[12]	9.5%	10.3%	9.5%	10.5%	9.5%	10.3%	9.5%	10.5%
Total US Insurance Operations	4.3%	4.7%	4.0%	5.1%	4.3%	4.7%	4.0%	5.1%
Total UK retail[10] [11]	2.4%	2.7%	2.4%	2.5%	2.4%	2.7%	2.4%	2.5%
Group total excluding UK bulk annuities[10] [11] [12]	**5.9%**	**6.3%**	**5.8%**	**6.8%**	**5.9%**	**6.4%**	**5.8%**	**6.8%**
UK bulk annuities	6.4%	7.8%	N/A	N/A	6.4%	7.8%	N/A	N/A
Group Total	**5.9%**	**6.4%**	**5.8%**	**6.8%**	**6.0%**	**6.5%**	**5.8%**	**6.8%**

B Reconciliation of expected transfer of value of in-force business and required capital to free surplus

The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (less than 3 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2016 results.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2016, the tables also present the expected future free surplus to be generated from the investment made in new business during 2016 over the same 40-year period.

(i) Expected transfer of value of in-force business (VIF) and required capital to free surplus

	2016 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from new business written*			
Expected period of emergence	**Asia****	**US**	**UK**	**Total**	**Asia****	**US**	**UK**	**Total**
2017	1,320	1,446	675	**3,441**	188	270	27	**485**
2018	1,247	1,279	669	**3,195**	157	116	29	**302**
2019	1,202	1,273	636	**3,111**	170	123	29	**322**
2020	1,167	1,281	622	**3,070**	158	136	31	**325**
2021	1,142	1,282	606	**3,030**	170	151	33	**354**
2022	1,122	1,152	591	**2,865**	148	84	30	**262**
2023	1,122	1,116	576	**2,814**	159	79	29	**267**
2024	1,098	1,067	557	**2,722**	154	165	29	**348**
2025	1,076	914	534	**2,524**	148	144	28	**320**
2026	1,050	865	508	**2,423**	160	159	27	**346**
2027	1,001	708	486	**2,195**	137	110	24	**271**
2028	991	597	451	**2,039**	142	100	23	**265**
2029	958	547	434	**1,939**	135	82	22	**239**
2030	940	424	409	**1,773**	132	72	21	**225**
2031	921	351	381	**1,653**	146	70	20	**236**
2032	879	321	490	**1,690**	130	53	18	**201**
2033	859	215	465	**1,539**	130	36	18	**184**
2034	834	162	438	**1,434**	127	35	17	**179**
2035	821	153	413	**1,387**	123	31	16	**170**
2036	805	118	392	**1,315**	130	30	15	**175**
2037-2041	3,905	699	1,542	**6,146**	621	55	65	**741**
2042-2046	3,564	-	1,053	**4,617**	607	-	66	**673**
2047-2051	3,257	-	554	**3,811**	593	-	14	**607**
2052-2056	2,999	-	301	**3,300**	585	-	8	**593**
Total free surplus expected to emerge in the next 40 years	34,280	15,970	13,783	**64,033**	5,350	2,101	639	**8,090**

* The analysis excludes amounts incorporated into VIF at 31 December 2016 where there is no definitive timeframe for when the payments will be made or receipts received. In particular, it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2056.

** Asia operations exclude the cash flows in respect of the held for sale Korea life business.

The above amounts can be reconciled to the new business amounts as follows:

	2016 £m			
	Asia	**US**	**UK**	**Total**
Undiscounted expected free surplus generation for years 2017 to 2056	5,350	2,101	639	**8,090**
Less: discount effect	(2,968)	(746)	(259)	**(3,973)**
Discounted expected free surplus generation for years 2017 to 2056	2,382	1,355	380	**4,117**
Discounted expected free surplus generation for years 2056+	292	-	1	**293**
Less: Free surplus investment in new business	(476)	(298)	(129)	**(903)**
Other items***	(168)	(267)	16	**(419)**
Post-tax EEV new business profit	2,030	790	268	**3,088**

*** Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2016 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2015 as follows:

Group	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055:								
As previously published	2,621	2,463	2,383	2,378	2,388	2,369	36,173	**50,775**
Effect of Solvency II implementation**	46	55	49	45	43	48	1,350	**1,636**
	2,667	2,518	2,432	2,423	2,431	2,417	37,523	**52,411**
Less: Amounts expected to be realised in the current year	(2,667)	-	-	-	-	-	-	**(2,667)**
Less: Contribution from the held for sale Korea life business***		(40)	(40)	(37)	(35)	(33)	(537)	**(722)**
Add: Expected free surplus to be generated in year 2056*	-	-	-	-	-	-	394	**394**
Foreign exchange differences	-	370	355	350	354	346	5,023	**6,798**
New business	-	485	302	322	326	354	6,304	**8,093**
Operating movements	-	11	18	(16)	5	(36)		
Non-operating and other movements	-	97	128	69	(11)	(18)	(521)	**(274)**
2016 expected free surplus generation for years 2017 to 2056	-	3,441	3,195	3,111	3,070	3,030	48,186	**64,033**

Asia	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055	1,015	962	926	905	871	889	20,640	**26,208**
Less: Amounts expected to be realised in the current year	(1,015)	-	-	-	-	-	-	**(1,015)**
Less: Contribution from the held for sale Korea life business***		(40)	(40)	(37)	(35)	(33)	(537)	**(722)**
Add: Expected free surplus to be generated in year 2056*	-	-	-	-	-	-	358	**358**
Foreign exchange differences	-	179	172	163	158	157	3,737	**4,566**
New business	-	188	157	170	158	170	4,507	**5,350**
Operating movements	-	33	34	8	24	(23)		
Non-operating and other movements	-	(2)	(2)	(7)	(9)	(18)	(503)	**(465)**
2016 expected free surplus generation for years 2017 to 2056	-	1,320	1,247	1,202	1,167	1,142	28,202	**34,280**

US	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055	1,120	991	951	970	1,018	982	6,665	**12,697**
Less: Amounts expected to be realised in the current year	(1,120)	-	-	-	-	-	-	**(1,120)**
Foreign exchange differences	-	191	183	187	196	189	1,286	**2,232**
New business	-	270	116	123	136	151	1,305	**2,101**
Operating movements	-	(5)	(5)	(15)	(15)	(7)		
Non-operating and other movements	-	(1)	34	8	(54)	(33)	153	**60**
2016 expected free surplus generation for years 2017 to 2056	-	1,446	1,279	1,273	1,281	1,282	9,409	**15,970**

UK	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055:								
As previously published	486	510	506	503	499	498	8,868	**11,870**
Effect of Solvency II implementation**	46	55	49	45	43	48	1,350	**1,636**
	532	565	555	548	542	546	10,218	**13,506**
Less: Amounts expected to be realised in the current year	(532)	-	-	-	-	-	-	**(532)**
Add: Expected free surplus to be generated in year 2056*	-	-	-	-	-	-	36	**36**
New business	-	27	29	29	31	33	490	**639**
Operating movements	-	(17)	(11)	(9)	(4)	(6)		
Non-operating and other movements	-	100	96	68	53	33	(169)	**134**
2016 expected free surplus generation for years 2017 to 2056	-	675	669	636	622	606	10,575	**13,783**

* Excluding 2016 new business.

** In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).

*** The contribution from the Korea life business has been removed from expected free surplus generation following its reclassification as held for sale.

At 31 December 2016, the total free surplus expected to be generated over the next five years (2017 to 2021 inclusive), using the same assumptions and methodology as those underpinning our 2016 embedded value reporting was £15.8 billion, an increase of £3.3 billion from the £12.5 billion expected over an equivalent period from the end of 2015, after allowing for the effect of the implementation of Solvency II on the opening balance sheet.

This increase primarily reflects the new business written in 2016, which is expected to generate £1,788 million of free surplus over the next five years.

At 31 December 2016, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £64.0 billion, up from the £52.4 billion expected at the end of 2015, after allowing for the effect of the implementation of Solvency II on the opening balance sheet, reflecting the effect of new business written across all three business operations of £8.1 billion and a positive foreign exchange translation effect of £6.8 billion. These positive effects have been offset by the negative impact of £(0.7) billion for the removal of the contribution from the Korea life business following its reclassification as held for sale and a £(0.3) billion net effect reflecting operating, market assumption changes and other items. In Asia, these include the negative impact from movements in long-term interest rates and other regular operating assumption changes. In the US, these mainly reflect the positive effect of higher future separate account growth due to the increase in interest rates and the impact of an increase in equity market returns in 2016, partially offset by the negative effect from the acceleration of free surplus from the contingent financing of specific US statutory reserves. In the UK, these mainly arise from the positive effect of higher than assumed investment returns on with-profits funds, partially offset by the negative effect of longevity reinsurance transactions entered into during the year. The longevity reinsurance transactions executed this year had the effect of accelerating the generation of future free surplus into 2016. The overall growth in the Group's undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2016 from life business in force at the end of 2016 was £4.0 billion including £0.8 billion of changes in operating assumptions and experience variances. This compares with the expected 2016 realisation at the end of 2015 of £2.7 billion. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2016	**1,157**	**1,223**	**680**	**3,060**
Expected return on free assets	**39**	**47**	**13**	**99**
Changes in operating assumptions and experience variances	**14**	**596**	**214**	**824**
Underlying free surplus generated from in-force life business in 2016	**1,210**	**1,866**	**907**	**3,983**
2016 free surplus expected to be generated at 31 December 2015	1,015	1,120	532	2,667

The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

	2016 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2015 new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2017	1,262	1,371	659	**3,292**	180	261	26	**467**
2018	1,113	1,141	628	**2,882**	137	105	27	**269**
2019	1,007	1,069	572	**2,648**	141	105	27	**273**
2020	916	1,009	535	**2,460**	124	108	28	**260**
2021	843	952	496	**2,291**	127	116	28	**271**
2022	769	803	458	**2,030**	104	60	25	**189**
2023	724	734	423	**1,881**	107	52	23	**182**
2024	664	658	387	**1,709**	99	101	21	**221**
2025	612	531	349	**1,492**	89	83	19	**191**
2026	562	477	314	**1,353**	91	90	17	**198**
2027	508	365	282	**1,155**	73	56	15	**144**
2028	476	292	245	**1,013**	72	48	14	**134**
2029	436	251	222	**909**	65	36	12	**113**
2030	408	185	197	**790**	60	30	11	**101**
2031	381	147	173	**701**	63	28	10	**101**
2032	346	131	218	**695**	55	19	9	**83**
2033	322	80	197	**599**	52	12	8	**72**
2034	299	61	178	**538**	49	11	7	**67**
2035	282	57	160	**499**	46	9	6	**61**
2036	266	43	148	**457**	47	8	6	**61**
2037-2041	1,154	199	515	**1,868**	203	17	24	**244**
2042-2046	853	-	197	**1,050**	163	-	12	**175**
2047-2051	638	-	129	**767**	131	-	3	**134**
2052-2056	473	-	58	**531**	104	-	2	**106**
Total discounted free surplus expected to emerge in the next 40 years	15,314	10,556	7,740	**33,610**	2,382	1,355	380	**4,117**

The above amounts can be reconciled to the Group's financial statements as follows:

	2016 £m
Discounted expected generation from all in-force business for years 2017 to 2056	**33,610**
Discounted expected generation from all in-force business for years after 2056	**1,115**
Discounted expected generation from all in-force business at 31 December 2016	**34,725**
Add: Free surplus of life operations held at 31 December 2016	**5,351**
Less: Time value of guarantees	**(998)**
Expected free surplus generation from the sale of Korea life business	**76**
Other non-modelled items	**1,430**
Total EEV for life operations	**40,584**

(ii) Expected emergence of risk margin release and amortisation of transitional

The 31 December 2016 Solvency II own funds included £2.5 billion of transitional relief (recalculated at the valuation date), the majority of which relates to UK annuity business in force on 1 January 2016, established to substantially mitigate the impact of recognising the related risk margin on transition to Solvency II. The following table sets out the expected UK annuity business risk margin release net of the related transitional amortisation over the next fifteen years.

	2016 £m			
	Undiscounted expected generation from all in-force business at 31 December			
	Shareholder-backed annuity business			
Expected period of emergence	**Risk margin release**	**Amortisation of transitional**	**Other***	**Total UK**
2017	163	(116)	628	675
2018	153	(116)	632	669
2019	143	(116)	609	636
2020	141	(116)	597	622
2021	136	(116)	586	606
2022	134	(116)	573	591
2023	132	(116)	560	576
2024	127	(116)	546	557
2025	122	(116)	528	534
2026	117	(116)	507	508
2027	114	(116)	488	486
2028	104	(116)	463	451
2029	102	(116)	448	434
2030	97	(116)	428	409
2031	91	(116)	406	381
UK free surplus expected to emerge by 2031	**1,876**	**(1,740)**	**7,999**	**8,135**
Total UK free surplus expected to emerge from 2032 to 2056				**5,648**
Total UK free surplus expected to emerge in the next 40 years (note B(i))				**13,783**

* Including other UK business lines and other cash flows from annuity business.

The UK annuity risk margin release and related transitional amortisation, together with associated tax reconcile to the amounts shown in the Group Solvency II balance sheet (note II(c) of the IFRS additional unaudited financial information) as follows:

	Risk margin release £bn	**Amortisation of transitional £bn**
Annuity in-force business:		
- Risk margin release less amortisation of transitional expected to emerge by 2031	**1.9**	**(1.7)**
- Risk margin release expected to emerge after 2031 and gross up for tax	1.1	(0.4)
	3.0	(2.1)
Risk margin release and transitional for other business operations (pre-tax)	2.9	(0.4)
Total (pre-tax)	**5.9**	**(2.5)**

C Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV metrics analysis by contribution by currency group:

Free surplus and IFRS 2016 results

	Underlying free surplus generated for total insurance and asset management operations % note (2)	Pre-tax operating profit % notes (2),(3),(4)	Shareholders' funds % notes (2),(3),(4)
US$ linked[note(1)]	**15**	**21**	**19**
Other Asia currencies	**9**	**17**	**17**
Total Asia	**24**	**38**	**36**
UK sterling[notes (3),(4)]	**32**	**14**	**51**
US$ [note (4)]	**44**	**48**	**13**
Total	**100**	**100**	**100**

EEV 2016 results

	Post-tax new business profits %	Post-tax operating profit % notes (2),(3),(4)	Shareholders' funds % notes (2),(3),(4)
US$ linked[note (1)]	**55**	**46**	**36**
Other Asia currencies	**10**	**12**	**13**
Total Asia	**65**	**58**	**49**
UK sterling[notes (3),(4)]	**9**	**6**	**29**
US$[note (4)]	**26**	**36**	**22**
Total	**100**	**100**	**100**

Notes

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

(2) Includes long-term, asset management business and other businesses.

(3) For operating profit and shareholders' funds, UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.

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

D Reconciliation between IFRS and EEV shareholders' funds

The table below shows the reconciliation of EEV shareholders' funds and IFRS shareholders' funds at the end of the year:

	31 Dec 2016 £m	31 Dec 2015 £m
EEV shareholders' funds	**38,968**	32,359
Less: Value of in-force business of long-term business[note (a)]	**(24,937)**	(22,431)
Deferred acquisition costs assigned zero value for EEV purposes	**9,170**	7,010
Other[notes (b),(c)]	**(8,535)**	(3,983)
IFRS shareholders' funds	**14,666**	12,955

Notes

(a) The EEV shareholders' funds comprises the present value of the shareholders' interest in the value in-force business, net worth of long-term business operations and IFRS shareholders' funds of asset management and other operations. The value of in-force business reflects the present value of future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Net worth represents the net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

(b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value net worth for long-term insurance operations. It also includes the mark to market of the Group's core borrowings which are fair valued under EEV but not IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson where IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset) whereas the local regulatory basis used for EEV is based on future cash flows due to the policyholder on a prudent basis with consideration of an expense allowance as applicable, but with no separate deferred acquisition cost asset.

(c) The 2016 EEV results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The 2015 EEV results for UK insurance operations were prepared on a basis reflecting the Solvency I regime. As noted in (b) above, "other adjustments" represent asset and liability valuation differences between IFRS and the local regulatory basis used to value net worth for long-term insurance operations. At 31 December 2016 for the UK this would be the difference between IFRS and Solvency II, and at 31 December 2015 the difference between IFRS and Solvency I.

E Reconciliation of APE new business sales to earned premiums

The Group reports annual premium equivalent (APE) new business sales as a measure of the new policies sold in the period. This differs to the IFRS measure of premiums earned as shown below:

	2016 £m	2015 £m
Annual premium equivalents (APE) as published	**6,320**	5,466
Adjustment to include 100% of single premiums on new business sold in the period[note (a)]	**25,057**	24,918
Contribution from the held for sale Korea life business	**192**	305
Premiums from in-force business and other adjustments[note (b)]	**7,412**	5,974
Gross premiums earned	**38,981**	36,663
Outward reinsurance premiums	**(2,020)**	(1,157)
Earned premiums, net of reinsurance as shown in the IFRS financial statements	**36,961**	35,506

Notes

(a) APE new business sales only include one tenth of single premiums, recorded on policies sold in the period. Gross premiums earned include 100 per cent of such premiums.

(b) Other adjustments principally include amounts in respect of the following:

- Gross premiums earned includes premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
- APE includes new policies written in the period which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in the UK for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
- For the purpose of reporting APE new business sales, we include the Group's share of amounts sold by the Group's insurance joint ventures. Under IFRS, joint ventures are equity accounted and so no amounts are included within gross premiums earned.

Risk Factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-Looking Statements'.

Prudential's approaches to managing risks are explained in the 'Group Chief Risk Officer's report on the risks facing our business and how these are managed' section of this document.

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions
Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Prudential operates against a challenging background of periods of significant volatility in global capital and equity markets and interest rates (which in some jurisdictions have become negative), together with widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors could have a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

- investment impairments and/or reduced investment returns, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;

- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

- failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

- increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. For example, this could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over: the change in accommodative monetary policies in the US, the UK and other jurisdictions with the risk of a disorderly repricing of inflation expectations and global bond yields, sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty and potentially negative socio-political events.

On 23 June 2016, the UK held a referendum in which a majority of the voting population voted in favour of the UK leaving the European Union (EU). The UK is expected to submit a formal notification of its intention to withdraw from the EU by the end of March 2017. Once this notification has been submitted, the UK will have a period of a maximum two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached between the UK and the EU, then it is expected the UK's membership of the EU will automatically terminate two years after the submission of the notification of the UK's intention to withdraw from the EU. The vote in favour of the UK leaving the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market is currently unknown. The ongoing uncertainty of when the UK will leave the EU, whether any form of transitional arrangements will be agreed between the UK and the EU, and the possibility of a lengthy period before negotiations are concluded may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

More generally, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility the Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax and capital controls), regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, and decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission has in late 2016 begun a review of some aspects of the Solvency II legislation, which is expected to continue until 2021 and covers, among other things, a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the 'volatility adjustment' for selected US Dollar-denominated business, and UK transitional measures. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position. The UK's vote to leave the EU could result in significant changes to the regulatory regime under which the Group operates.

Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS). In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments in Solvency II in the UK (as referred to above), National Association of Insurance Commissioners' reforms in the US, and amendments to certain local statutory regimes in some territories in Asia. These changes and their potential impact on the Group remain uncertain.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the US that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying G-SIIs, and a set of policy measures that will apply to them, which the FSB endorsed. An updated methodology for identifying G-SIIs was published by the IAIS on 16 June 2016. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential's designation as a G-SII was reaffirmed on 21 November 2016. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII.

The G-SII regime also introduces two types of capital requirements. The first, a Basic Capital Requirement (BCR), is designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement reflects the drivers of the assessment of G-SII designation. The IAIS intends for these requirements to take effect from January 2019, but G-SIIs will be expected to privately report to their group-wide supervisors in the interim.

The IAIS is also developing ComFrame which is focused on the supervision of Internationally Active Insurance Groups (IAIGs). ComFrame will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. As part of this, work is underway to develop a global Insurance

Capital Standard (ICS) that is intended to apply to IAIGs. Once the development of the ICS has been concluded, it is intended to replace the BCR as the minimum group capital requirement for G-SIIs. A consultation on the ICS was concluded in 2016 and the IAIS intends to publish an interim version of the ICS is 2017. Further field testing, consultations and private reporting to group-wide supervisors on the interim version are expected over the coming years, and the ICS is expected to be adopted as part of ComFrame by the IAIS in late 2019.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. The IASB is currently re-deliberating the Exposure Draft proposals in light of comments by the insurance industry and other respondents and is expecting to issue the final standard (IFRS 17, 'Insurance Contracts') in the first half of 2017. The standard is expected to apply from 2021.

Any changes or modification of IFRS accounting policies may require a change in the future results or a retrospective adjustment of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed. Current regulatory actions include the UK business's undertaking to the Financial Conduct Authority to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers and potentially provide redress to certain such customers.

Regulators' interest may also include the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary (subjecting the person or entity to certain regulatory requirements, such as those adopted by the US Department of Labor issued in April 2016 which is likely to cause market disruption in the shorter term). There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

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

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including global life insurers such as Allianz, AXA, AIA and Manulife, and multinational asset managers such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management, and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Lloyds Banking Group, Standard Life, Schroders, Invesco Perpetual, and Fidelity.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Allianz, Prudential Financial, Lincoln National, MetLife, and Aegon.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's, and A by Fitch. These ratings are all on a stable outlook.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's, and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa3 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's, and AA (stable outlook) by Fitch.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA by Standard & Poor's. This rating is on a stable outlook.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing partners) of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, Prudential also employs a large number of models and user developed applications in its processes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational and model risk incidents do happen periodically and no system or process can entirely prevent them although there have not been any material events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

Attempts by third parties to disrupt Prudential's IT systems could result in loss of trust from Prudential's customers, reputational damage and financial loss

Being part of the financial services sector, Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to the key operations, make it difficult to recover critical services, damage assets and compromise data (both corporate or customer). This could result in loss of trust from Prudential's customers, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. As a result of Prudential's increasing market profile, the growing interest by customers to interact with their insurance provider and asset manager through the internet and social media, improved brand awareness and the classification of Prudential as a G-SII, there is an increased likelihood of Prudential being considered a target by cyber criminals. To date, Prudential has not identified a failure or breach which has had a material impact in relation to its legacy and other IT systems and processes. However, it has been, and likely will continue to be, subject to potential damage from computer viruses, attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive. Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality are also of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is particularly relevant to its lines of business other than its UK annuity business, especially Jackson's portfolio of variable annuities. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

Another example is the impact of epidemics and other effects that give rise to a large number of deaths or additional sickness claims. Significant influenza epidemics have occurred a number of times over the past century but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with the other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

By order of the Board
Prudential plc
Alan F. Porter
Group General Counsel and Company Secretary

14 March 2017, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chairman
Paul Victor Falzon Sant Manduca

Executive Directors
Michael Andrew Wells *(Group Chief Executive)*, Nicolaos Andreas Nicandrou ACA, Penelope Jane James ACA, John William Foley, Anne Helen Richards, Barry Lee Stowe and Tony Paul Wilkey

Independent Non-executive Directors
Sir Howard John Davies, Ann Frances Godbehere FCPA FCGA, David John Alexander Law ACA, Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP, The Hon. Philip John Remnant CBE FCA, Alice Davey Schroeder and Jonathan Adair Lord Turner FRS

** For identification purposes*