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 2015

NEWS RELEASE

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PRUDENTIAL PLC FULL YEAR 2015 RESULTS

PRUDENTIAL DELIVERS BROAD-BASED GROWTH AND INCREASED CASH GENERATION

Group Performance Highlights (on constant exchange rate basis):
- IFRS operating profit of £4,007 million, up 22 per cent[1]
- EEV new business profit of £2,617 million, up 20 per cent[1,2]
- Underlying free surplus generation[3] (after investment in new business) of £3,050 million, up 15 per cent[1]
- Net cash remittances from business units of £1,625 million, up 10 per cent

Business Units Performance Highlights (on constant exchange rate basis):
- Asia life and asset management IFRS operating profit of £1,324 million, up 17 per cent[1]
- Jackson life IFRS operating profit of £1,691 million, up 10 per cent[1]
- UK life IFRS operating profit of £1,167 million, up 60 per cent[2]
- M&G IFRS operating profit of £442 million, down 1 per cent

Capital & Dividend:
- IFRS shareholders' funds of £13.0 billion, up 10 per cent[4]
- EEV shareholders' funds of £32.4 billion, up 11 per cent[4], equivalent to 1,258 pence per share
- Group Solvency II capital surplus[5] estimated at £9.7 billion
- 2015 full year[6] ordinary dividend increased by 5 per cent to 38.78 pence per share
- Special dividend of 10 pence per share

Commenting on the results, Mike Wells, Group Chief Executive, said:

"We have delivered a strong performance in 2015. We continue to grow across our key metrics despite the macroeconomic uncertainty and the challenges presented by low long-term interest rates. IFRS operating profit increased 22 per cent to £4,007 million and EEV new business profit grew 20 per cent to £2,617 million. The Group's underlying free surplus generation increased by 15 per cent to £3,050 million and cash remittances from business units were up 10 per cent to £1,625 million. These results represent good progress towards the 2017 growth and cash objectives, which we set out at the December 2013 investor conference in London.

"In Asia, our portfolio of businesses remains focused on serving the protection and investment needs of the growing middle classes in the region through a high-quality agency force and well-established bank partnerships. Our life and asset management businesses delivered a combined IFRS operating profit of £1,324 million, up 17 per cent. Life APE sales were 26 per cent higher at £2,853 million and generated a 28 per cent increase in EEV new business profit to £1,490 million. Despite this strong sales performance, our focus on growth and cash in the region also saw underlying free surplus generation rise 16 per cent to £673 million. Eastspring, our Asian asset management business, achieved record third-party net inflows of £6.0 billion, driving its total funds under management to a new high of £89.1 billion.

"In the US, we continue to meet the needs of the 'baby-boomer' generation transitioning into retirement. Jackson's disciplined execution delivered good returns to our shareholders, with life IFRS operating profit up 10 per cent to £1,691 million and cash remittances to Group 13 per cent higher to a record £470 million. Our success in capturing strong variable annuity inflows at attractive margins drove our separate account asset base up 5 per cent[1] to £91.0 billion.

[1] Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated. Increases on an actual exchange rate basis, which incorporate the effect of the exchange rate movements, are shown in the Financial Highlights section and in the Chief Financial Officer's report. All amounts are comparable to 2014 unless otherwise indicated.
[2] Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.
[3] Underlying free surplus generation comprises underlying free surplus released from long-term business (net of investment in new business) and that generated from asset management operations.
[4] Comparable to 31 December 2014 at actual exchange rates.
[5] Before allowing for second interim ordinary and special dividends.
[6] From 2016, Prudential will make twice-yearly interim ordinary dividend payments to replace final/interim dividend.

"In the UK, our life business delivered a 60 per cent[1] increase in IFRS operating profit to £1,167 million, reflecting continued pro-active management of our in-force book. This result includes £339 million from specific management actions undertaken in the second half to position the balance sheet more efficiently under the new Solvency II regime, which are not expected to recur going forward. Against a backdrop of unprecedented change brought about by pension reforms, we delivered a 23 per cent increase in life APE sales to £1,025 million and drove new business profit up 23 per cent to £318 million.

"After a period of exceptional growth, M&G had a more challenging year with retail net outflows more than offsetting positive flows from institutional new business. As a result total funds under management declined by 7 per cent to £246.1 billion. Despite this, IFRS operating profit of £442 million was broadly in line with last year reflecting actions on costs and cash remittances were 6 per cent higher at £302 million.

"Prudential's capital generative business operations and disciplined approach to risk management have improved the Group's shareholders' equity and solvency levels and have enhanced the Group's financial flexibility. Our Solvency II outcome, following approval by the Prudential Regulation Authority of our internal model in December 2015, underscores the strength and resilience of the Group's capital position. At 31 December 2015, Group Solvency II capital surplus was estimated at £9.7 billion[2], which is equivalent to a Group Solvency II capital ratio of 193 per cent. Shareholders' equity on an EEV basis at 31 December 2015 was 11 per cent higher at £32.4 billion, equivalent to £12.58 per share.

"The Board has decided to increase the full-year ordinary dividend by 5 per cent to 38.78 pence per share, reflecting the continued strong financial performance of the Group in 2015. The Board has also decided to award a special dividend of 10 pence per share reflecting the additional contribution to earnings from the specific management actions in the UK.

"I am pleased to be able to announce such a strong performance today despite the current macroeconomic and political uncertainty, which have created a more volatile and unpredictable short-term outlook for global growth. We have the flexibility and resilience to adapt to these developments due to our focus on those markets where the need for our products is greatest, our growing level of recurring income from our sizeable in-force portfolio and our robust balance sheet position.

"The fundamentals of the Group remain compelling, our opportunities are intact and we are in an enviable position to benefit from the attractive structural and demographic opportunities in Asia, the US and the UK. The disciplined execution of our strategy, underpinned by the cash generating nature of our business, positions us well to be able to continue to deliver high-quality products and services to our 24 million customers and long-term profitable growth to our shareholders."

[1] Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.
[2] Before allowing for second interim ordinary and special dividends.

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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 IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the European Embedded Value principles (EEV Principles) issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. The impact of Solvency II is not reflected in EEV results in line with the guidance issued by the CFO Forum in October 2015. 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 stated 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 ie 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, the gain on sale of PruProtect and PruHealth and the costs arising from the domestication of our Hong Kong 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.

4. Total number of Prudential plc shares in issue as at 31 December 2015 was 2,572,454,958.

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://prudential.co.uk/investors/results-and-presentations/results-day

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, Passcode: 124923#. This will be available from approximately 3.00pm (UK) / 11.00pm (Hong Kong) on 9 March 2016 until 11.59pm (UK) on 23 March 2016 / 7.59am (Hong Kong) on 24 March 2016.

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

7. **2015 Dividend (Second interim ordinary and Special)**

Ex-dividend date	24 March 2016 (UK, Ireland, Hong Kong and Singapore)
Record date	29 March 2016
Payment of dividend	20 May 2016 (UK, Ireland and Hong Kong) On or about 27 May 2016 (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 £509 billion of assets under management (as at 31 December 2015). 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 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 actions 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 2015 financial performance

Financial highlights

Life APE new business sales (APE sales)

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	**2014 £m**	**Change %**	**2014 £m**	**Change %**
Asia	**2,853**	2,237	28	2,267	26
US	**1,729**	1,556	11	1,677	3
UK[1]	**1,025**	834	23	834	23
Total Group[1]	**5,607**	4,627	21	4,778	17

Life EEV new business profits and investment in new business

	Actual Exchange Rate						Constant Exchange Rate			
	2015 £m		**2014 £m**		**Change %**		**2014 £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	**1,490**	**413**	1,162	346	28	19	1,168	352	28	17
US	**809**	**267**	694	187	17	43	748	201	8	33
UK[1]	**318**	**65**	259	65	23	-	259	65	23	-
Total Group[1]	**2,617**	**745**	2,115	598	24	25	2,175	618	20	21

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	**2014 £m**	**Change %**	**2014 £m**	**Change %**
Operating profit before tax					
Long-term business:					
Asia	**1,209**	1,050	15	1,040	16
US	**1,691**	1,431	18	1,543	10
UK[1]	**1,167**	729	60	729	60
Long-term business operating profit[1]	**4,067**	3,210	27	3,312	23
UK general insurance commission	**28**	24	17	24	17
Asset management business:					
M&G	**442**	446	(1)	446	(1)
Prudential Capital	**19**	42	(55)	42	(55)
Eastspring Investments	**115**	90	28	91	26
US	**11**	12	(8)	13	(15)
Other income and expenditure	**(675)**	(661)	(2)	(661)	(2)
Results of the sold PruHealth and PruProtect business	**-**	23	(100)	23	(100)
Total operating profit based on longer-term investment returns before tax	**4,007**	3,186	26	3,290	22
Non-operating items	**(859)**	(572)	(50)	(654)	(31)
Profit before tax attributable to shareholders	**3,148**	2,614	20	2,636	19
Tax charge attributable to shareholders' returns	**(569)**	(398)	(43)	(396)	(44)
Profit for the year attributable to shareholders	**2,579**	2,216	16	2,240	15

Post-tax profit - EEV

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	**2014 £m**	**Change %**	**2014 £m**	**Change %**
Post-tax operating profit					
Long-term business:					
Asia	**2,321**	1,900	22	1,903	22
US	**1,808**	1,528	18	1,647	10
UK[1]	**863**	735	17	735	17
Long-term business post-tax operating profit[1]	**4,992**	4,163	20	4,285	16
UK general insurance commission	**22**	19	16	19	16
Asset management business:					
M&G	**358**	353	1	353	1
Prudential Capital	**18**	33	(45)	33	(45)
Eastspring Investments	**101**	78	29	79	28
US	**7**	6	17	7	-
Other income and expenditure	**(617)**	(567)	(9)	(567)	(9)
Results of the sold PruHealth and PruProtect business	**-**	11	(100)	11	(100)
Post-tax operating profit based on longer-term investment returns	**4,881**	4,096	19	4,220	16
Non-operating items	**(930)**	247	(477)	235	(496)
Post-tax profit for the year attributable to shareholders	**3,951**	4,343	(9)	4,455	(11)

Basic earnings per share - based on operating profit after tax

	Actual Exchange Rate			Constant Exchange Rate	
	2015 pence	**2014 pence**	**Change %**	**2014 pence**	**Change %**
IFRS	**125.8**	96.6	30	99.5	26
EEV	**191.2**	160.7	19	165.6	15

Underlying free surplus generated [2]

	Actual Exchange Rate						Constant Exchange Rate			
	2015 £m		2014 £m		Change %		2014 £m		Change %	
	Long-term	**Total**	**Long-term**	**Total**	**Long-term**	**Total**	**Long-term**	**Total**	**Long-term**	**Total**
Asia	**572**	**673**	514	592	11	14	499	578	15	16
US	**1,159**	**1,166**	1,004	1,010	15	15	1,083	1,090	7	7
UK[1]	**813**	**835**	572	591	42	41	572	591	42	41
M&G	**-**	**358**	-	353	-	1	-	353	-	1
Prudential Capital	**-**	**18**	-	33	-	(45)	-	33		(45)
Total Group	**2,544**	**3,050**	2,090	2,579	22	18	2,154	2,645	18	15

Cash remitted by the business units to the Group

	2015 £m	**2014 £m**	**Change %**
Asia	**467**	400	17
US	**470**	415	13
UK	**331**	325	2
M&G	**302**	285	6
Prudential Capital	**55**	57	(4)
Total Group	**1,625**	1,482	10

Cash and capital

	2015	**2014**	**Change %**
Ordinary dividend per share relating to the reporting year	**38.78p**	36.93p	5
Special dividend per share	**10.00p**	-	-
Holding company cash and short-term investments	**£2,173m**	£1,480m	47
IGD capital surplus[3]	**£5.5bn**	£4.7bn	17
Group Solvency II capital surplus[3,4]	**£9.7bn**	n/a	n/a
Group Solvency II capital ratio[3, 4]	**193%**	n/a	n/a

Group shareholders' funds (including goodwill attributable to shareholders)

	2015	**2014**	**Change %**
IFRS	**£13.0bn**	£11.8bn	10
EEV	**£32.4bn**	£29.2bn	11

	2015%	**2014%**
Return on IFRS shareholders' funds[5]	**27**	26
Return on embedded value[5]	**17**	16

	2015	**2014**	**Change %**
EEV shareholders' funds per share (including goodwill attributable to shareholders)	**1,258p**	1,136p	11
EEV shareholders' funds per share (excluding goodwill attributable to shareholders)	**1,201p**	1,079p	11

Notes:

1. Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.
2. Underlying free surplus generated comprises underlying free surplus released from long-term business (net of investment in new business) and that generated from asset management operations.
3. Estimated before allowing for second interim ordinary and special dividends. IGD capital surplus for 2014 estimated before allowing for final dividend.
4. The methodology and assumptions used in calculating the Group Solvency II capital results are set out in note II (c) of Additional unaudited financial information. The Group Solvency II capital ratio is based on outputs from the Group's Solvency II internal model, approved by Prudential Regulation Authority in December 2015.
5. Operating profit after tax and non-controlling interests, as a percentage of opening shareholders' funds.

Group Chief Executive's Report

I am pleased to report a strong performance in 2015.

Our strategy continues to serve us well, focusing on the three long term opportunities across our geographic markets – (i) serving the protection and investment needs of the growing middle class in Asia; (ii) providing asset accumulation and retirement income products to US baby boomers and (iii) meeting the savings and retirement needs of an ageing British population. The strength of the Group's execution capabilities, combined with our leading market positions, growing in-force book and excellent diversification by geography, currency, product and distribution enable us to create value for our customers while generating sustainable earnings and cash for our shareholders.

Group performance[1]

We continue to comment on our international business performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in a period of currency volatility. We have used this basis in discussions below for our Asian and US businesses to maintain comparability.

Our Group **IFRS operating profit** based on longer-term investment returns increased by 22 per cent in 2015 to £4,007 million. On an actual exchange rate basis, the Group's IFRS operating profit grew by 26 per cent.

- Asia life and asset management operating profit of £1,324 million grew by 17 per cent, reflecting the growing recurring income from our life in-force book (up 14 per cent to £7.2 billion[2]) and higher assets under management in Eastspring. The recurring premium focus underpins our earnings growth in the region and is key to the resilience of our financial performance across the cycle.

- US life IFRS operating profit of £1,691 million was up 10 per cent, driven by growth in fee income earned on separate account assets that have continued to benefit from robust net inflows.

- UK life IFRS operating profit of £1,167 million grew by 60 per cent[4], and included £339 million arising in the second half of 2015 from specific management actions taken to position the balance sheet more efficiently under the new Solvency II regime.

- M&G delivered operating profit of £442 million, broadly in line with 2014. Funds under management (including internal funds) were 7 per cent lower at £246.1 billion, reflecting retail outflows during 2015.

The Group is focused on delivering strong cash generation, which underpins both our strategic and financial flexibility. Underlying **free surplus generation**[3], a key indicator of cash generation from our life and asset management businesses, was 15 per cent higher at £3,050 million after reinvestment in new business. In total, our businesses remitted cash to the corporate centre of £1,625 million, up 10 per cent on an actual exchange rate basis. **Cash remittances** of £467 million from Asia were 17 per cent higher while those from the US increased by 13 per cent to £470 million, both on an actual exchange rate basis. In the UK, our life operation remitted £331 million in line with last year and M&G delivered a 6 per cent increase in remittances to £302 million.

New business profit was up 20 per cent[4] to £2,617 million, primarily reflecting higher overall volumes in Asia and the UK. All three of our life businesses contributed significantly to the total, with £1,490 million (up 28 per cent) of new business profit from Asia, £809 million (up 8 per cent) from the US and £318 million (up 23 per cent[4]) from the UK.

APE sales[5] increased by 17 per cent[4] to £5,607 million led by Asia where APE sales were 26 per cent higher at £2,853 million. In the US, APE sales were 3 per cent higher at £1,729 million as demand for our sales of variable annuities remained strong. In 2015, Jackson continued to proactively manage sales of variable annuities with living benefits while diversifying sales mix. In the UK, APE sales grew by 23 per cent[4] to £1,025 million, based on our attractive with-profits product propositions sold through an expanding range of wrappers including income drawdown, individual pensions, ISAs and investment bonds. M&G experienced net outflows of £7.0 billion (2014: net inflows of £7.1 billion) driven by retail net outflows of £10.9 billion, due to redemptions from bond funds reflecting softer consumer sentiment on fixed income assets. Eastspring Investments, our Asia asset management business, delivered a strong performance in 2015, with third party net inflows of £6.0 billion (2014: net inflows of £5.4 billion).

Our balance sheet continues to be defensively positioned and our Solvency II outcome, following approval by the Prudential Regulation Authority of our internal model in December 2015, underscores the strength and resilience of the Group's capital position.

We are continuing to make good progress towards our 2017 objectives announced in December 2013.

Asia Objectives	2012 £m[6]	2013 £m	2014 £m	2015 £m	CAGR (since 2012) %	2017 Objectives*
Asia life and asset management IFRS operating profit						
Reported actuals	924	1,075	1,140	1,324		
Constant exchange rate***	901	1,075	1,260	1,468		>£1,858 million**
Constant exchange rate change % (year-on-year)		19	17	17	18	>15% CAGR**
Asia underlying free surplus generation[3]						
Reported actuals	484	573	592	673		
Constant exchange rate***	471	573	662	765		£0.9 - £1.1 billion
Constant exchange rate change % (year-on-year)		22	16	16		

Group Objective for cumulative period 1 January 2014 to 31 December 2017	Actual 1 Jan 2014 to 31 Dec 2015	Objective 1 Jan 2014 to 31 Dec 2017
Cumulative Group underlying free surplus generation from 2014 onwards	£5.6 billion	> £10 billion

* The objectives assume exchange rates 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 that the existing EEV, IFRS and Free Surplus methodology at December 2013 will be applicable over the period.

** Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012-2017.

*** Constant exchange rate results translated using exchange rates as at December 2013.

Our operating performance by business unit

Asia

Asia has delivered strong financial results in 2015 across all of our key metrics, demonstrating the resilient performance of our well diversified and increasingly large in-force business portfolio. IFRS operating profit of £1,324 million was up 17 per cent (16 per cent on an actual exchange rate basis), free surplus generation grew by 16 per cent to £673 million (14 per cent on actual exchange rate basis) and net cash remittances of £467 million were up 17 per cent.

Our life business strategy is centred on Asia's rapidly growing life insurance markets with a focus on regular premium, protection orientated policies distributed primarily through high quality agency and bank partners. We have over 14 million customers across the region, one of the largest and most productive agency sales forces, a well-established bancassurance franchise and leadership positions in 9 out of 12 markets. Despite our strong progress over the last decade, insurance penetration in the markets in which we operate remains low and the demand for savings, health and protection products from a growing middle class continues to be high. Our scale and scope in the region, combined with proven operational expertise, enables us to execute on strategic growth opportunities, invest in building the business through the economic cycle and remain flexible to resist market pressure for products we consider to be less attractive. This approach will, from time to time, lead to fluctuations in APE sales at a country level but allows us to conserve value without compromising the overall regional delivery.

In 2015 new business APE sales increased by 26 per cent driven by 30 per cent growth in regular premium new business (which contributes 93 per cent of our APE sales) offsetting the 8 per cent reduction in single premiums, which are more susceptible to softer economic conditions. Our sales performance continues to benefit from our broad-based multi-channel distribution platform, new product launches and continued actions to improve both distribution scale and productivity. Agency APE sales were 29 per cent higher across the region, reflecting continued investment in agency manpower and an improvement in average agent productivity of 25 per cent. Our core bank partnerships continue to make good progress, led by Standard Chartered Bank where APE sales rose by 16 per cent. New business profit was up 28 per cent at £1,490 million and outpaced the APE sales growth of 26 per cent.

In **Hong Kong**, APE sales grew 74 per cent driven by increases in agency headcount and productivity and also from our successful inroads into Hong Kong's broker network. During 2015, we have also seen acceleration in demand from Mainland China-based customers, with around 70 per cent of this business having an annual premium below US$5,000. We remain well placed to satisfy the growing demand for savings and protection products from both domestic and Mainland Chinese customers.

Our joint venture with CITIC in **China** continues to perform well, with APE sales growth of 28 per cent and operations now in 64 cities. The second half of the year was marked by significantly higher levels of volatility in investment markets, which impacted single premium business through the bancassurance channel. However, regular premium sales remain strong, with growth of 34 per cent in the fourth quarter and 29 per cent for the year. Furthermore, sales of health and protection business nearly doubled during the year, contributing over 42 per cent of our APE sales in China. We are well prepared for the implementation in 2016 of China's Risk Oriented Solvency System (C-ROSS) and we do not expect this to cause any issues for our business.

In **Singapore**, we continue to lead the market for regular premium products with a market share of 23 per cent[7] and the largest agency force in the industry. During 2015, we have focused on growing regular premium agency-sourced protection sales, which has enhanced the mix of business and contributed to a 7 per cent increase in new business profit through this channel. Reflecting our pro-active de-emphasis of universal life sales, and the effect of cessation of distribution relationships with Maybank and Singpost, total APE sales were 13 per cent lower in 2015.

Indonesia continues to generate material levels of new business value for our Asia business, and the recurring regular premium nature of our in-force portfolio has driven a 21 per cent increase in IFRS operating profit. Our sales performance reflects both softer market conditions and the impact of deliberate, pro-active actions to further improve the quality of our distribution. While this might affect shorter-term sales progression, it conserves value and positions us well to capitalise on the eventual upturn. Market conditions for new business sales remain challenging, with suppressed consumer sentiment making it harder to close sales, reflected in APE sales 11 per cent lower at £326 million. However, average agency case sizes increased by 9 per cent in 2015. We remain confident about our long-term prospects in Indonesia given the low insurance penetration levels and we are continuing to invest in building our agency force nationwide.

In **Malaysia**, we have seen continued success from our strategy to increase our penetration of the Bumi sector, where we are the largest provider with a 43 per cent share of the Takaful market. In addition to growing the agency force by 13 per cent, we have also increased our activity in bancassurance with APE sales from this channel up 68 per cent. Overall APE sales increased by 17 per cent in the year.

All of our other markets have delivered good quality growth. In the **Philippines**, we have continued to focus on the agency channel, with increased manpower and higher average case sizes driving APE sales growth of 20 per cent in this channel. Overall APE sales were up 9 per cent, reflecting our decision of being selective in how we participate in bancassurance. **Thailand's** APE sales were up 12 per cent, driven by strong growth from our main bancassurance partners, United Overseas Bank and Thanachart. **Vietnam** had an excellent year, with APE sales growing 32 per cent on higher levels of agency activity. Our green field operations in **Cambodia** continue to move ahead well with APE sales up 167 per cent. While our larger, more established markets are progressing well, our ability to execute across the spectrum, covering markets at different stages of development, is key to driving long-term, profitable growth in the region.

Our joint venture with ICICI Bank in **India** remains the leader in the private sector with a market share of 12 per cent and APE sales growth of 21 per cent. In **Taiwan** and **Korea**, we remain selective in our participation and as a result we are content to tolerate fluctuations in new business volumes. Both businesses have generated a higher level of IFRS operating profit.

Despite significant volatility in capital markets, **Eastspring Investments**, our Asia asset management business, delivered strong results in 2015 with record third-party net inflows of £6.0 billion, up 11 per cent on 2014. The businesses benefited from robust inflows into equity funds, including Asian equity funds in Japan, good investment performance in Korea and India driving excellent domestic flows and healthy net inflows into bond funds from our joint ventures in China and India. Total funds under management at 31 December 2015 were a record £89.1 billion, up 16 per cent on the prior year as a result of net inflows from both our third party and our life businesses.

The fundamentals of our Asian business remain compelling and we have the capabilities and market positions to be able to deliver long-term, profitable growth.

US

Our US business delivered a strong performance in 2015, with total IFRS operating profit of £1,702 million, up 9 per cent (18 per cent on an actual exchange rate basis). Jackson's life IFRS operating profit grew 10 per cent (18 per cent on an actual exchange rate basis) to £1,691 million, driven by increased fee income from higher levels of separate account assets. The growth in operating profit underpinned significant levels of capital generation in the year, enabling Jackson to remit a record £470 million of cash to the Group (2014: £415 million), while maintaining a healthy balance sheet. Jackson's Risk-Based Capital ratio at the end of 2015 was 481 per cent, compared to 456 per cent at the end of 2014.

The US economy experienced uneven performance during 2015, with a noticeable deceleration in consumer spending and a contraction in business investment in the fourth quarter. Employment data was more positive, with non-farm payrolls in the last two months of the year exceeding expectations. This contributed to the Federal Reserve decision to increase the Federal Funds target rate by 25 basis points in December. The S&P 500 Index ended the year roughly in line with year-end 2014 levels and the 10-year Treasury rate rose 10 basis points to 2.28 per cent at the end of 2015.

Overall, in 2015 the US competitive landscape remained relatively stable, although the industry continued to adjust its products and benefits in reaction to regulatory developments and economic conditions. Within variable annuities, providers are mainly choosing to modify their product offerings through reductions in fund availability and increased fees. With a final fiduciary rule expected from the US Department of Labor in the first half of 2016, we are working on contingency plans with the expectation of some changes to the rule, but the basic framework of the original proposal is presumed to remain intact. Given Jackson's proven record of product innovation, best-in-class infrastructure, access to competitive intelligence and integration of product design with distribution, we believe we are well positioned to respond, adapt and take advantage of any market disruptions.

Jackson achieved total retail APE sales of £1,606 million in 2015, broadly consistent with the levels in 2014. Including institutional sales, total APE sales increased 3 per cent to £1,729 million, driving an 8 per cent growth in new business profit to £809 million.

Total **variable annuity** APE sales of £1,512 million in 2015 remained flat compared to 2014, reflecting Jackson's continued focus on proactively managing sales of products with living benefits to maintain an appropriate balance of revenue streams and match our annual risk appetite. The proportion of variable annuity sales without living benefits remains significant at 33 per cent of total variable annuity APE sales, broadly in line with last year. Elite Access continues to be the undisputed leader in the investment-only variable annuity market with APE sales of £314 million (2014: £335 million), with the proportion of business from non-qualified accounts representing 69 per cent of the total (up from 66 per cent in 2014). With £9.6 billion in assets since its launch in March 2012, Elite Access not only reflects Jackson's strength in commercialising a low cost, no guarantee product but in also navigating a demand shift from qualified to non-qualified accounts. In relation to Variable Annuities with living benefit guarantees, during 2015 we introduced a broader range of living benefit features to policyholders, creating additional product capacity to meet the underlying customer demand. Overall, Jackson's statutory separate account assets increased by 5 per cent, from £86.5 billion in 2014 to £91.0 billion in 2015 (up 11 per cent on an actual exchange rate basis), reflecting positive business flows.

Jackson's strategy is unchanged, serving the 75 million US baby boomers as they enter retirement. We continue to price new business on a conservative basis, targeting value over volume and the economics of our business remain very attractive. Our hedging remains focused on optimising the economics of our exposures over time while maintaining a strong balance sheet. Our hedging programme continued to perform well throughout 2015 and under the recent volatility experienced in the markets. Our credit book is in good shape and we have continued to take actions to improve further its quality, increasing our Treasury position and reducing our high yield energy exposure. With this strategy, Jackson has been able to deliver significant profitable growth across the cycle and since 1 January 2008 has remitted nearly US$3.3 billion of cash to the Group. Our performance continues to demonstrate that Jackson's approach has successfully translated into value for customers and into profits and cash for shareholders.

UK and Europe

Our UK business delivered strong growth in IFRS operating profit, new business profit and free surplus generation. We continue to execute successfully our UK strategy, focusing on our core strength of investment-based retail offerings, selective participation in the wholesale business segment and active management of our in-force book. Life IFRS operating profit was 60 per cent[4] higher at £1,167 million and includes £339 million from the positive impact of specific management actions undertaken in the second half to position the balance sheet more efficiently under the new Solvency II regime, which are not expected to recur going forward. Cash remitted to the Group increased to £331 million (2014: £325 million).

In 2015, APE sales grew 23 per cent[4] to £1,025 million with a consequent 23 per cent[4] increase in new business profit to £318 million. These results demonstrate the strength of our customer propositions in retail risk-managed investment products, combined with our diversified distribution capability. In 2015 we continued to participate in the pensions de-risking market in a disciplined manner, and delivered a robust performance from this sector.

Our **retail** business achieved APE sales growth of 32 per cent to £874 million (2014: £663 million[4]) driven by a growing demand for our savings and retirement products and specifically the distinctive PruFund range, with momentum increasing through the year as additional products and services came online including PruFund ISA, Flexible Income Drawdown and our simplified non-advised drawdown Pension Choices Plan. Our capabilities in multi-asset investing, the strength of our brand and diversified distribution, collectively position us well to meet evolving customer needs in a post-pension freedoms retirement market. Retail new business profit increased by 31 per cent[4] benefiting from increased sales volumes partially offset by a lower contribution from **individual annuity sales**. APE sales of individual annuities decreased by 46 per cent from 2014 levels to £57 million and now represent 7 per cent of retail sales.

Demand for our **PruFund** multi-asset funds among our target customer base remains strong as customers continue to be attracted by both the performance track record and the benefits of a smoothed return in managing market volatility and reducing customer investment risk. Our successful launch in February 2015 of the PruFund range of investment funds within an **ISA wrapper** generated APE sales of £73 million with assets under management totalling £674 million at the end of December 2015. In total across all products, PruFund APE sales of £574 million increased by 82 per cent, with total assets under management having increased 42 per cent since the start of the year to £16.5 billion.

Onshore bonds APE sales of £258 million increased by 11 per cent and **offshore bonds** APE sales of £75 million rose by 21 per cent over the previous year. Reflecting increased demand for our wider range of retirement solutions post-pension reforms, **income drawdown** APE sales have almost trebled to £102 million and **individual pensions** APE sales have more than doubled to £150 million compared to 2014. We continue to diversify our product portfolio in response to the expanding market for flexible retirement income and pensions products.

Corporate pensions APE sales of £152 million were 3 per cent higher than in 2014. We remain the largest provider of Additional Voluntary Contribution plans within the public sector, where we provide schemes for 73 of the 101 public sector authorities in the UK (2014: 72 of the 99).

Our **bulk annuity** business concluded four deals, generating APE sales of £151 million (2014: £171 million, seven deals), new business profit of £117 million (2014: £105 million) and IFRS operating profit of £89 million (2014: £105 million). In 2015 our approach to bulk transactions in the UK continued to be one of disciplined participation, focusing on those opportunities where we can bring both significant value to our customers and meet our shareholder return requirements. The implementation of Solvency II has increased significantly the capital intensity of annuity business and this will significantly reduce our appetite to transact bulk business going forward.

In **Poland**, our life business continues to grow steadily. The business now has 18 branches across the country and 597 financial planning consultants. Its success demonstrates our ability to build a new business franchise by transferring our existing product and distribution strengths to new markets.

Our strategy in the UK and Europe remains to leverage our investment expertise, distribution scale and well-established brand in order to deliver capital light profitable growth in retail investment products, while managing our in-force business to generate long-term earnings and cash.

Africa

During 2015 we continued to develop our businesses in Sub-Sahara Africa. We entered the Uganda insurance market through the acquisition of Goldstar Life Assurance in June 2015 and established bank distribution agreements with Societe Generale and Fidelity Bank in Ghana, and with Standard Chartered in Kenya. In January 2016 we announced entry into Zambia via our acquisition of Professional Life Assurance. Once regulatory approval is received for the Zambia acquisition, our footprint in Africa will have expanded to four countries with access to nearly 1,300 agents and 200 bank branches.

M&G

M&G's focus on producing superior long-term investment returns, coupled with well-established distribution in the UK and across Europe, underpins its financial results. IFRS operating profit of £442 million was broadly in line with 2014, with cash remittances to Group of £302 million up 6 per cent. At the end of 2015 M&G's total funds under management were 7 per cent lower at £246.1 billion (2014: £264 billion), with external funds under management of £126.4 billion accounting for 51 per cent of the total compared with 45 per cent five years ago. Despite outflows in 2015, M&G's total funds under management have grown from £198.3 billion at the end of 2010 to £246.1 billion at the end of 2015, reflecting M&G's continued focus towards innovation and asset class diversification.

Gross retail and institutional inflows amounted to £33.6 billion (2014: £38.0 billion). Redemptions in the retail business, however, resulted in overall net outflows of £7.0 billion in 2015. Retail net outflows of £10.9 billion (2014: net inflows of £6.7 billion) were partially offset by institutional net inflows of £3.9 billion (2014: £0.4 billion).

In the fourth quarter of 2015, M&G experienced net retail outflows of £3.5 billion, including £2.4 billion from Europe. This reflected the continuation of a market-wide change in investor sentiment away from fixed income, against a backdrop of high levels of volatility and macroeconomic uncertainties, conditions that have continued into the early part of 2016. Our strategy of diversification by asset class has helped attract good net inflows into several M&G multi-asset funds (totalling £2.0 billion) and into our retail property fund (£0.5 billion) in 2015.

At the end of 2015, retail funds under management were 18 per cent lower at £60.8 billion (2014: £74.3 billion). Retail funds under management from Continental Europe represent 39 per cent of total retail assets.

A track record of innovation in the institutional market has enabled M&G to be at the forefront of a number of specialist fixed income markets, including leveraged finance and infrastructure investment. Net institutional inflows were £3.9 billion, compared with £0.4 billion in 2014. The M&G Alpha Opportunities Fund has been particularly popular with institutional investors, attracting £2.0 billion of net inflows during 2015.

M&G had a multi-billion pound pipeline of institutional commitments at the end of 2015 across a diverse range of fixed income, real estate and alternative investment strategies that have yet to be invested. External institutional funds under management increased 5 per cent in 2015 to £65.6 billion (2014: £62.8 billion).

M&G's disciplined approach to cost management is reflected in a small improvement in the cost income ratio to 57 per cent (2014: 58 per cent), despite the impact of lower revenues from reductions in the level of average assets managed.

On 1 February 2016, Michael McLintock announced that he is retiring as Chief Executive of M&G Investments after 19 years in the role. I would like to thank Michael for his exceptional contribution to M&G over the last two decades. Under his leadership M&G has grown to become one of Europe's largest fund managers by offering innovative investment solutions to meet the needs of our customers and clients. I wish him all the very best for the future. He will be succeeded later this year by Anne Richards, whose prior role was Chief Investment Officer and Head of EMEA at Aberdeen Asset Management. Anne joins the Board in June 2016.

M&G remains focused on producing superior long-term investment returns for clients, while continuing to diversify its business by geography and asset class and providing capital efficient profits and cash generation for the Group.

Capital and risk management

We continue to take a disciplined approach to capital management and have implemented a number of measures over the last few years to enable us to make our capital work more efficiently for the Group. Our Solvency II outcome, following approval by the Prudential Regulation Authority of our internal model in December 2015, underscores the strength and resilience of the Group's capital position. At 31 December 2015, Group Solvency II capital surplus[8,9] was estimated at £9.7 billion, which is equivalent to a Group Solvency II capital ratio of 193 per cent.

Based on the Insurance Groups Directive solvency measure, our surplus position[9] at 31 December 2015 was estimated at £5.5 billion (31 December 2014: £4.7 billion[10]), equivalent to a cover of 2.5 times.

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 2015. 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.

Dividend

The Board has decided to increase the full-year ordinary dividend by 5 per cent to 38.78 pence per share, reflecting the continued strong financial performance of the Group in 2015. In line with this, the directors have approved a second interim ordinary dividend of 26.47 pence per share (2014: final dividend of 25.74 pence) which brings the total ordinary dividend for the year to 38.78 pence (2014: 36.93 pence). In addition, the Board has decided to award a special dividend of 10 pence per share reflecting the additional contribution to earnings from the specific management actions taken to position the balance sheet more efficiently under the new Solvency II regime.

Although the Board has been able to approve a special dividend of 10 pence per share in 2015, the Group's dividend policy remains unchanged. The Board will maintain its focus on delivering a growing ordinary dividend, which will continue to be determined after taking into account the Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Outlook

The strength of our 2015 results demonstrates the successful execution of our strategy and our distinctive ability to deliver profitable growth across the cycle. Asia remains at the heart of the Group and our progress this year is underlined by the strong growth that we have delivered across sales, earnings and cash from the region. This has been well complemented by our disciplined progress in our more mature markets of the US and the UK.

The current significant macroeconomic uncertainty and market instability is resulting in a more unpredictable near-term outlook for global growth prospects. While this creates a headwind for our fee-based businesses, our progress continues to remain underpinned by the structural demand for regular premium savings and protection products in Asia. Through proactive management of our product mix and balance sheet and the growing scale of stable, recurring income from our in-force portfolio, the Group has the flexibility and resilience to adapt to changes in the market and deliver robust earnings and shareholder value.

The Group's strategy remains centred on the long-term opportunity of servicing an increasingly self-reliant middle class through the provision of savings globally and health and protection in Asia. We have premium franchises in our chosen markets of Asia, the US and the UK with significant structural competitive advantages to deliver effectively conservative products to protect our consumers' health and wealth and provide absolute and good relative returns to our shareholders.

In Asia, the growing savings and protection needs of a rapidly emerging and increasingly wealthy population underpin our long-term, structural growth prospects in the region. The high quality, recurring nature of our income and the scale and diversity of our pan-regional platform position us well to smooth out the inevitable country level fluctuations to deliver value across the cycle.

In the US, our business is focused on the provision of products for the savings and income needs of the baby boomers entering retirement. While the proposed Department of Labor regulations are likely to reduce the access to valuable retirement products and services to the American middle class, our competitive advantages of superior product performance, low costs and strong commercialisation skills align the business well to meet these growing needs in the new landscape. We are in the advanced stages of executing our contingency plans which are designed to underpin our future prospects for both earnings and cash.

In the UK, our life business is proving adept at navigating the significant changes brought about by pension reforms and is successfully extending its product offering to meet evolving consumer needs. In asset management, M&G is currently experiencing headwinds but benefits from its scale and the diversity of its asset base. Our well-regarded brands, investment performance track record and strong market positioning are key attributes that support our execution in this market.

We remain well capitalised with a defensive, high quality balance sheet.

The disciplined execution of our strategy, underpinned by the recurring income and cash generating nature of our business, positions us well to continue to deliver sustainable, long-term profitable value to both our customers and shareholders.

Notes:

[1] The comparative results referenced above and elsewhere in this document have been prepared using constant exchange rates basis except where otherwise stated. Comparative results on an actual exchange rate basis are also shown in financial tables in the Chief Financial Officer's report on our 2015 financial performance.

[2] Recurring income from Asia in-force book represents external renewal Gross Earned Premiums (including Joint Ventures).

[3] Underlying free surplus generation comprises underlying free surplus released from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

[4] Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.

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

[6] Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards as at 31 December 2013, and excludes the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.

[7] Source: Based on Life Insurance Association, Singapore data as at December 2015.

[8] The methodology and assumptions used in calculating the Group Solvency II capital results are set out in note II (c) of Additional unaudited financial information. The Group Solvency II capital ratio is based on outputs from the Group's Solvency II internal model, approved by Prudential Regulation Authority in December 2015.

[9] Before allowing for second interim ordinary and special dividends.

[10] Before allowing for 2014 final dividend.

Chief Financial Officer's report on our 2015 financial performance

2015 has been another year of progress, delivering a strong financial performance across our 'growth and cash' metrics of new business profit, IFRS operating profit and operating free surplus generation. This performance was broad-based with strong contributions from our principal business operations. The Group's financial performance and its resilience increasingly benefits from ongoing improvement in the quality of our income delivered through stronger growth in non-interest sensitive sources and from the balance of profit and cash across different geographies, currencies, products and distribution channels. Prudential's balance sheet remains conservatively positioned, our Group solvency under the Insurance Groups Directive (IGD) is robust and our Solvency II outcome, following approval by the Prudential Regulation Authority of our internal model in December 2015, underscores the strength and resilience of the Group's capital position.

The key financial highlights of 2015 (on a constant exchange rate basis) were:

- **Group IFRS operating profit** was 22 per cent higher at £4,007 million.
- **Group profit before tax attributable to shareholders** on an IFRS basis increased 19 per cent to £3,148 million, including the financial impact of short-term movements in investment values and other items reported outside the operating result.
- **Underlying free surplus generation**[1] (net of investment in new business) rose by 15 per cent to £3,050 million.
- On the European Embedded Value (EEV) basis of reporting performance, **new business profit** increased 20 per cent[2] to £2,617 million, contributing to **EEV operating profit** of £4,881 million, up 16 per cent.
- **EEV basis shareholders' funds** at 31 December 2015 increased to £32.4 billion, 11 per cent higher than the previous year-end on an actual exchange rate basis.

During 2015, investment markets have remained volatile, reflecting growing concerns on the outlook for global growth, the consequences of monetary policy actions and unease caused by the steep decline in commodities prices. The fourth quarter in particular saw weakening equity markets and widening credit spreads across most of the major global economies. Although we have taken steps to reduce the investment market sensitivity of our earnings and balance sheet in recent years, we remain significant long-term holders of financial assets. Short-term fluctuations in the value of these assets are reported outside the operating result, which is based on longer-term investment return assumptions.

Currency values in the countries in which we operate have also fluctuated in the course of 2015. As a significant proportion of our earnings and capital are US dollar denominated, the weaker sterling benefited our reported results, shareholders' equity and solvency. However, for the purposes of evaluating the financial performance of our businesses outside the UK, unless otherwise stated, we continue to present growth rates before the impact of currency movements, as this gives a more meaningful assessment of underlying performance trends.

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	2014 £m	Change %	2014 £m	Change %
Operating profit before tax					
Long-term business:					
Asia	**1,209**	1,050	15	1,040	16
US	**1,691**	1,431	18	1,543	10
UK[2]	**1,167**	729	60	729	60
Long-term business operating profit[2]	**4,067**	3,210	27	3,312	23
UK general insurance commission	**28**	24	17	24	17
Asset management business:					
M&G	**442**	446	(1)	446	(1)
Prudential Capital	**19**	42	(55)	42	(55)
Eastspring Investments	**115**	90	28	91	26
US	**11**	12	(8)	13	(15)
Other income and expenditure[3]	**(675)**	(661)	(2)	(661)	(2)
Results of the sold PruHealth and PruProtect business	**-**	23	(100)	23	(100)
Total operating profit based on longer-term investment returns	**4,007**	3,186	26	3,290	22
Short-term fluctuations in investment returns:					
Insurance operations	**(663)**	(461)	(44)	(537)	(23)
Other operations	**(74)**	(113)	35	(113)	35
	(737)	(574)	(28)	(650)	(13)
Other non-operating items[3]	**(122)**	2	n/a	(4)	n/a
Profit before tax attributable to shareholders	**3,148**	2,614	20	2,636	19
Tax charge attributable to shareholders' returns	**(569)**	(398)	(43)	(396)	(44)
Profit for the year attributable to shareholders	**2,579**	2,216	16	2,240	15

IFRS Earnings per share

	Actual Exchange Rate			Constant Exchange Rate	
	2015 pence	2014 pence	Change %	2014 pence	Change %
Basic earnings per share based on operating profit after tax	**125.8**	96.6	30	99.5	26
Basic earnings per share based on total profit after tax	**101.0**	86.9	16	87.9	15

IFRS Operating Profit

Total IFRS operating profit increased by 22 per cent to £4,007 million in 2015, driven by improved performance in our life operations in Asia, the US and the UK.

- **Asia total operating profit** of £1,324 million was 17 per cent higher than the previous year (16 per cent on an actual exchange rate basis), with strong growth in both life insurance and Eastspring Investments, our Asia-based asset management business.

- **US total operating profit** at £1,702 million increased by 9 per cent (18 per cent on an actual exchange rate basis), driven by higher fee income from growth in Jackson's separate account asset base.
- **UK total operating profit** was 59 per cent[2] higher at £1,195 million, driven by our focused approach on active management of our in-force portfolio and the positive impact of specific management actions taken to position the balance sheet more efficiently under the new Solvency II regime.
- **M&G operating profit** (excluding Prudential Capital) at £442 million was in line with 2014, with action on costs mitigating the impact of lower revenues following a 7 per cent reduction in funds managed at end 2015.

Life insurance operations: Taken together, IFRS operating profit from our life insurance operations in Asia, the US and the UK increased 23 per cent[2] to £4,067 million. This increase reflects the growth in the scale of these operations, driven primarily by positive business inflows. 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 liabilities increase as we collect premiums and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it reflects, for example, our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential needs to be compensated.

Shareholder-backed policyholder liabilities and net liability flows[4]

	2015 £m				2014 £m			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2015	Net liability flows[5]	Market and other movements	At 31 December 2015	At 1 January 2014	Net liability flows[5]	Market and other movements	At 31 December 2014
Asia	**26,410**	**1,867**	**(433)**	**27,844**	21,931	1,937	2,542	26,410
US	**126,746**	**8,476**	**3,691**	**138,913**	107,411	8,263	11,072	126,746
UK	**55,009**	**(2,694)**	**509**	**52,824**	50,779	(610)	4,840	55,009
Total Group	**208,165**	**7,649**	**3,767**	**219,581**	180,121	9,590	18,454	208,165

Focusing on the business supported by shareholder capital, which generates the majority of the life profit, in the course of 2015 policyholder liabilities increased from £208.2 billion at the start of the year to £219.6 billion at 31 December 2015. The consistent addition of high-quality profitable new business and proactive management of the existing in-force portfolio underpins this increase, resulting in positive net flows[4,5] into policyholder liabilities of £7.6 billion in 2015 driven by our US and Asia businesses. Net flows into our US business were £8.5 billion in 2015, reflecting continued success in attracting new variable annuity business. The consistency of our net flows into Asia is underpinned by our focus on recurring premium new business and strong customer retention. Across this business net liability flows continue to be positive at £1.9 billion. Net outflows in the UK are partly due to the impact of large investment only corporate pension schemes transfers combined with annuity payments that are no longer offset by new business inflows following the reduction in retail annuity sales. Positive foreign currency translation effects together with favourable investment market and other movements have contributed a further £3.8 billion to the increase in policyholder liabilities since the start of the year.

Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver[6]

	Actual Exchange Rate						Constant Exchange Rate		
	2015 £m			2014 £m			2014 £m		
	Operating profit	Average liability	Margin bps	Operating[2] profit	Average liability	Margin bps	Operating[2] profit	Average liability	Margin bps
Spread income	**1,157**	**73,511**	**157**	1,131	67,252	168	1,189	69,628	171
Fee income	**1,896**	**125,380**	**151**	1,618	110,955	146	1,726	116,507	148
With-profits	**314**	**106,749**	**29**	298	101,290	29	299	101,653	29
Insurance margin	**1,759**			1,418			1,464		
Margin on revenues	**1,911**			1,721			1,708		
Expenses:									
Acquisition costs*	**(2,186)**	**5,607**	**(39)%**	(2,014)	4,627	(44)%	(2,077)	4,778	(43)%
Administration expenses	**(1,688)**	**206,423**	**(82)**	(1,454)	186,049	(78)	(1,505)	194,588	(77)
DAC adjustments	**340**			277			292		
Expected return on shareholder assets	**225**			215			216		
	3,728			3,210			3,312		
Impact of specific management actions in second half of the year, ahead of Solvency II	**339**			-			-		
Operating profit based on longer-term investment returns	**4,067**			3,210			3,312		

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

In 2015, we maintained our preference 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. Insurance margin was up 20 per cent (24 per cent on an actual exchange rate basis) reflecting our strategic emphasis on growing our offering of risk products such as health and protection in Asia. Fee income was up 10 per cent (17 per cent on an actual exchange rate basis) primarily reflecting the growth in the level of assets that we manage on behalf of our customers, primarily in the US. In contrast, the contribution to our profits from spread income decreased by 3 per cent (increase 2 per cent on an actual exchange rate basis), primarily due to the effect of lower achieved yields in the US and a declining contribution from UK annuities. The fact that insurance margin and fee income generated a higher and growing proportion of our income represents a healthy evolution in the quality, resilience and balance of our earnings. Our share of returns from with-profits operations was up 5 per cent, providing a stable and reliable source of income for both shareholders and customers invested in these funds.

The total costs we have incurred in writing new business and administering the in-force life business also increased but at a more modest rate than total income, highlighting the advantages of increased scale as we build our business, while maintaining control of costs.

In the second half of 2015 and ahead of securing Solvency II internal model approval, a number of specific management actions were taken by our UK life business to position the balance sheet more efficiently under the new regime. These actions included extending the reinsurance of longevity risk to cover £8.7 billion of annuity liabilities by the end of 2015 (end-2014: programme covered £2.3 billion of liabilities). It also included repositioning of the fixed income asset portfolio, increasing to 95 per cent the proportion that would benefit from the matching adjustment under Solvency II. The combined effect of these and other actions generated a £339 million IFRS operating profit in the second half of 2015 and is not expected to recur going forward.

IFRS operating profit from our portfolio of life insurance operations in **Asia** was up 16 per cent to £1,209 million, driven by a 14 per cent increase in the contribution from the in-force business, reflecting both its larger scale and our regular premium health and protection oriented product focus. Indonesia IFRS operating profit, our largest market on this measure, increased 21 per cent to £356 million, reflecting the addition of new savings and protection sales in the year to an already sizeable recurring premium in-force business. Hong Kong IFRS operating profit was 27 per cent higher at £150 million, mainly due to the increasing profit contribution from a growing customer base purchasing health and protection cover. Malaysia IFRS operating profit grew by 12 per cent to £120 million, reflecting a growing contribution from the in-force business. IFRS operating profit in Singapore declined 4 per cent to £204 million, the result of our deliberate decision to discontinue universal life sales as the returns of these products in the current interest rate environment are unattractive. We are also encouraged to see further progress among our fast-growing businesses in China, Thailand, the Philippines and Vietnam which collectively generated £220 million of Asia's IFRS operating profit, up 28 per cent compared to the prior year and now account for 18 per cent of the total life result compared to just 7 per cent only 3 years ago.

In the **US**, life IFRS operating profit increased by 10 per cent to £1,691 million, primarily as a result of an 11 per cent increase in fee income, which is now Jackson's main income source, and efficient management of costs. The uplift in fee income reflects the growth in average separate account assets from £78.1 billion in 2014 to £86.9 billion in 2015, equating to an increase of 11 per cent on a constant exchange rate basis (20 per cent on an actual exchange rate basis), driven by sizeable variable annuity net premium inflows. Contribution from insurance margin also increased by 10 per cent. Lower yields impacted the spread income which decreased by 6 per cent on a constant exchange rate basis.

UK life IFRS operating profit was 60 per cent higher than 2014 at £1,167 million (2014: £729 million). New annuity business contributed £123 million (2014: £162 million) including £89 million (2014: £105 million) from the four bulk transactions completed in 2015. The balance of £1,044 million (2014: £567 million), reflects a robust level of profit from our core annuity in-force and with-profits business and includes a £339 million benefit from specific management actions taken in the second half of the year to position the balance sheet more efficiently under the new Solvency II regime. Of this amount, £170 million related to profit on longevity reinsurance transactions executed in the second half of the year, with a further £169 million reflecting the effect of repositioning the fixed income asset portfolio and other actions. The non-recurring nature of these actions and our reduced appetite for annuities post-Solvency II will mean that, going forward, IFRS earnings from our UK life business will be predominantly driven by the contribution from core annuity in-force and with-profits business.

Asset management net inflows and external funds under management[7]

	External net inflows					External funds under management		
	Actual Exchange Rate			Constant Exchange Rate		Actual Exchange Rate		
	2015 £m	**2014 £m**	**Change %**	**2014 £m**	**Change %**	**2015 £m**	**2014 £m**	**Change %**
M&G								
Retail	**(10,858)**	6,686	(262)	6,686	(262)	**60,801**	74,289	(18)
Institutional	**3,850**	401	860	401	860	**65,604**	62,758	5
M&G	**(7,008)**	7,087	(199)	7,087	(199)	**126,405**	137,047	(8)
Eastspring[8]	**5,971**	5,430	10	5,380	11	**30,281**	25,333	20
Total asset management	**(1,037)**	12,517	(108)	12,467	(108)	**156,686**	162,380	(4)
Total asset management (including MMF)	28	12,526	(100)	12,481	(100)	**162,692**	167,180	(3)

Asset management: In 2015 our asset management businesses in the UK and Asia collectively increased their contribution to IFRS operating profit compared to the previous year. Similar to the trend observed in our life operations, asset management operating profit primarily reflects the scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations.

M&G delivered a broadly unchanged IFRS operating profit of £442 million (2014: £446 million), reflecting a 2 per cent rise in underlying profit to £406 million (2014: £400 million), lower performance-related fees of £22 million (2014: £33 million) and a similar level of earnings from associates of £14 million (2014: £13 million). While underlying revenues in the first half of 2015 benefited from higher levels of funds under management, the large net outflows from retail funds since May contributed to a two per cent decrease in underlying revenues for the year overall. Actions on costs mitigated the effect of lower overall revenues to deliver a modest increase in underlying profit compared to 2014. However, the lower level of assets under management at the end of

2015 will impact the revenue prospects for 2016 absent a meaningful recovery in M&G's overall third party net flows or a significant uplift in the market value of assets.

Our Asia asset management business, **Eastspring Investments**, has benefited from significant growth in funds under management during 2015, with IFRS operating profit higher by 26 per cent at £115 million. An 11 per cent increase in third party net inflows to £6.0 billion saw external funds managed rise by 20 per cent on an actual exchange rate basis to £30.3 billion at end-2015. Average total funds under management including funds managed on behalf of Prudential's life operations, increased by 25 per cent to £85.1 billion compared with 2014. Eastspring Investments growth in fee revenue outpaced the increase in operating costs, resulting in a modestly improved cost income ratio of 58 per cent (59 per cent on an actual exchange rate basis).

In the US, our non-insurance businesses collectively generated IFRS operating profit of £11 million (2014: £13 million). In July, Jackson announced that Curian would no longer accept new business effective from 31 July 2015. Curian continues to actively manage existing accounts into 2016 to allow for the transition of accounts, but is expected to exit the business around the end of the first quarter of 2016. Total IFRS operating losses in Curian in 2015 were £16 million and included £13 million of cost related to exiting the business.

Prudential Capital produced IFRS operating profit of £19 million in 2015 (2014: £42 million). During 2015 we started to refocus activity away from revenue generation towards internal treasury services and this reprioritisation will continue into 2016.

IFRS short-term 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 2015 the total short-term fluctuations in investment returns relating to the life operations were negative £663 million, comprising negative £119 million for Asia, negative £424 million in the US and negative £120 million in the UK.

In Asia, the negative short-term fluctuations of £119 million reflected net unrealised losses on fixed income securities, primarily due to rises in bond yields.

Short-term fluctuations in the US mainly reflect the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the 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 therefore accepts variability in the accounting results. The negative short-term fluctuations of £424 million in 2015 were primarily attributable to the net value movement in the year of the hedge instruments held to manage market exposures.

Negative short-term fluctuations of £120 million in the UK reflected net unrealised losses on fixed income assets supporting the excess capital held within the shareholder-backed annuity business following a rise in interest rates during the year.

IFRS effective tax rates

In 2015, the effective tax rate on IFRS operating profit based on longer-term investment returns was 20 per cent (2014: 23 per cent). The reduction is due to lower corporate tax rates in certain jurisdictions and a higher benefit from non-recurring tax credits specifically in Jackson.

The 2015 effective tax rate on the total IFRS profit was 18 per cent (2014: 15 per cent), reflecting a larger overall contribution to the total profit from Jackson which attracts a higher rate of tax.

Total tax contribution

The Group continues to make significant tax contributions in the countries in which it operates, with £3,004 million remitted to tax authorities in 2015. This was higher than the equivalent amount of £2,237 million in 2014, principally due to higher corporation tax payments. In the US a change of basis for taxing derivatives which affects the timing but not the quantum of tax payable, has accelerated future tax payable into 2015. Tax payments in the UK in 2015, which relate to both the current and prior year, reflect positive investment returns in 2014.

	2015 £m				**2014 £m**			
	Corporation taxes	**Other taxes**	**Taxes collected**	**Total remitted**	**Corporation taxes**	**Other taxes**	**Taxes collected**	**Total remitted**
Taxes paid in:								
Asia	**258**	**77**	**111**	**446**	199	52	87	338
US	**556**	**51**	**433**	**1,040**	205	35	375	615
UK	**521**	**184**	**786**	**1,491**	314	202	759	1,275
Other	**5**	**20**	**2**	**27**	3	4	2	9
Total tax paid	**1,340**	**332**	**1,332**	**3,004**	721	293	1,223	2,237

Corporation taxes include amounts paid on taxable profits which, in certain countries such as the UK, include policyholder investment returns on certain life insurance products. Other taxes include property taxes, withholding taxes, employer payroll taxes and irrecoverable indirect taxes. Taxes collected are other taxes that Prudential remits to tax authorities which it is obliged to collect from employees, customers and third parties which include sales taxes, employee and annuitant payroll taxes.

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 year. In 2015 underlying free surplus generation, after investment in new business, increased by 15 per cent to £3,050 million.

Free surplus generation

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	**2014 £m**	**Change %**	**2014 £m**	**Change %**
Free surplus generation[1]					
Asia	**1,086**	938	16	930	17
US	**1,433**	1,197	20	1,291	11
UK[2]	**900**	656	37	656	37
M&G	**358**	353	1	353	1
Prudential Capital	**18**	33	(45)	33	(45)
Underlying free surplus generated from in-force life business and asset management[2]	**3,795**	3,177	19	3,263	16
Investment in new business[2]	**(745)**	(598)	(25)	(618)	(21)
Underlying free surplus generated	**3,050**	2,579	18	2,645	15
Market related movements, timing differences and other movements	**282**	(6)			
Net cash remitted by business units	**(1,625)**	(1,482)			
Total movement in free surplus	**1,707**	1,091			
Free surplus at 1 January	**5,059**	4,003			
Effect of domestication of Hong Kong branch	**-**	(35)			
Free surplus at end of year	**6,766**	5,059			

The increase in free surplus generated by our life insurance businesses reflects our growing scale and the highly capital generative nature of our business model. 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 in our industry. In line with this approach the closing value of free surplus in our life and asset management operations increased to £6,766 million at 31 December 2015 (31 December 2014: £5,059 million, on an actual exchange rate basis), 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, and a 28 per cent increase in post-tax profit from Eastspring Investments, contributed to free surplus generation of £1,086 million, up 17 per cent. In the **US**, free surplus generation before new business increased by 11 per cent, also reflecting business growth. In the **UK**, the 37 per cent increase to £900 million reflects a higher underlying contribution from the in-force business and a contribution of £223 million for the specific management actions taken in the second half of the year to position the balance sheet more efficiently under the new Solvency II regime.

We invested £745 million of the free surplus generated during the year in writing new business (2014: £618 million on a constant exchange rate basis) equivalent to a re-investment rate[9] of 20 per cent, which is in line with recent periods. **Asia** remained the primary destination of our new business investment, 17 per cent higher at £413 million, lower than the 26 per cent increase in APE sales reflecting changes to product mix. In the **US**, new business investment increased to £267 million, mainly due to an increase in the proportion of variable annuity premiums that customers directed towards the fixed account option. At just under 2 per cent of new single premiums, Jackson's overall strain remains low supporting the generation of significant returns on capital. New business investment in the **UK** remains at £65 million (2014: £65 million), despite higher new business volumes, reflecting capital efficient growth in with-profits business and lower strain on bulk annuities (measured under the solvency regime applicable in 2015).

The internal rates of return achieved on new business remain attractive at over 20 per cent across all three business operations and the average payback period[10] for business written in 2015 was 3 years for Asia, 1 year for the US and 3 years for the UK.

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.

Holding company cash[11]

	Actual Exchange Rate		
	2015 £m	**2014 £m**	**Change %**
Net cash remitted by business units:			
Asia	**467**	400	17
US	**470**	415	13
UK	**331**	325	2
M&G	**302**	285	6
Prudential Capital	**55**	57	(4)
Net cash remitted by business units	**1,625**	1,482	10
Holding company cash at 31 December	**2,173**	1,480	

Cash remitted by the business units to the corporate centre in 2015 increased by 10 per cent to £1,625 million with significant contributions from each of our four major business operations. Asia's remittances increased to £467 million and included the proceeds from the sale of the Japan life business of £42 million. The higher remittances from the US of £470 million reflect Jackson's disciplined approach to growing this business and its effective risk management. The remittances from the UK are in line with 2014 and we continue to invest in upgrading our UK pre and post retirement customers propositions. M&G's remittances of £302 million reflected the level of post-tax earnings delivered in the year.

Cash remitted to the Group in 2015 was used to meet central costs of £354 million (2014: £353 million), pay the dividends and finance the second of three up-front payments for the renewal of the distribution agreement with Standard Chartered Bank. The issue of hybrid debt in June 2015 raised £590 million. Reflecting these movements in the year, total holding company cash at the end of 2015 was £2,173 million compared to £1,480 million at the end of 2014.

EEV Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2015 £m	**2014 £m**	**Change %**	**2014 £m**	**Change %**
Post-tax operating profit					
Long-term business:					
Asia	**2,321**	1,900	22	1,903	22
US	**1,808**	1,528	18	1,647	10
UK[2]	**863**	735	17	735	17
Long-term business operating profit[2]	**4,992**	4,163	20	4,285	16
UK general insurance commission	**22**	19	16	19	16
Asset management business:					
M&G	**358**	353	1	353	1
Prudential Capital	**18**	33	(45)	33	(45)
Eastspring Investments	**101**	78	29	79	28
US	**7**	6	17	7	-
Other income and expenditure[12]	**(617)**	(567)	(9)	(567)	(9)
Results of the sold PruHealth and PruProtect businesses	**-**	11	(100)	11	(100)
Post-tax operating profit based on longer-term investment returns	**4,881**	4,096	19	4,220	16
Short-term fluctuations in investment returns:					
Insurance operations	**(1,153)**	856	(235)	864	(233)
Other operations	**(55)**	(93)	41	(93)	41
	(1,208)	763	(258)	771	(257)
Effect of changes in economic assumptions	**57**	(369)	115	(389)	115
Other non-operating items[12]	**221**	(147)	250	(147)	250
Profit attributable to shareholders	**3,951**	4,343	(9)	4,455	(11)

Earnings per share

	Actual Exchange Rate			Constant Exchange Rate	
	2015 pence	**2014 pence**	**Change %**	**2014 pence**	**Change %**
Basic earnings per share based on post-tax operating profit	**191.2**	160.7	19	165.6	15
Basic earnings per share based on post-tax total profit	**154.8**	170.4	(9)	174.8	(11)

EEV Operating Profit

On an EEV basis, Group post-tax operating profit based on longer-term investment returns was 16 per cent higher (19 per cent on an actual exchange rate basis) at £4,881 million in 2015. The increase is primarily due to higher new business profit from the Group's life businesses, which increased by 20 per cent (24 per cent on an actual exchange rate) to £2,617 million and profit from the in-force life business, which increased by 13 per cent (16 per cent on an actual exchange rate basis) to £2,375 million. This reflects on-going business growth and higher profits from the better than expected management of the in-force business, with positive experience and assumptions changes of £666 million (2014: £648 million).

In Asia, EEV life operating profit was 22 per cent higher at £2,321 million, with in-force profit up 13 per cent to £831 million, benefiting from increased scale across all of our operations. Asia new business profit was 28 per cent higher at £1,490 million, reflecting volume growth from the continued build out of our distribution platform.

Jackson's EEV life operating profit increased by 10 per cent to £1,808 million, driven by growth in the scale of our in-force book and higher new business profit. In-force profit increased by 11 per cent to £999 million (20 per cent on an actual exchange rate basis), primarily reflecting higher unwind from the larger book of existing business. US new business profit was up 8 per cent to £809 million (17 per cent on an actual exchange rate basis), due to the 3 per cent (11 per cent on an actual exchange rate basis) increase in sales volume and a beneficial shift in business mix.

In the **UK**, EEV life operating profit increased by 17 per cent[2] to £863 million (2014: £735 million). New business profit was 23 per cent[2] higher at £318 million (2014: £259 million) and includes a contribution of £117 million (2014: £105 million) from four bulk annuity transactions in 2015. Retail new business profit was up 31 per cent[2] at £201 million (2014: £154 million), due to the positive effect of the 32 per cent increase in retail sales volumes offset by business mix effects. In-force profit was 14 per cent higher at £545 million (2014: £476 million) and includes a net charge of £13 million from the specific management actions taken in the second half of the year to position the balance sheet more efficiently under the new Solvency II regime.

EEV non-operating results

EEV operating profit is based on longer-term investment returns and excludes the effect of short-term volatility arising from market movements and the effect of changes from economic assumptions. These items are captured in non-operating profit which reduced the 2015 results by a net £930 million (2014: net increase of £247 million on an actual exchange rate basis).

EEV short-term fluctuations
Short-term fluctuations in investment returns reflect the element of non-operating profit which relates to the effect on EEV of the difference between the actual investment returns achieved and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for life operations of negative £1,153 million include negative £206 million for Asia, negative £753 million for our US operations and negative £194 million in the UK.

In Asia and the UK, negative short-term fluctuations principally reflect unrealised movements on bond holdings in the year. They also reflect the effect on the embedded value of flat to negative equity market returns. In the US, the variance represents the impact of modestly negative market-related movements on separate account values in the year and on the value movements on derivatives held to manage the Group's equity and interest rates exposure.

Effect of changes in economic assumptions
The small overall interest rate rises in the UK and US have had a beneficial impact on the level of future assumed earnings that we expect to generate from our existing book of business. This is partly offset by the effect of interest rate rises in Asia, which impact EEV negatively, as the present value future Asia health and protection profits are discounted at higher rates.

Capital position, financing and liquidity

Capital position

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation. This is testament to our capital discipline, the effectiveness of our hedging activities, our low direct Eurozone exposure, the minimal level of credit impairments and the natural offsets in our portfolio of businesses. The estimated Group Solvency II capital surplus[13,14] at 31 December 2015 is £9.7 billion equivalent to a ratio of 193 per cent.

The table below shows the impact of moving from our previously reported economic capital basis to the Solvency II approved internal model basis and the capital generation in 2015

Analysis of movement in Group capital surplus	**£ billion**
Economic capital surplus as at 1 January	9.7
Operating experience	2.4
Non-operating experience (including market movements)	(0.6)
Other capital movements	
Subordinated debt issuance	0.6
Foreign currency translation impacts	0.2
Final 2014 and 2015 first interim dividend paid	(1.0)
Methodology and calibration changes	
Changes to Own Funds (net of transitionals) and Solvency Capital Requirement calibration strengthening	(0.2)
Effect of partial derecognition of Asia Solvency II surplus	(1.4)
Estimated solvency II surplus as at 31 December	**9.7**

The movement in the Group Solvency II capital surplus in 2015 was driven by:
- Operating experience of £2.4 billion: generated by in-force business and new business written in 2015 and included £0.4 billion of benefit from the specific management actions taken in the second half of the year to position the balance sheet more efficiently under the new Solvency II regime;
- Non-operating experience of £0.6 billion: mainly arising from negative market experience during the year; and
- Other capital movements: comprising an increase in capital from subordinated debt issuance, positive foreign currency translation effects offset by a reduction in surplus from payment of the 2014 final and 2015 first interim dividend.

The methodology and calibration changes arose as part of the internal model approval process and related to:
- a £0.2 billion reduction in surplus due to an increase in the Solvency Capital Requirement from strengthening of internal model calibrations, mainly relating to longevity risk, operational risk, credit risk and correlations, and a corresponding increase in the risk margin, which is partially offset by UK transitionals; and
- a £1.4 billion reduction in surplus due to the negative impact of Solvency II rules for "contract boundaries" and a reduction in the capital surplus of the Group's Asian life operations, as agreed with the Prudential Regulation Authority.

Solvency II as a measure of regulatory capital is more volatile than under the previous Solvency I regime. At 31 December 2015, the estimated sensitivity of the Group Solvency II capital surplus to significant changes in market conditions is as set out below:
- an instantaneous 20 per cent fall in equity markets would reduce surplus by £1.0 billion and reduce the solvency ratio to 186 per cent;
- a 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce surplus by £1.8 billion and reduce the solvency ratio to 179 per cent;
- a 50 basis points reduction in interest rates (subject to a floor of zero and allowing for transitional recalculation) would reduce surplus by £1.1 billion and reduce the solvency ratio to 179 per cent;
- a 100 basis points increase in interest rates (allowing for transitional recalculation) would increase surplus by £1.1 billion and increase the solvency ratio to 210 per cent; and
- a 100 basis points increase in credit spreads (with credit defaults of 10 times the expected level in Jackson) would reduce surplus by £1.2 billion and reduce the solvency ratio to 187 per cent.

At 31 December 2015 our Insurance Groups Directive surplus is estimated at £5.5 billion[14], equivalent to a solvency cover of 2.5 times.

Local statutory capital
All of our subsidiaries continue to hold appropriate capital positions on a local regulatory basis. Jackson's Risk-Based Capital ratio at the end of 2015 was 481 per cent, having remitted £470 million to Group earlier in the year. The Prudential Assurance Company Limited, our main UK operation, has an estimated Solvency II surplus of £3.3 billion in respect of its shareholder business, equivalent to a ratio of 146 per cent. Separately the UK with-profits funds remained well capitalised with an estate value of £7.6 billion[15], covering its solvency capital requirements approximately 1.75 times.

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 and 98 per cent of our UK portfolio and 96 per cent of our US portfolio are investment grade. We experienced no default losses and reported impairments of £26 million (2014: £7 million) across these two fixed income securities portfolios.

Financing and liquidity

Shareholders' net core structural borrowings and ratings	**2015 £m**			**2014 £m**		
	IFRS basis	**Mark to market value**	**EEV basis**	**IFRS basis**	**Mark to market value**	**EEV basis**
Shareholders' borrowings in holding company	4,567	353	4,920	3,869	579	4,448
Prudential Capital	275	-	275	275	-	275
Jackson surplus notes	169	55	224	160	42	202
Total	5,011	408	5,419	4,304	621	4,925
Less: Holding company cash and short-term investments	(2,173)	-	(2,173)	(1,480)	-	(1,480)
Net core structural borrowings of shareholder-financed operations	2,838	408	3,246	2,824	621	3,445

Our financing and liquidity position remained strong throughout the year. Our central cash resources amounted to £2.2 billion at 31 December 2015, compared with £1.5 billion at the end of 2014, and we currently retain a further £2.6 billion of untapped committed liquidity facilities.

On an IFRS basis the Group's core structural borrowings at 31 December 2015 were £5,011 million (31 December 2014: £4,304 million on an actual exchange rate basis) and comprised £4,567 million (31 December 2014: £3,869 million on an actual exchange rate basis) of debt held by the holding company, and £444 million (31 December 2014: £435 million on an actual exchange rate basis) of debt held by the Group's subsidiaries, Prudential Capital and Jackson. In June 2015, Prudential issued £600 million 5.0 per cent tier 2 subordinated notes, increasing funds available for general corporate purposes.

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 2015, we had issued commercial paper under this programme, totalling £138 million and US$1,428 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 2020. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2015. The medium-term note programme, the SEC registered US 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.

Prudential manages the Group's core debt within a target level consistent with its current debt ratings. At 31 December 2015, the gearing ratio (debt, net of cash and short-term investments, as a proportion of IFRS shareholders' funds plus net debt) was 18 per cent, compared to 19 per cent at 31 December 2014. Prudential plc has strong 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 Prudential Assurance Company Limited was downgraded by Moody's in September 2015 from Aa2 to Aa3. All ratings on Prudential and its subsidiaries are on stable outlook.

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 and AA by Fitch.

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

Shareholders' Funds

	IFRS		EEV	
	2015 £m	**2014 £m**	**2015 £m**	**2014 £m**
Profit after tax for the year	**2,579**	2,216	**3,951**	4,343
Exchange movements, net of related tax	**118**	220	**244**	737
Unrealised gains and losses on Jackson fixed income securities classified as available for sale[16]	**(629)**	565	**-**	-
Dividends	**(974)**	(895)	**(974)**	(895)
Other	**50**	55	**(23)**	131
Net increase in shareholders' funds	**1,144**	2,161	**3,198**	4,316
Shareholders' funds at beginning of the year	**11,811**	9,650	**29,161**	24,856
Effect of domestication of Hong Kong branch	**-**	-	**-**	(11)
Shareholders' funds at end of the year	**12,955**	11,811	**32,359**	29,161
Shareholders' value per share	**504p**	460p	**1,258p**	1,136p
Return on Shareholders' funds[17]	**27%**	26%	**17%**	16%

In a period of currency volatility, UK sterling weakened relative to non-sterling currencies in particular the US dollar. With approximately 54 per cent of the Group's IFRS net assets (68 per cent of EEV net assets) denominated in non-sterling currencies this generated a positive foreign exchange movement on net assets in the year. In addition, the increase in US 10-year treasury rate and higher spreads produced unrealised losses on fixed income securities held by Jackson that are accounted for as available-for-sale under IFRS.

Taking these non-operating movements into account, the Group's IFRS shareholders' funds at 31 December 2015 increased by 10 per cent to £13.0 billion (31 December 2014: £11.8 billion on an actual exchange rate basis).

The Group's EEV shareholders' funds also increased by 11 per cent to £32.4 billion (31 December 2014: £29.2 billion on an actual exchange rate basis). On a per share basis the Group's embedded value at 31 December 2015 stood at 1,258 pence, up from 1,136 pence at 31 December 2014.

Corporate transactions

Entrance into Uganda life insurance market
In June 2015 we completed the acquisition of Ugandan company Goldstar Life Assurance and signed a long-term co-operation agreement with Crane Bank of Uganda. In January 2016 we announced entry into Zambia via our acquisition of Professional Life Assurance, which is subject to regulatory approval.

Reporting considerations

As announced at our investor conference in January 2016, we plan to discontinue publication of our first and third quarter interim management statements with immediate effect.

Dividend

The Board has decided to increase the full-year ordinary dividend by 5 per cent to 38.78 pence per share, reflecting the continued strong financial performance of the Group in 2015. In line with this, the directors have approved a second interim ordinary dividend of 26.47 pence per share (2014: final dividend of 25.74 pence) which brings the total ordinary dividend for the year to 38.78 pence (2014: 36.93 pence). In addition, the Board has decided to award a special dividend of 10 pence per share reflecting the additional contribution to earnings from the specific management actions taken to position the balance sheet more efficiently under the new Solvency II regime.

Although the Board has been able to approve a special dividend of 10 pence per share in 2015, the Group's dividend policy remains unchanged. The Board will maintain its focus on delivering a growing ordinary dividend, which will continue to be determined after taking into account the Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Notes:
1 Underlying free surplus generation comprises underlying free surplus released from long-term business (net of investment in new business) and that generated from asset management operations.
2 Following the disposal of the Group's 25 per cent interest in PruHealth and PruProtect in November 2014, the 2014 comparative results of UK insurance operations have been adjusted to exclude results of those businesses.
3 Refer to note B1.1 in IFRS financial statements for the break-down of other income and expenditure, and other non-operating items.
4 Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures in Asia.
5 Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.
6 For basis of preparation see note I (a) of Additional Unaudited IFRS financial information.
7 Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
8 Net inflows exclude Asia Money Market Fund (MMF) inflows of £1,065 million (2014: net inflows £9 million). External funds under management exclude Asia MMF balances of £6,006 million (2014: £4,800 million).
9 Investment in new business as a percentage of underlying free surplus generated from in-force life business and asset management.
10 Payback period, measured on an undiscounted basis, is the time in which the initial 'cash' outflow of investment is expected to be recovered from the 'cash' inflows generated by the investment. The 'cash' outflow is measured by our investment of free surplus in new business sales. The payback period equals the time taken for new business sales to generate free surplus to cover this investment.
11 The full Holding Company Cashflow is disclosed in note II (a) of Additional unaudited IFRS financial information.
12 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 break-down of other income and expenditure, and other non-operating items.

[13] The methodology and assumptions used in calculating the Solvency II capital results are set out in note II (c) of Additional unaudited financial information. The Group Solvency II capital ratio is based on outputs from the Group's Solvency II internal model, approved by Prudential Regulation Authority in December 2015.
[14] Before allowing for second interim ordinary and special dividends.
[15] Representing Solvency II own funds of the UK with-profit funds.
[16] Net of related charges to deferred acquisition costs and tax.
[17] Operating profit after tax and non-controlling interests as percentage of opening shareholders' funds.

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

The Group aims to help customers achieve their long term financial goals by providing and promoting a range of products and services that meet customer needs, are easy to understand and deliver real value. We recognise that we are implicitly committing to customers that we will maintain a healthy company, and are there to meet our long term commitments to them.

From the shareholder's perspective, we generate value by selectively taking exposures to risks that are adequately rewarded and that can be appropriately quantified and managed. The Group's approach is to retain risks where doing so contributes to value creation, the Group is able to withstand the impact of an adverse outcome, and has the necessary capabilities, expertise, processes and controls to manage appropriately the risk.

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

<u>Principles and objective</u>
Prudential defines 'risk' as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential. As such, material risks will be retained only where this is consistent with the Group's risk appetite framework and its philosophy towards risk-taking.

<u>Risk governance</u>
The organisational structures, reporting relationships, delegation of authority, and roles and responsibilities that Group Head Office and the business units establish to make decisions and control their activities on risk related matters form the foundation of Prudential's risk governance. Effective risk governance encompasses individuals, Group-wide functions and committees involved in the management of risk.

<u>Risk framework</u>
The Group's risk 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 market, credit, insurance, liquidity and operational risks is monitored and managed by the Group Risk function whose responsibility it is to seek to ensure the maintenance of an adequate risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

Our Group Risk Framework requires that all our businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group and is based on the concept of the 'three lines of defence'. These comprise risk taking and management, risk control and oversight, and independent assurance.

The key risks inherent in the insurance and capital management operations of Prudential's business:

Risks from our investments	Risks from our products	Risks from our business operations
Uncertainty around investment returns can arise through ***credit risk*** via the potential of defaults, and ***market risks*** resulting from the volatility of asset values as a result of fluctuations in equity prices, interest rates, foreign exchange and property prices. ***Liquidity risk*** is also a key area of focus. Regular stress testing is undertaken to ensure the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and in stress scenarios.	***Insurance risk*** The processes of determining the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. In common with other life insurers, the profitability of our businesses depends on a mix of factors including **mortality and morbidity** levels and trends, **persistency,** and claim inflation.	***Operational risk*** As a group we are dependent on the successful processing of a large number of transactions, utilising various IT systems and platforms across numerous and diverse products. We also operate under the ever-evolving requirements set out by **different 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.

Risk mitigation and hedging

We manage our risk profile according to our desired acceptance of risk. To do this, Group Head Office and the business units maintain risk registers that include details of the risks identified and of the controls and mitigating actions used in managing them. Our identified keys risks are set out in the table below.

Key Risks

Risk Type	Risk Definition	Risk Management and Mitigation
Market Risk Equity Investment risk Interest rates Foreign exchange	The risk of loss for our business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.	• Market risk policy • Risk appetite statements, limits and triggers in place • Monitoring and oversight of market risks through the reporting of regular management information • Asset Liability Management programmes in place • Use of derivative programmes • Currency hedging of expected business unit remittances
Credit Risk Counterparty Invested credit	The risk of loss for our business, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (eg downgrade or spread widening).	• Credit risk policy • Risk appetite statements and limits defined on an issuer/counterparty/average credit quality of the portfolio basis • Collateral arrangements in place for derivative transactions • Group Credit Risk Committee oversight of credit and counterparty credit risk and sector and/or name specific reviews • Close monitoring/restricting of investments that may be of concern
Insurance Risk Mortality/Longevity Morbidity/Health Persistency Medical expense inflation risk	The risk of loss for our business, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and claim inflation.	• Insurance and Underwriting risk policies • Risk appetite statements, limits and triggers in place • Longevity, morbidity and persistency assumptions reflect recent experience and expectation of future trends; industry data and expert judgement are used, where appropriate • Reinsurance is used to mitigate longevity and morbidity risks • Morbidity mitigated by appropriate underwriting when policies are issued and claims received • Persistency mitigated through improving quality of sales processes and customer retention initiatives • Medical expense inflation risk mitigated through regular product re-pricing
Liquidity Risk	The risk of the Group being unable to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stress scenarios.	• Liquidity risk policy • Risk appetite statements, limits and triggers in place • Monitoring of liquidity risk through regular management information • Regular stress testing • Liquidity contingency plans established and sources identified • Ability to access the money and debt capital markets • Access to external sources of finance through committed credit facilities
Operational Risk Regulatory and legislative compliance Third party management IT and information (including cybersecurity) Business continuity	The risk of loss (or unintended gain/profit) arising from inadequate or failed internal processes, or from personnel and systems, or from external events (other than those external events covered under Business Environment Risk).	• 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 • Regular testing of elements of the disaster recovery plan
Business Environment Risk **Strategic Risk**	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall strategy Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.	• A Risk and Capital Plan that includes considerations of current strategies • Business environment and strategic risks closely monitored and assessed for consideration in the business plans where appropriate • Board Strategy sessions consider risk themes • Systemic Risk Management Plan which details the Group's strategy and risk management framework • Recovery Plan which covers the Group corporate and risk governance for managing distressed environment, a range of credible recovery options, and scenarios to assess the effectiveness of these recovery options

The drivers of each of the key risks vary by business unit, and depend primarily on the value of locally held products.

Market Risk
Investment Risk

In Prudential UK, investment risk arising out of the assets in the with-profits fund impacts the shareholders' interest in future transfers and is driven predominantly by equities in the fund as well as by other investments such as property and bonds. The value of the future transfers is partially protected against equity falls by hedging conducted outside of the fund. The fund's large inherited estate – estimated at £7.6 billion[1] as at 31 December 2015 on a Solvency II basis – can absorb market fluctuations and protect the fund's solvency. The inherited estate is partially protected against falls in equity markets through an active hedging programme within the fund.

In Asia, our shareholder exposure to equities arises from unit-linked products where revenue is linked to funds under management and on its with-profits businesses where bonuses declared are broadly based on historical and current rates of return on equity.

In Jackson, investment risk arises in relation to the assets backing the policies. In the case of 'spread business', including fixed annuities, these assets are generally bonds and our shareholder exposure comes from the minimum asset return required to be generated to meet the guaranteed rates of return offered to policyholders. For the variable annuity business, these assets include equities as well as other assets such as bonds. In this case the impact on the shareholder comes from the guarantees on return on investments embedded in variable annuity products. Shareholders' exposure to these guarantees is mitigated through a hedging programme, as well as reinsurance. Further measures have been undertaken including re-pricing initiatives and the introduction of variable annuities without guarantees. Furthermore, it is our philosophy not to compete on price; rather, we seek to sell at a price sufficient to fund the cost incurred to hedge or reinsure the risks and to achieve an acceptable return.

Jackson hedges the guarantees on its variable annuity book on an economic basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate economic result. In particular, under Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than 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 result which may be either more or less significant under IFRS reporting. The Jackson IFRS shareholders' equity and US statutory capital are also sensitive to the effects of policyholder behaviour on the valuation of guarantees.

Interest Rate Risk

Long-term rates remain close to historic lows. Products that we offer are sensitive to movements in interest rates. We have already taken a number of actions to de-risk the in-force business as well as re-price and restructure new business offerings in response to historically low interest rates. However, this remains an area of sensitivity and persistently low rates may impact policyholders' savings patterns and behaviour.

Interest rate risk arises in our UK business from the need to match cash flows for annuity payments with those from investments; movements in interest rates may have an impact on profits where durations are not perfectly matched. As a result, we aim to match the duration of assets and liabilities as closely as possible and the position is monitored regularly. Under the European Union's Solvency II Directive, additional interest rate exposure is created due to the nature of the construction of this balance sheet, such as the inclusion of the risk margin. The UK business continually assesses the need for any derivative overlays in managing this sensitivity. The with-profits business is exposed to interest rate risk as a result of underlying guarantees. Such risk is largely borne by the with-profits fund but shareholder support may be required in extremis.

In Asia, exposure to interest rate risk arises from the guarantees of some non-unit-linked investment products. This exposure arises because it may not be possible to hold assets which will provide cash flows to match exactly those relating to policyholder liabilities. While this residual asset/liability mismatch risk can be 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 influence the cost of guarantees in such products, in particular the cost of guarantees may increase when interest rates fall.

Interest rate risk across the entire business is managed through the use of interest rate swaps, interest rate options and hybrid options (options protecting against simultaneous decreases in equity values and interest rates).

Foreign Exchange Risk

We principally operate in Asia, the US and the UK. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Our operations in the US and Asia, which represent a significant proportion of our operating profit 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 our consolidated financial statements when results are expressed 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, accepting the accounting balance sheet translation risks this can produce. However, in cases where a surplus arising in an overseas operation supports Group capital or where a significant cash remittance is due from an overseas subsidiary to the Group, this exposure is hedged where we believe it is economically optimal to do so. We do not have appetite for significant shareholder exposure to foreign exchange risks in currencies outside the local territory. Where this arises, currency borrowings, swaps and other derivatives are used to manage exposures.

Credit Risk

We invest in fixed income assets in order to match policyholder liabilities and enter into reinsurance and derivative contracts to mitigate various types of risk. As a result, we are exposed to credit and counterparty credit risk across our business. We employ a number of risk management tools to manage credit risk, including limits defined on an issuer/counterparty basis as well as on average credit quality to seek to ensure the diversification of the portfolio and have in place collateral arrangements in derivative transactions. The Group Credit Risk Committee oversees credit and counterparty credit risk across the Group and conducts sector and/or name specific reviews as required. In particular, in 2015 it has conducted sector reviews in the banking, commodities and energy sectors.

Debt and loan portfolio

Our UK business is primarily exposed to credit risk in the shareholder-backed portfolio, with fixed income assets of £32.1 billion. Credit risk arising from a further £44.5 billion of fixed income assets is largely borne by the with-profits fund, although in extremis shareholder support may be required should the with-profits fund become unable to meet its liabilities.

The debt portfolio of our Asia business totalled £28.3 billion at 31 December 2015. Of this, approximately 68 per cent was in unit-linked and with-profits funds with minimal shareholder risk. The remaining 32 per cent is shareholder exposure.

Credit risk arises in the general account of our US business, where £34.1 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities and life insurance.

The shareholder-owned debt and loan portfolio of the Group's asset management operations of £2.2 billion as at 31 December 2015 is principally related to Prudential Capital operations. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and our clients.

Certain sectors have seen specific pressure during 2015 and into early 2016. The Group's credit exposure to the oil and gas sector represents approximately 4 per cent or £3.1 billion of the shareholder credit portfolio. Prolonged, depressed oil prices are expected to exert downward rating pressure within the sector, which is being monitored closely through Group risk processes and the Group Credit Risk Committee. The Group's credit exposure to the metal and mining sector represents 1 per cent of the total shareholder debt portfolio (£78 billion). Similarly, this sector is subject to ongoing monitoring and regular management information reporting to the Group's risk committees.

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

Group sovereign debt

Sovereign debt represented 17 per cent or £12.8 billion of the debt portfolio backing shareholder business at 31 December 2015 (31 December 2014: 15 per cent or £11.0 billion). 44 per cent of this was rated AAA and 94 per cent investment grade (31 December 2014: 43 per cent AAA, 95 per cent investment grade). At 31 December 2015, the Group's shareholder-backed business's holding in Eurozone sovereign debt[2] was £546 million. 75 per cent of this was AAA rated (31 December 2014: 82 per cent AAA rated). We do not have any sovereign debt exposure to Greece.

Bank debt exposure and Counterparty Credit Risk

Our bank exposure is a function of our core investment business, as well as of the hedging and other activities undertaken to manage our various financial risks. Given the importance of our relationship with our banks, exposure to the banking sector is a key focus 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 sovereign debt and bank debt securities at 31 December 2015 are given in Note C3.3(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, purchase credit protection or make use of additional collateral arrangements to control our levels of counterparty credit risk. At 31 December 2015, shareholders exposure to corporate debt by rating and sector is shown below:

- 95 per cent of the Shareholder portfolio is investment grade rated. In particular, 67 per cent of the portfolio is rated A- and above[3].
- 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 utilities sectors).

Insurance Risk

Insurance risk constitutes a sizeable proportion of the Group's exposure; the profitability of our businesses depends on a mix of factors including mortality and morbidity levels and trends, persistency, investment performance and claim inflation.

Longevity risk (people's propensity to live longer) is a significant contributor to our insurance risk exposure and is also capital intensive under the Solvency II regime. One tool used to manage this risk is reinsurance. During 2015, we completed deals on a number of tranches of bulk and retail annuity liabilities when terms were sufficiently attractive and aligned with our risk management framework. The recently enhanced pensions freedoms in the UK have greatly reduced the demand for retail annuities and further liberalisation is anticipated. However, given our significant UK annuity portfolio, the assumptions that we make about future rates of mortality improvement will remain key to the measurement of insurance liabilities and to the assessment of any subsequent 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 remains considerable volatility in year-on-year longevity experience, which is why we need expert judgement in setting our longevity assumptions.

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, a key assumption is the rate of medical inflation, typically in excess of general price inflation. This is the risk that the expenses of medical treatment increase more than expected, so that the medical claim cost passed on to Prudential is much higher. Medical expense inflation risk is best mitigated through 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 aggregate across policies.

Our persistency assumptions similarly reflect recent experience for each relevant line of business, and future expectations. 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 poor persistency business. Where appropriate, allowance is also made for the relationship – either assumed or historically observed – between persistency and investment returns, and for the resulting additional risk. Modelling this 'dynamic' policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within product features.

Liquidity Risk

The Group has significant internal sources of liquidity which are sufficient to meet all of its expected requirements, for a period of at least 12 months from the date the financial statements are approved, without having to make use of external funding. In aggregate the Group currently has £2.6 billion of undrawn committed facilities, expiring in 2020. In addition, the Group has access to liquidity via the debt capital markets. We 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 have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and are assessed to be sufficient.

Operational Risk

The Group does not actively seek to take operational risk to generate returns. Instead, it accepts a level of risk whereby the controls in place should prevent material losses, but should also not excessively restrict business activities. Direct and/or indirect financial losses are likely to arise if there is a failure to develop, implement and monitor appropriate controls.

For each business unit, accountabilities for operational risk management and oversight are based on the principles of the 'three lines of defence' model of risk taking and management, risk control and oversight, and independent assurance. The approach adopted is proportional to the size, nature and complexity of the business unit and the risks it manages.

We have an operational risk management framework in place that facilitates both the qualitative and quantitative analysis of operational risk exposures. The output of this framework, in particular management information on key operational risk and control assessments, scenario analysis, internal incidents and external incidents, is reported by the business units and presented to the Group Operational Risk Committee.

This information also supports business decision-making and lessons-learned activities, the ongoing improvement of the control environment, and determination of the adequacy of our corporate insurance programme.

Top Operational Risks
Key areas of focus within the operational risk framework are:

- the risk of non-compliance due to the momentum of regulatory change in both our developed and developing markets, as well as recognising that Prudential's designation as a Global Systemically Important Insurer which requires the Group to comply with additional policy measures including enhanced Group-wide supervision;
- the risk of improper, or mis-selling of Prudential products and the resulting risk of censure from local regulators;
- the risk of regulatory censure due to poor conduct or weaknesses in systems and controls;
- the risk of censure for money laundering, sanctions or anti-bribery and corruption failures;
- the risk that reliance on IT infrastructures which support core activities/processes of the business, could fail or otherwise negatively impact business continuity and scalability needed to support the growth and changing needs of the business;

- the risk of a significant failure of a third-party provider impacting critical services;
- the risk of trading, transacting or modelling errors having a material cost across Group;
- the risk of the Group failing to attract and retain quality senior managers and other key employees;
- the risk that key people, processes and systems are unable to operate (thus impacting the on-going operation of the business) due to a significant unexpected external event occurring (e.g. a pandemic, terrorist attack, natural disaster, political unrest); and
- the risk of losses resulting from damage to the firm's reputation. This can be either real or perceived reputational damage but which could nevertheless diminish the standing of the organisation in the eyes of key stakeholders (e.g. customers, shareholders), destroy shareholder value, adversely impact revenues or result in significant costs to rectify.

Cyber Security
Cyber security is an increasingly important risk facing the Group. The risk is that a member of the Group could be the target of a cyber-related attack which could result in disruption to the key operations, make it difficult to recover critical services, damage assets, and compromise data (both corporate and customer). This is a global issue which is rising in prominence across the financial services industry. 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 Global Systemically Important Insurer, there is an increased likelihood of Prudential being considered a target by cyber criminals. A number of industry, company-wide and local business unit-specific initiatives are underway in response to this risk.

<u>Business environment and strategic risks</u>

Global Regulatory and Political Risk
There are a number of on-going 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 reviews, on-going engagement with the Prudential Regulation Authority and includes the work of the Financial Stability Board and standard-setting institutions such as the International Association of Insurance Supervisors.

The International Association of Insurance Supervisors has various initiatives. On 18 July 2013, it published a methodology for identifying Global Systemically Important Insurers, and a set of policy measures that will apply to them, which the Financial Stability Board endorsed. Groups designated as a Global Systemically Important Insurer 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 Global Systemically Important Insurer was reaffirmed on 3 November 2015. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the Prudential Regulation Authority on the implications of the policy measures and Prudential's designation as a Global Systemically Important Insurer.

The Global Systemically Important Insurer regime also introduces two types of capital requirements. The first, a Basic Capital Requirement, is designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption requirement reflects the drivers of the assessment of Global Systemically Important Insurer designation. The International Association of Insurance Supervisors intends for these requirements to take effect from January 2019, but Global Systemically Important Insurers will be expected to report privately to their group-wide supervisors in the interim.

The International Association of Insurance Supervisors is also developing a Common Framework (ComFrame) which is focused on the supervision of large and complex 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 would apply to Internationally Active Insurance Groups. Once the development of the Insurance Capital Standard has been concluded, it is intended to replace the Basic Capital Requirement as the minimum group capital requirement for Global Systemically Important Insurers. Further consultations on the Insurance Capital Standard are expected over the coming years and a version of the Insurance Capital Standard is expected to be adopted as part of ComFrame in late 2019.

The International Association of Insurance Supervisors' 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, particularly in the emerging markets of Asia.

The European Union's Solvency II Directive came into effect on 1 January 2016. The European Commission will review elements of the Solvency II legislation from 2016 onwards including a review of the Long Term Guarantee measures by 1 January 2021.

Similar 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.

The UK Government has committed to holding a "remain/leave" referendum on EU membership which will be held on 23 June 2016. The possible withdrawal of the UK from the EU would have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced on the UK.

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

Emerging Risks

Generally, emerging risks are qualitative in nature and are not amenable to modelling using statistical techniques. The emerging risk identification process at Prudential seeks to leverage the expertise of the organisation through a combination of top-down and bottom-up assessments of risks. Following two years of development, the emerging risk identification process is now well-embedded across the Group.

The use of 'brainstorming' sessions at various levels of the organisation is used as a central pillar of the emerging risk identification process to identify, develop and challenge potential emerging risks. Input is also taken from external speakers, forums and databases.

The Group has also sought to maintain contacts with industry experts and peers to benchmark and refine the emerging risk management process. For example, Prudential has been a member of the Emerging Risk Initiative at the CRO Forum for two years, and chaired this initiative for 2015.

Risk factors

Our disclosures covering risk factors can be found at the end of this document.

Risk Management Cycle and Governance

Our Group Risk Framework requires that all our businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The framework is based on the concept of 'three lines of defence' comprising risk taking and management, risk control and oversight and independent assurance.

Risk identification

The Group's risk profile is a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. 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.

An annual 'top-down' identification of our key risks assesses the risks that have the greatest potential to impact the Group's operating results and financial condition. The bottom up approach of risk identification is more granular and refers to the processes by which the business units identify, assess and document risks, with the appropriate coordination and challenge from the risk functions.

The Group Own Risk and Solvency Assessment 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 Group Own Risk and Solvency Assessment Report covers the full known risk universe of the Group.

In accordance with provision C.2.1 of the UK Corporate Governance Code, the directors have performed robust assessment of the principal risks facing the company, through the Group Own Risk and Solvency Assessment Report and the risk assessments completed as part of the business planning review including how they are managed and mitigated given in this Chief Risk Officer's report.

Insurers are also required to undertake Reverse Stress Testing, which requires firms to work backwards from an assumed point of business model failure, to identify the stress scenarios that could result in such adverse outcomes. Each firm must then consider whether the likelihood of these scenarios, taking into account likely management actions, is consistent with its risk appetite and, if not, must initiate actions to address any inconsistencies. The actions considered form a part of our Recovery Plan.

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 the Solvency II Pillar 1 and economic capital bases. Governance arrangements are in place to support the internal model. This includes independent validation and process and controls around model changes and limitations.

Manage and control

The control procedures and systems established within the Group are designed to manage the risk of failing to meet business objectives. 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. 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.

Monitoring and reporting

The management information received by the Group Risk Committees and the Board is tailored around the risks identified in the annual 'top-down' process, and also covers on-going developments in other key and emerging risks.

Risk Appetite and Limits

The extent to which the Group is willing to take risk in the pursuit of its objective to create shareholder value is defined by a number of risk appetite statements, operationalised through measures such as limits, triggers and indicators.

Risk appetite has been set at a Group aggregate level and by risk type, and covers all risks to shareholders, including those from participating and third party business. The qualitative statements are operationalised down to the local business units through measures such as limits, triggers and indicators, and cover the most significant exposures to the Group, particularly those that could impact the Group's aggregate risk appetite metrics.

The Group Risk function is responsible for reviewing the scope and operation of these measures at least annually, to determine that they remain relevant. On the recommendation of the Group Risk Committee, 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 as follows:

Earnings volatility:
The objectives of the aggregate risk limits seek to manage 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 monitor 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.

Capital requirements:
The limits aim to manage 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 to define the limits are Solvency II capital requirements and internal economic capital requirements. In addition, outside the UK capital requirements are monitored on local statutory bases.

We use an internal economic capital assessment calibrated on a multi-term basis to monitor our capital requirements across the Group. This approach considers, by risk drivers, the timeframe over which each risk can threaten the ability of the Group to meet claims as they fall due, allowing for realistic diversification benefits. This assessment provides valuable insights into our risk profile and for continuing to maintain a strong capital position.

With the introduction of Solvency II, the existing European Union Insurance Group Directives risk appetite statement has been replaced with a Solvency II Pillar 1 risk appetite. As part of our annual business planning cycle the risk appetite framework plays an integral role. 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.

Risk policies

Risk policies set out specific requirements for the management of, and articulate the risk appetite for, key risk types. 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.

Risk Culture

The increasing regulatory focus on market participants instilling corporate cultures that support prudent management and outcomes for consumers is indelibly linked to what we do and how we do it. The 'risk culture' (as a subset of the broader business culture) is reflected in the values and behaviours the Group displays when managing risk. It therefore permeates throughout the Group's Risk Framework and governance processes.

The Group promotes a responsible risk culture in three main ways:

- By the leadership and behaviours demonstrated by management;
- By building skills and capabilities to support risk management; and
- By including risk management (through the balance of risk with profitability and growth) in the performance evaluation of individuals.

Senior management leadership
Senior management promote a responsible culture of risk management by emphasising the importance of balancing risk with profitability and growth in decision making, while seeking to ensure compliance with regulatory requirements and internal policies. As part of this, they encourage all employees to be risk-aware and to take personal responsibility for identifying and helping to address risk issues.

Building skills and capabilities
The Group works to build skills and capabilities in risk management, which are needed by both senior management and risk management specialists, while attempting to allocate scarce resources appropriately.

Performance management
The Group includes risk management measures that balances risk taken with profitability and growth achieved in the performance evaluation of key individuals, including both senior management and those directly responsible for risk management (objectives may be quantitative or qualitative as appropriate).

The remuneration strategy at Prudential is designed to be consistent with its risk appetite, and the Group Chief Risk Officer advises the Group Remuneration Committee on adherence to our risk framework and appetite.

Notes:
[1] Representing Solvency II own funds of the UK with-profit funds.
[2] Excludes Group's proportionate share in joint ventures and unit-linked assets and holdings of consolidated unit rust and similar funds.
[3] In the 'Shareholder Exposure by Rating' ~ 75 per cent of non-rated assets are internally rated, privately held loans.

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 2015 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	**2015 £m**	**2014 £m**
Gross premiums earned		**36,663**	32,832
Outward reinsurance premiums		**(1,157)**	(799)
Earned premiums, net of reinsurance		**35,506**	32,033
Investment return		**3,304**	25,787
Other income		**2,495**	2,306
Total revenue, net of reinsurance		**41,305**	60,126
Benefits and claims		**(30,547)**	(50,736)
Outward reinsurers' share of benefit and claims		**1,389**	631
Movement in unallocated surplus of with-profits funds		**(498)**	(64)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(29,656)**	(50,169)
Acquisition costs and other expenditure	B3	**(8,208)**	(6,752)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(312)**	(341)
Disposal of Japan life business:			
Cumulative exchange loss recycled from other comprehensive income	D1	**(46)**	-
Remeasurement adjustments	D1	**-**	(13)
Total charges, net of reinsurance		**(38,222)**	(57,275)
Share of profits from joint ventures and associates, net of related tax		**238**	303
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**		**3,321**	3,154
Less tax charge attributable to policyholders' returns		**(173)**	(540)
Profit before tax attributable to shareholders	B1.1	**3,148**	2,614
Total tax charge attributable to policyholders and shareholders	B5	**(742)**	(938)
Adjustment to remove tax charge attributable to policyholders' returns		**173**	540
Tax charge attributable to shareholders' returns	B5	**(569)**	(398)
Profit for the year attributable to equity holders of the Company		**2,579**	2,216

Earnings per share (in pence)		**2015**	**2014**
Based on profit attributable to the equity holders of the Company:	B6		
Basic		**101.0p**	86.9p
Diluted		**100.9p**	86.8p

Dividends per share (in pence)		**2015**	**2014**
Dividends relating to reporting year:	B7		
Interim dividend		**12.31p**	11.19p
Second interim dividend / Final dividend		**26.47p**	25.74p
Special dividend		**10.00p**	
Total		**48.78p**	36.93p
Dividends declared and paid in reporting year:	B7		
Current year interim dividend		**12.31p**	11.19p
Final dividend for prior year		**25.74p**	23.84p
Total		**38.05p**	35.03p

* 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 (which 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) is not representative of pre-tax profits attributable to shareholders.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2015 £m	2014 £m
Profit for the year		**2,579**	2,216
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		**68**	215
Cumulative exchange loss of Japan life business recycled through profit or loss		**46**	-
Related tax		**4**	5
		118	220
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding (losses) gains arising during the year		**(1,256)**	1,039
Less: net gains included in the income statement on disposal and impairment		**(49)**	(83)
Total	C3.3	**(1,305)**	956
Related change in amortisation of deferred acquisition costs	C5.1(b)	**337**	(87)
Related tax		**339**	(304)
		(629)	565
Total		**(511)**	785
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Gross		**27**	(12)
Related tax		**(5)**	2
		22	(10)
Other comprehensive (loss) income for the year, net of related tax		**(489)**	775
Total comprehensive income for the year attributable to the equity holders of the Company		**2,090**	2,991

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 (loss) income		**-**	**-**	**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 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 2014 £m							
Reserves									
Profit for the year		-	-	2,216	-	-	2,216	-	2,216
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	220	-	220	-	220
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	565	565	-	565
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax		-	-	(10)	-	-	(10)	-	(10)
Total other comprehensive (loss) income		-	-	(10)	220	565	775	-	775
Total comprehensive income for the year		-	-	2,206	220	565	2,991	-	2,991
Dividends	B7	-	-	(895)	-	-	(895)	-	(895)
Reserve movements in respect of share-based payments		-	-	106	-	-	106	-	106
Share capital and share premium									
New share capital subscribed	C10	-	13	-	-	-	13	-	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(48)	-	-	(48)	-	(48)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	(6)	-	-	(6)	-	(6)
Net increase in equity		-	13	1,363	220	565	2,161	-	2,161
At beginning of year		128	1,895	7,425	(189)	391	9,650	1	9,651
At end of year		128	1,908	8,788	31	956	11,811	1	11,812

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	**2015 £m**	**2014 £m**
Assets			
Intangible assets attributable to shareholders:			
Goodwill	C5.1(a)	**1,463**	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	**8,422**	7,261
Total		**9,885**	8,724
Intangible assets attributable to with-profits funds:			
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**185**	186
Deferred acquisition costs and other intangible assets		**50**	61
Total		**235**	247
Total intangible assets		**10,120**	8,971
Other non-investment and non-cash assets:			
Property, plant and equipment		**1,197**	978
Reinsurers' share of insurance contract liabilities		**7,903**	7,167
Deferred tax assets	C8	**2,819**	2,765
Current tax recoverable		**477**	117
Accrued investment income		**2,751**	2,667
Other debtors		**1,955**	1,852
Total		**17,102**	15,546
Investments of long-term business and other operations:			
Investment properties		**13,422**	12,764
Investment in joint ventures and associates accounted for using the equity method		**1,034**	1,017
Financial investments:*			
Loans	C3.4	**12,958**	12,841
Equity securities and portfolio holdings in unit trusts		**157,453**	144,862
Debt securities	C3.3	**147,671**	145,251
Other investments		**7,353**	7,623
Deposits		**12,088**	13,096
Total		**351,979**	337,454
Assets held for sale	D1	**2**	824
Cash and cash equivalents		**7,782**	6,409
Total assets	C1,C3.1	**386,985**	369,204

* Included within financial investments are £5,995 million (2014: £4,578 million) of lent securities.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2015 £m	2014 £m
Equity and liabilities			
Equity			
Shareholders' equity		**12,955**	11,811
Non-controlling interests		**1**	1
Total equity		**12,956**	11,812
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds:			
Insurance contract liabilities		**260,753**	250,038
Investment contract liabilities with discretionary participation features		**42,959**	39,277
Investment contract liabilities without discretionary participation features		**18,806**	20,224
Unallocated surplus of with-profits funds		**13,096**	12,450
Total	C4	**335,614**	321,989
Core structural borrowings of shareholder-financed operations:			
Subordinated debt		**4,018**	3,320
Other		**993**	984
Total	C6.1	**5,011**	4,304
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**1,960**	2,263
Borrowings attributable to with-profits operations	C6.2(b)	**1,332**	1,093
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements		**3,765**	2,347
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**7,873**	7,357
Deferred tax liabilities	C8	**4,010**	4,291
Current tax liabilities	C8	**325**	617
Accruals and deferred income		**952**	947
Other creditors		**4,876**	4,262
Provisions		**604**	724
Derivative liabilities		**3,119**	2,323
Other liabilities		**4,588**	4,105
Total		**30,112**	26,973
Liabilities held for sale		**-**	770
Total liabilities	C1,C3.1	**374,029**	357,392
Total equity and liabilities		**386,985**	369,204

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2015 £m	2014 £m
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)		**3,321**	3,154
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		**(6,814)**	(30,746)
Other non-investment and non-cash assets		**(1,063)**	(1,521)
Policyholder liabilities (including unallocated surplus)		**6,067**	27,292
Other liabilities (including operational borrowings)		**1,761**	3,797
Interest income and expense and dividend income included in result before tax		**(8,726)**	(8,315)
Other non-cash items note (ii)		**234**	174
Operating cash items:			
Interest receipts		**7,316**	7,155
Dividend receipts		**1,777**	1,559
Tax paid		**(1,340)**	(721)
Net cash flows from operating activities		**2,533**	1,828
Cash flows from investing activities			
Purchases of property, plant and equipment		**(256)**	(172)
Proceeds from disposal of property, plant and equipment		**30**	10
Acquisition of subsidiaries and intangibles		**(286)**	(535)
Sale of businesses		**43**	152
Net cash flows from investing activities		**(469)**	(545)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations: note (iii)	C6.1		
Issue of subordinated debt, net of costs		**590**	-
Redemption of subordinated debt		**-**	(445)
Interest paid		**(288)**	(330)
With-profits operations: note (iv)	C6.2		
Interest paid		**(9)**	(9)
Equity capital:			
Issues of ordinary share capital		**7**	13
Dividends paid		**(974)**	(895)
Net cash flows from financing activities		**(674)**	(1,666)
Net increase (decrease) in cash and cash equivalents		**1,390**	(383)
Cash and cash equivalents at beginning of year		**6,409**	6,785
Effect of exchange rate changes on cash and cash equivalents		**(17)**	7
Cash and cash equivalents at end of year		**7,782**	6,409

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.

A BACKGROUND

A1 Basis of preparation and exchange rates

These statements have been prepared in accordance with IFRS 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 may differ from IFRS issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 31 December 2015, there were no unendorsed standards effective for the two years ended 31 December 2015 affecting the consolidated financial information of the Group and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

Except for the adoption of the new and amended accounting standards for Group IFRS reporting as described in note A2, the accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2014.

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 2015	Average rate for 2015	Closing rate at 31 Dec 2014	Average rate for 2014
Local currency: £				
Hong Kong	**11.42**	**11.85**	12.09	12.78
Indonesia	**20,317.71**	**20,476.93**	19,311.31	19,538.56
Malaysia	**6.33**	**5.97**	5.45	5.39
Singapore	**2.09**	**2.10**	2.07	2.09
China	**9.57**	**9.61**	9.67	10.15
India	**97.51**	**98.08**	98.42	100.53
Vietnam	**33,140.64**	**33,509.21**	33,348.46	34,924.62
Thailand	**53.04**	**52.38**	51.30	53.51
US	**1.47**	**1.53**	1.56	1.65

Certain notes to the financial statements present 2014 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 2015 or 2014 but is derived from those accounts. The auditors have reported on the 2015 statutory accounts. Statutory accounts for 2014 have been delivered to the registrar of companies, and those for 2015 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 2015

The Group has adopted the Annual improvements to the IFRS's 2011-2013 cycle which were effective in 2015

Except for a change to the presentation of the Prudential Capital business as a separate reporting segment, as described in note B1.3, consideration of these improvements has had no impact on the financial statements of the Group.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

	Note	2015 £m	2014 £m AER note (vii)	2014 £m CER note (vii)	% 2015 vs 2014 AER note (vii)	% 2015 vs 2014 CER note (vii)
Asia operations						
Asia insurance operations		**1,209**	1,050	1,040	15%	16%
Eastspring Investments		**115**	90	91	28%	26%
Total Asia operations		**1,324**	1,140	1,131	16%	17%
US operations						
Jackson (US insurance operations)		**1,691**	1,431	1,543	18%	10%
Broker-dealer and asset management		**11**	12	13	(8)%	(15)%
Total US operations		**1,702**	1,443	1,556	18%	9%
UK operations						
UK insurance operations:	B4(b)					
Long-term business*		**1,167**	729	729	60%	60%
General insurance commission note (i)		**28**	24	24	17%	17%
Total UK insurance operations		**1,195**	753	753	59%	59%
M&G	B2	**442**	446	446	(1)%	(1)%
Prudential Capital		**19**	42	42	(55)%	(55)%
Total UK operations		**1,656**	1,241	1,241	33%	33%
Total segment profit		**4,682**	3,824	3,928	22%	19%
Other income and expenditure						
Investment return and other income		**14**	15	15	(7)%	(7)%
Interest payable on core structural borrowings		**(312)**	(341)	(341)	9%	9%
Corporate expenditure note (ii)		**(319)**	(293)	(293)	(9)%	(9)%
Total		**(617)**	(619)	(619)	- %	- %
Solvency II implementation costs		**(43)**	(28)	(28)	(54)%	(54)%
Restructuring costs note (iii)		**(15)**	(14)	(14)	(7)%	(7)%
Results of the sold PruHealth and PruProtect businesses*		**-**	23	23	n/a	n/a
Operating profit based on longer-term investment returns		**4,007**	3,186	3,290	26%	22%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(737)**	(574)	(650)	(28)%	(13)%
Amortisation of acquisition accounting adjustments note (iv)		**(76)**	(79)	(85)	4%	11%
Gain on sale of PruHealth and PruProtect businesses note (v)		**-**	86	86	n/a	n/a
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income		**(46)**	-	-	n/a	n/a
Costs of domestication of Hong Kong branch note (vi)		**-**	(5)	(5)	n/a	n/a
Profit before tax attributable to shareholders		**3,148**	2,614	2,636	20%	19%

Basic earnings per share (in pence)	Note	2015	2014 AER note (vii)	2014 CER note (vii)	% 2015 vs 2014 AER note (vii)	% 2015 vs 2014 CER note (vii)
	B6					
Based on operating profit based on longer-term investment returns		**125.8p**	96.6p	99.5p	30%	26%
Based on profit for the year		**101.0p**	86.9p	87.9p	16%	15%

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

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 terminates 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 represent one-off business development expenses.

(iv) Amortisation of acquisition accounting adjustments principally relate to the acquired REALIC business of Jackson.

(v) In November 2014, PAC completed the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited.

(vi) On 1 January 2014, the Hong Kong branch of the Prudential Assurance Company Limited was transferred to separate subsidiaries established in Hong Kong.

(vii) For definitions of AER and CER refer to note A1.

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

	2015 £m	2014 £m
Insurance operations:		
Asia note (i)	**(119)**	178
US note (ii)	**(424)**	(1,103)
UK note (iii)	**(120)**	464
Other operations note (iv)	**(74)**	(113)
Total	**(737)**	(574)

Notes

(i) *Asia insurance operations*

In Asia, the negative short-term fluctuations of £(119) million (2014: positive £178 million) primarily reflect net unrealised movements on bond holdings following rises in bond yields across the region during the year.

(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 £93 million as shown in note C5.1(b) (2014: £653 million) and comprise amounts in respect of the following items:

	2015 £m	2014 £m
Net equity hedge result note (a)	**(504)**	(1,574)
Other than equity-related derivatives note (b)	**29**	391
Debt securities note (c)	**1**	47
Equity-type investments: actual less longer-term return	**19**	16
Other items	**31**	17
Total	**(424)**	(1,103)

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:

- The accounting value movements on the variable and fixed index annuity guarantee liabilities;
- Adjustments in respect of fee assessments and claim payments;
- Fair value movements on free standing equity derivatives; and
- Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins,.

Movements in the accounting values of the variable annuity guarantee liabilities include those for:

- The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are valued under the US GAAP insurance measurement basis applied for IFRS in a way that is substantially less sensitive to the effect of equity market and interest rate changes. These represent the majority of the guarantees offered by Jackson; and
- The 'not for life' portion of GMWB embedded derivative liabilities which are required to be fair valued. Fair value movements on these liabilities include the effects of changes to levels of equity markets, implied volatility and interest rates.

The free-standing equity derivatives are held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options.

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' 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 Guaranteed Minimum Income Benefit (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

	2015 £m	2014 £m
Short-term fluctuations relating to debt securities		
Credits (charges) in the year:		
Losses on sales of impaired and deteriorating bonds	**(54)**	(5)
Bond write downs	**(37)**	(4)
Recoveries / reversals	**18**	19
Total (charges) credits in the year	**(73)**	10
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns[note]	**83**	78
	10	88
Interest-related realised gains:		
Arising in the year	**102**	63
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(108)**	(87)
	(6)	(24)
Related amortisation of deferred acquisition costs	**(3)**	(17)
Total short-term fluctuations related to debt securities	**1**	47

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 2015 is based on an average annual risk margin reserve of 23 basis points (2014: 24 basis points) on average book values of US$54.6 billion (2014: US$54.5 billion) as shown below:

	2015				2014			
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	**28,185**	**0.13**	**(37)**	**(24)**	27,912	0.12	(34)	(21)
Baa1, 2 or 3	**24,768**	**0.25**	**(62)**	**(40)**	24,714	0.25	(62)	(38)
Ba1, 2 or 3	**1,257**	**1.17**	**(15)**	**(10)**	1,390	1.23	(17)	(10)
B1, 2 or 3	**388**	**3.08**	**(12)**	**(8)**	385	3.04	(12)	(7)
Below B3	**35**	**3.70**	**(1)**	**(1)**	92	3.70	(4)	(2)
Total	**54,633**	**0.23**	**(127)**	**(83)**	54,493	0.24	(129)	(78)
Related amortisation of deferred acquisition costs (see below)			**24**	**16**			25	15
Risk margin reserve charge to operating profit for longer-term credit related losses			**(103)**	**(67)**			(104)	(63)

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 charge for unrealised losses on debt securities classified as available-for-sale net of related change in amortisation of deferred acquisition costs of £(968) million (2014: net unrealised gains of £869 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 C3.3(b).

(iii) *UK insurance operations*
The negative short-term fluctuations in investment returns for UK insurance operations of £(120) million (2014: positive £464 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business, reflecting the rise in bond yields since the end of 2014.

(iv) *Other*
The negative short-term fluctuations in investment returns for other operations of £(74) million (2014: negative £(113) million) include unrealised value movements on investments and foreign exchange items.

(v) *Default losses*
The Group did not experience any default losses on its shareholder-backed debt securities portfolio in 2015 or 2014.

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. Prior to 2015, the Group incorporated Prudential Capital into the M&G operating segment for the purposes of segment reporting. To better reflect the economic characteristics of the two businesses, the Group has in 2015 made a change to present Prudential Capital as a separate reportable segment rather than aggregating this segment within M&G.

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*;
- Gain on the sale of the Group's stake in the PruHealth and PruProtect businesses in 2014;
- 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;
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015. See note D1 for further details; and
- The costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

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.

* Including the impact of short-term market effects on the carrying value of Jackson guarantee liabilities and related derivatives as explained below.

Determination of operating profit based on longer-term investment return 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 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 2015, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £567 million (2014: £467 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-financed operations amounted to £840 million as at 31 December 2015 (2014: £932 million). The rates of return applied in the years 2015 and 2014 ranged from 2.73 per cent to 13.75 per cent with the rates applied varying by territory. These rates are determined after consideration by the Group's in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. 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 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 Guaranteed Minimum Withdrawal Benefit and fixed index annuity business, and Guaranteed Minimum Income Benefit reinsurance (see below);
- Movements in the accounts carrying value of Guaranteed Minimum Death Benefit and the 'for life' portion of Guaranteed Minimum Withdrawal Benefits and Guaranteed Minimum Income Benefit 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 Guaranteed Minimum Income Benefit 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 Guaranteed Minimum Income Benefit 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 2015, the equity-type securities for US insurance non-separate account operations amounted to £1,004 million (2014: £1,094 million). For these operations, the longer-term rates of return for income and capital applied in 2015 and 2014, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums are as follows:

	2015	**2014**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.7% to 6.4%**	6.2% to 6.7%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.7% to 8.4%**	8.2% to 8.7%

(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 in PRIL and the PAC non-profit sub-fund 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 to 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 to 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:

	2015 £m					2014 £m
	M&G	**Prudential Capital**	**US**	**Eastspring Investments**	**Total**	**Total**
Revenue (excluding NPH broker-dealer fees)	**1,237**	**54**	**321**	**352**	**1,964**	2,008
NPH broker-dealer fees[note (i)]	**-**	**-**	**522**	**-**	**522**	503
Gross revenue	**1,237**	**54**	**843**	**352**	**2,486**	2,511
Charges (excluding NPH broker-dealer fees)	**(810)**	**(99)**	**(310)**	**(278)**	**(1,497)**	(1,477)
NPH broker-dealer fees[note (i)]	**-**	**-**	**(522)**	**-**	**(522)**	(503)
Gross charges	**(810)**	**(99)**	**(832)**	**(278)**	**(2,019)**	(1,980)
Share of profit from joint ventures and associates, net of related tax	**14**	**-**	**-**	**41**	**55**	42
Profit before tax	**441**	**(45)**	**11**	**115**	**522**	573
Comprising:						
Operating profit based on longer-term investment returns[note (ii)]	**442**	**19**	**11**	**115**	**587**	590
Short-term fluctuations in investment returns	**(1)**	**(64)**	**-**	**-**	**(65)**	(17)
Profit before tax	**441**	**(45)**	**11**	**115**	**522**	573

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:

	2015 £m	2014 £m
Asset management fee income	**934**	953
Other income	**5**	1
Staff costs	**(293)**	(351)
Other costs	**(240)**	(203)
Underlying profit before performance-related fees	**406**	400
Share of associate results	**14**	13
Performance-related fees	**22**	33
Total M&G operating profit based on longer-term investment returns	**442**	446

The revenue for M&G of £961 million (2014: £987 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £1,237 million shown in the main table of this note. This is because the £961 million (2014: £987 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

	2015 £m	2014 £m
Acquisition costs incurred for insurance policies	**(3,275)**	(2,668)
Acquisition costs deferred less amortisation of acquisition costs	**431**	916
Administration costs and other expenditure	**(4,746)**	(4,486)
Movements in amounts attributable to external unit holders of consolidated investment funds	**(618)**	(514)
Total acquisition costs and other expenditure	**(8,208)**	(6,752)

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

The following features are of relevance to the determination of the 2015 results:

(a) Asia insurance operations

In 2015, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a profit of £62 million (2014: £49 million) representing a number of non-recurring items, none of which are individually significant.

(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. Credit risk allowance comprises (i) an amount for long-term best estimate defaults, and (ii) additional provisions for credit risk premium, downgrade resilience and short-term defaults.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL, the principal company which writes the UK's shareholder-backed business, based on the asset mix at these dates are shown below.

	31 Dec 2015 (bps)			31 Dec 2014 (bps)		
	Pillar 1 regulatory basis	Adjustment	IFRS	Pillar 1 regulatory basis	Adjustment	IFRS
Bond spread over swap rates note (i)	**171**	**-**	**171**	143	-	143
Credit risk allowance:						
Long-term expected defaults note (ii)	**13**	**-**	**13**	14	-	14
Additional provisions note (iii)	**42**	**(12)**	**30**	44	(12)	32
Total credit risk allowance	**55**	**(12)**	**43**	58	(12)	46
Liquidity premium	**116**	**12**	**128**	85	12	97

Notes

(i) Bond spread over swap rates reflect market observed data.

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard & Poor's and Fitch.

(iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a one-notch downgrade of the portfolio subject to credit risk and an additional allowance for short-term defaults.

The prudent Pillar 1 regulatory basis reflects the overriding objective of maintaining sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS aims to establish liabilities that are closer to 'best estimate'.

Movement in the credit risk allowance for PRIL

The movement during 2015 of the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1 Regulatory basis Total (bps)	IFRS Total (bps)
Total allowance for credit risk at 31 December 2014	**58**	**46**
Credit rating changes	**2**	**1**
Asset trading	**(2)**	**(2)**
Other effects (including for new business)	**(3)**	**(2)**
Total allowance for credit risk at 31 December 2015	**55**	**43**

Overall, the movement has led to the credit allowance for Pillar 1 purposes to be 32 per cent (2014: 41 per cent) of the bond spread over swap rates. For IFRS purposes it represents 25 per cent (2014: 32 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2015 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis Total £bn	IFRS Total £bn
PRIL	**1.9**	**1.5**
PAC non-profit sub-fund	**0.2**	**0.1**
Total 31 December 2015	**2.1**	**1.6**
Total 31 December 2014	2.2	1.7

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 2015, was a credit of £31 million (2014: £28 million).

Other one-off transactions
During 2015 the UK insurance operations entered into additional longevity reinsurance transactions to extend total coverage from £2.3 billion of annuity liabilities at the start of the year to £8.7 billion at the end of 2015 (on a Pillar 1 basis). Overall these transactions generated profit of £231 million (2014: £30 million). Of the £231 million, £170 million relates to transactions undertaken in the second half of 2015 covering £4.8 billion of annuity liabilities (on a Pillar 1 basis). These transactions together with other specific management actions undertaken to position the balance sheet more efficiently under the new Solvency II regime, gave rise to IFRS operating profit in the second of 2015 of £339 million in total, which is not expected to recur in future periods.

B5 Tax charge

(a) Total tax charge by nature of expense

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

	2015 £m			2014 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
UK tax	**(218)**	**69**	**(149)**	(578)
Overseas tax	**(516)**	**(77)**	**(593)**	(360)
Total tax (charge) credit	**(734)**	**(8)**	**(742)**	(938)

The current tax charge of £734 million includes £35 million (2014: £37 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:

	2015 £m			2014 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Tax charge to policyholders' returns	**(188)**	**15**	**(173)**	(540)
Tax charge attributable to shareholders	**(546)**	**(23)**	**(569)**	(398)
Total tax (charge) credit	**(734)**	**(8)**	**(742)**	(938)

The principal reason for the decrease in the tax charge attributable to policyholders' returns is a reduction in the current tax owing to a significant decrease on investment returns in the second half of the year in the with-profits life fund in the UK insurance operations.

(b) Reconciliation of effective tax rate

Reconciliation of tax charge on profit attributable to shareholders

	2015 £m				
	Asia insurance operations	**US insurance operations**	**UK Insurance operations**	**Other operations**	**Total**
Operating profit based on longer-term investment returns	**1,209**	**1,691**	**1,195**	**(88)**	**4,007**
Non-operating profit	**(173)**	**(492)**	**(120)**	**(74)**	**(859)**
Profit (loss) before tax attributable to shareholders	**1,036**	**1,199**	**1,075**	**(162)**	**3,148**
Expected tax rate*	**24%**	**35%**	**20%**	**20%**	**27%**
Tax at the expected rate	**249**	**420**	**215**	**(32)**	**852**
Effects of recurring tax reconciliation items:					
Income not taxable or taxable at concessionary rates	**(42)**	**(10)**	**(2)**	**(9)**	**(63)**
Deductions not allowable for tax purposes	**15**	**5**	**7**	**6**	**33**
Items related to taxation of life insurance businesses	**(20)**	**(113)**	**-**	**-**	**(133)**
Deferred tax adjustments	**10**	**-**	**-**	**(11)**	**(1)**
Effect of results of joint ventures and associates	**(37)**	**-**	**-**	**(13)**	**(50)**
Irrecoverable withholding taxes	**-**	**-**	**-**	**28**	**28**
Other	**(4)**	**(1)**	**6**	**2**	**3**
Total	**(78)**	**(119)**	**11**	**3**	**(183)**
Effects of non-recurring tax reconciliation items:					
Adjustments to tax charge in relation to prior years	**5**	**(65)**	**(7)**	**-**	**(67)**
Movements in provisions for open tax matters	**(6)**	**-**	**-**	**(5)**	**(11)**
Impact of changes in local statutory tax rates	**(5)**	**-**	**(16)**	**(1)**	**(22)**
Total	**(6)**	**(65)**	**(23)**	**(6)**	**(100)**
Total actual tax charge/(credit)	**165**	**236**	**203**	**(35)**	**569**
Analysed into:					
Tax on operating profit based on longer-term investment returns	**180**	**408**	**227**	**(19)**	**796**
Tax on non-operating profit	**(15)**	**(172)**	**(24)**	**(16)**	**(227)**
Actual tax rate:					
Operating profit based on longer-term investment returns					
Including non-recurring tax reconciling items	**15%**	**24%**	**19%**	**22%**	**20%**
Excluding non-recurring tax reconciling items	**15%**	**28%**	**21%**	**15%**	**22%**
Total profit	**16%**	**20%**	**19%**	**22%**	**18%**

	2014 £m				
	Asia insurance operations	**US insurance operations**	**UK Insurance operations†**	**Other operations†**	**Total**
Operating profit based on longer-term investment returns	1,050	1,431	753	(48)	3,186
Non-operating profit	170	(1,174)	545	(113)	(572)
Profit (loss) before tax attributable to shareholders	1,220	257	1,298	(161)	2,614
Expected tax rate*	22%	35%	21%	22%	23%
Tax at the expected rate	268	90	273	(35)	596
Effects of recurring tax reconciliation items:					
Income not taxable or taxable at concessionary rates	(17)	(6)	-	(2)	(25)
Deductions not allowable for tax purposes	13	-	7	9	29
Items related to taxation of life insurance businesses	(44)	(76)	-	-	(120)
Deferred tax adjustments	(8)	-	(7)	(11)	(26)
Effect of results of joint ventures and associates	(40)	-	(8)	(10)	(58)
Irrecoverable withholding taxes	-	-	-	27	27
Other	(4)	1	(4)	7	-
Total	(100)	(81)	(12)	20	(173)
Effects of non-recurring tax reconciliation items:					
Adjustments to tax charge in relation to prior years	(2)	(1)	3	(7)	(7)
Movements in provisions for open tax matters	7	-	-	(26)	(19)
Impact of changes in local statutory tax rates	(1)	-	2	-	1
Total	4	(1)	5	(33)	(25)
Total actual tax charge/(credit)	172	8	266	(48)	398
Analysed into:					
Tax on operating profit based on longer-term investment returns	171	419	163	(29)	724
Tax on non-operating profit	1	(411)	103	(19)	(326)
Actual tax rate:					
Operating profit based on longer-term investment returns					
Including non-recurring tax reconciling items	16%	29%	22%	60%	23%
Excluding non-recurring tax reconciling items	16%	29%	21%	(8)%	24%
Total profit	14%	3%	21%	30%	15%

* The expected tax rates (rounded to the nearest whole percentage) reflect the corporation tax rates generally applied to taxable profit of the relevant country jurisdictions. For Asia operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profit of operations contributing to the aggregate business result. The expected tax rate for Other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profit.

† In order to show the UK insurance business on a comparable basis, the full year 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses from the UK insurance operations and show it in the column for Other operations.

B6 Earnings per share

	Note	Before tax B1.1 £m	Tax B5 £m	Net of tax £m	Basic earnings per share Pence	Diluted earnings per share Pence
2015						
Based on operating profit based on longer-term investment returns		**4,007**	**(796)**	**3,211**	**125.8p**	**125.6p**
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(737)**	**202**	**(535)**	**(21.0)p**	**(20.9)p**
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income	D1	**(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**

	Note	Before tax B1.1 £m	Tax B5 £m	Net of tax £m	Basic earnings per share Pence	Diluted earnings per share Pence
2014						
Based on operating profit based on longer-term investment returns		3,186	(724)	2,462	96.6p	96.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(574)	299	(275)	(10.8)p	(10.8)p
Gain on sale of PruHealth and PruProtect		86	-	86	3.4p	3.4p
Amortisation of acquisition accounting adjustments		(79)	26	(53)	(2.1)p	(2.1)p
Costs of domestication of Hong Kong branch		(5)	1	(4)	(0.2)p	(0.2)p
Based on profit for the year		2,614	(398)	2,216	86.9p	86.8p

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:	2015 (millions)	2014 (millions)
Basic earnings per share	**2,553**	2,549
Shares under option at end of year	**9**	9
Number of shares that would have been issued at fair value on assumed option price	**(6)**	(6)
Diluted earnings per share	**2,556**	2,552

B7 Dividends

	2015		2014	
	Pence per share	**£m**	**Pence per share**	**£m**
Dividends relating to reporting year:				
Interim dividend	**12.31p**	**315**	11.19p	287
Second interim dividend / Final dividend	**26.47p**	**681**	25.74p	658
Special dividend	**10.00p**	**257**		
Total	**48.78p**	**1,253**	36.93p	945
Dividends declared and paid in reporting year:				
Current year interim dividend	**12.31p**	**315**	11.19p	285
Final dividend for prior year	**25.74p**	**659**	23.84p	610
Total	**38.05p**	**974**	35.03p	895

Dividend per share

Interim and special dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2014 of 25.74 pence per ordinary share was paid to eligible shareholders on 21 May 2015 and the 2015 interim dividend of 12.31 pence per ordinary share was paid to eligible shareholders on 25 September 2015. From 2016, Prudential will make twice-yearly interim dividend payments to replace final / interim dividend.

The second interim ordinary and special dividend for the year ended 31 December 2015 of 26.47 pence and 10.00 pence per ordinary share respectively will be paid on 20 May 2016 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 29 March 2016 (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 27 May 2016. The second interim ordinary and special dividend will be paid on or about 27 May 2016 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 8 March 2016. 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 position by segment and business type

To explain the assets, liabilities and capital of the Group's businesses more comprehensively, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

C1.1 Group statement of financial position – analysis by segment

		2015 £m								2014 £m
		Insurance operations								
By operating segment	Note	**Asia** C2.1	**US** C2.2	**UK** C2.3	**Total insurance operations**	**Asset management operations** C2.4	**Unallocated to a segment (central operations)**	**Elimination of intra-group debtors and creditors**	**31 Dec Group Total**	**31 Dec Group Total**
Assets										
Intangible assets attributable to shareholders:										
Goodwill	C5.1(a)	**233**	**-**	**-**	**233**	**1,230**	**-**	**-**	**1,463**	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	**2,103**	**6,168**	**83**	**8,354**	**21**	**47**	**-**	**8,422**	7,261
Total		**2,336**	**6,168**	**83**	**8,587**	**1,251**	**47**	**-**	**9,885**	8,724
Intangible assets attributable to with-profits funds:										
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**-**	**-**	**185**	**185**	**-**	**-**	**-**	**185**	186
Deferred acquisition costs and other intangible assets		**42**	**-**	**8**	**50**	**-**	**-**	**-**	**50**	61
Total		**42**	**-**	**193**	**235**	**-**	**-**	**-**	**235**	247
Total		**2,378**	**6,168**	**276**	**8,822**	**1,251**	**47**	**-**	**10,120**	8,971
Deferred tax assets	C8.1	**66**	**2,448**	**132**	**2,646**	**140**	**33**	**-**	**2,819**	2,765
Other non-investment and non-cash assets		**3,621**	**7,205**	**7,209**	**18,035**	**1,504**	**4,886**	**(10,142)**	**14,283**	12,781
Investments of long-term business and other operations:										
Investment properties		**5**	**5**	**13,412**	**13,422**	**-**	**-**	**-**	**13,422**	12,764
Investments in joint ventures and associates accounted for using the equity method		**475**	**-**	**434**	**909**	**125**	**-**	**-**	**1,034**	1,017
Loans	C3.4	**1,084**	**7,418**	**3,571**	**12,073**	**885**	**-**	**-**	**12,958**	12,841
Equity securities and portfolio holdings in unit trusts		**18,532**	**91,216**	**47,593**	**157,341**	**85**	**27**	**-**	**157,453**	144,862
Debt securities	C3.3	**28,292**	**34,071**	**83,101**	**145,464**	**2,204**	**3**	**-**	**147,671**	145,251
Other investments		**57**	**1,715**	**5,486**	**7,258**	**94**	**1**	**-**	**7,353**	7,623
Deposits		**773**	**-**	**11,226**	**11,999**	**89**	**-**	**-**	**12,088**	13,096
Total investments		**49,218**	**134,425**	**164,823**	**348,466**	**3,482**	**31**	**-**	**351,979**	337,454
Assets held for sale		**-**	**-**	**2**	**2**	**-**	**-**	**-**	**2**	824
Cash and cash equivalents		**2,064**	**1,405**	**2,880**	**6,349**	**1,054**	**379**	**-**	**7,782**	6,409
Total assets	C3.1	**57,347**	**151,651**	**175,322**	**384,320**	**7,431**	**5,376**	**(10,142)**	**386,985**	369,204

By operating segment	Note	2015 £m Insurance operations Asia C2.1	US C2.2	UK C2.3	Total insurance operations	Asset management operations C2.4	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	31 Dec Group Total	2014 £m 31 Dec Group Total
Equity and liabilities										
Equity										
Shareholders' equity		**3,956**	**4,154**	**5,140**	**13,250**	**2,332**	**(2,627)**	**-**	**12,955**	11,811
Non-controlling interests		**1**	**-**	**-**	**1**	**-**	**-**	**-**	**1**	1
Total equity		**3,957**	**4,154**	**5,140**	**13,251**	**2,332**	**(2,627)**	**-**	**12,956**	11,812
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities		**42,084**	**136,129**	**83,801**	**262,014**	**-**	**-**	**(1,261)**	**260,753**	250,038
Investment contract liabilities with discretionary participation features		**251**	**-**	**42,708**	**42,959**	**-**	**-**	**-**	**42,959**	39,277
Investment contract liabilities without discretionary participation features		**181**	**2,784**	**15,841**	**18,806**	**-**	**-**	**-**	**18,806**	20,224
Unallocated surplus of with-profits funds		**2,553**	**-**	**10,543**	**13,096**	**-**	**-**	**-**	**13,096**	12,450
Total policyholder liabilities and unallocated surplus of with-profits funds	C4.1(a)	**45,069**	**138,913**	**152,893**	**336,875**	**-**	**-**	**(1,261)**	**335,614**	321,989
Core structural borrowings of shareholder-financed operations:										
Subordinated debt		**-**	**-**	**-**	**-**	**-**	**4,018**	**-**	**4,018**	3,320
Other		**-**	**169**	**-**	**169**	**275**	**549**	**-**	**993**	984
Total	C6.1	**-**	**169**	**-**	**169**	**275**	**4,567**	**-**	**5,011**	4,304
Operational borrowings attributable to shareholder-financed operations	C6.2	**-**	**66**	**179**	**245**	**10**	**1,705**	**-**	**1,960**	2,263
Borrowings attributable to with-profits operations	C6.2	**-**	**-**	**1,332**	**1,332**	**-**	**-**	**-**	**1,332**	1,093
Other non-insurance liabilities:										
Obligations under funding, securities lending and sale and repurchase agreements		**-**	**1,914**	**1,651**	**3,565**	**200**	**-**	**-**	**3,765**	2,347
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**2,802**	**22**	**5,049**	**7,873**	**-**	**-**	**-**	**7,873**	7,357
Deferred tax liabilities	C8.1	**734**	**2,086**	**1,162**	**3,982**	**17**	**11**	**-**	**4,010**	4,291
Current tax liabilities		**50**	**3**	**203**	**256**	**50**	**19**	**-**	**325**	617
Accruals and deferred income		**136**	**-**	**447**	**583**	**300**	**69**	**-**	**952**	947
Other creditors		**3,266**	**1,022**	**4,591**	**8,879**	**3,695**	**1,183**	**(8,881)**	**4,876**	4,262
Provisions		**119**	**6**	**158**	**283**	**244**	**77**	**-**	**604**	724
Derivative liabilities		**140**	**249**	**2,125**	**2,514**	**283**	**322**	**-**	**3,119**	2,323
Other liabilities		**1,074**	**3,047**	**392**	**4,513**	**25**	**50**	**-**	**4,588**	4,105
Total		**8,321**	**8,349**	**15,778**	**32,448**	**4,814**	**1,731**	**(8,881)**	**30,112**	26,973
Liabilities held for sale	D1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	770
Total liabilities	C3.1	**53,390**	**147,497**	**170,182**	**371,069**	**5,099**	**8,003**	**(10,142)**	**374,029**	357,392
Total equity and liabilities		**57,347**	**151,651**	**175,322**	**384,320**	**7,431**	**5,376**	**(10,142)**	**386,985**	369,204

C1.2 Group statement of financial position – analysis by business type

		31 Dec 2015 £m							31 Dec 2014 £m
		Policyholder	Shareholder-backed business						
	Note	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Eliminations of Intra-group debtors and creditors	Group Total	Group Total
Assets									
Intangible assets attributable to shareholders:									
Goodwill	C5.1(a)	-	-	233	1,230	-	-	1,463	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	-	-	8,354	21	47	-	8,422	7,261
Total		-	-	8,587	1,251	47	-	9,885	8,724
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes		185	-	-	-	-	-	185	186
Deferred acquisition costs and other intangible assets		50	-	-	-	-	-	50	61
Total		235	-	-	-	-	-	235	247
Total		235	-	8,587	1,251	47	-	10,120	8,971
Deferred tax assets	C8.1	83	1	2,562	140	33	-	2,819	2,765
Other non-investment and non-cash assets		3,649	578	11,174	1,504	4,886	(7,508)	14,283	12,781
Investments of long-term business and other operations:									
Investment properties		11,115	705	1,602	-	-	-	13,422	12,764
Investments in joint ventures and associates accounted for using the equity method		434	-	475	125	-	-	1,034	1,017
Financial investments:									
Loans	C3.4	2,599	-	9,474	885	-	-	12,958	12,841
Equity securities and portfolio holdings in unit trusts		39,195	117,067	1,079	85	27	-	157,453	144,862
Debt securities	C3.3	60,870	9,290	75,304	2,204	3	-	147,671	145,251
Other investments		5,045	29	2,184	94	1	-	7,353	7,623
Deposits		8,970	1,049	1,980	89	-	-	12,088	13,096
Total investments		128,228	128,140	92,098	3,482	31	-	351,979	337,454
Assets held for sale		2	-	-	-	-	-	2	824
Cash and cash equivalents		2,623	829	2,897	1,054	379	-	7,782	6,409
Total assets		134,820	129,548	117,318	7,431	5,376	(7,508)	386,985	369,204
Equity and liabilities									
Equity									
Shareholders' equity		-	-	13,250	2,332	(2,627)	-	12,955	11,811
Non-controlling interests		-	-	1	-	-	-	1	1
Total equity		-	-	13,251	2,332	(2,627)	-	12,956	11,812
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		107,907	125,819	88,792	-	-	-	322,518	309,539
Unallocated surplus of with-profits funds		13,096	-	-	-	-	-	13,096	12,450
Total policyholder liabilities and unallocated surplus of with-profits funds	C4.1(a)	121,003	125,819	88,792	-	-	-	335,614	321,989
Core structural borrowings of shareholder-financed operations:									
Subordinated debt		-	-	-	-	4,018	-	4,018	3,320
Other		-	-	169	275	549	-	993	984
Total	C6.1	-	-	169	275	4,567	-	5,011	4,304
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	-	4	241	10	1,705	-	1,960	2,263
Borrowings attributable to with-profits operations	C6.2(b)	1,332	-	-	-	-	-	1,332	1,093
Deferred tax liabilities	C8.1	1,326	27	2,629	17	11	-	4,010	4,291
Other non-insurance liabilities		11,159	3,698	12,236	4,797	1,720	(7,508)	26,102	22,682
Liabilities held for sale	D1	-	-	-	-	-	-	-	770
Total liabilities		134,820	129,548	104,067	5,099	8,003	(7,508)	374,029	357,392
Total equity and liabilities		134,820	129,548	117,318	7,431	5,376	(7,508)	386,985	369,204

C2 Analysis of segment position by business type

To show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business, the analysis below is structured to show the assets and liabilities of each segment by business type.

C2.1 Asia insurance operations

		31 Dec 2015 £m				31 Dec 2014 £m
	Note	With-profits business note	Unit-linked assets and liabilities	Other business	Total	Total
Assets						
Intangible assets attributable to shareholders:						
Goodwill		**-**	**-**	**233**	**233**	233
Deferred acquisition costs and other intangible assets		**-**	**-**	**2,103**	**2,103**	1,911
Total		**-**	**-**	**2,336**	**2,336**	2,144
Intangible assets attributable to with-profits funds:						
Deferred acquisition costs and other intangible assets		**42**	**-**	**-**	**42**	54
Deferred tax assets		**-**	**1**	**65**	**66**	84
Other non-investment and non-cash assets		**1,981**	**207**	**1,433**	**3,621**	3,111
Investments of long-term business and other operations:						
Investment properties		**-**	**-**	**5**	**5**	-
Investments in joint ventures and associates accounted for using the equity method		**-**	**-**	**475**	**475**	374
Financial investments:						
Loans	C3.4	**540**	**-**	**544**	**1,084**	1,014
Equity securities and portfolio holdings in unit trusts		**6,861**	**10,831**	**840**	**18,532**	19,200
Debt securities	C3.3	**16,335**	**2,809**	**9,148**	**28,292**	23,629
Other investments		**28**	**16**	**13**	**57**	48
Deposits		**188**	**214**	**371**	**773**	769
Total investments		**23,952**	**13,870**	**11,396**	**49,218**	45,034
Assets held for sale		**-**	**-**	**-**	**-**	819
Cash and cash equivalents		**863**	**363**	**838**	**2,064**	1,684
Total assets		**26,838**	**14,441**	**16,068**	**57,347**	52,930
Equity and liabilities						
Equity						
Shareholders' equity		**-**	**-**	**3,956**	**3,956**	3,548
Non-controlling interests		**-**	**-**	**1**	**1**	1
Total equity		**-**	**-**	**3,957**	**3,957**	3,549
Liabilities						
Policyholder liabilities and unallocated surplus of with-profits funds:						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**19,642**	**13,355**	**9,519**	**42,516**	40,068
Unallocated surplus of with-profits funds		**2,553**	**-**	**-**	**2,553**	2,102
Total	C4.1(b)	**22,195**	**13,355**	**9,519**	**45,069**	42,170
Deferred tax liabilities		**474**	**27**	**233**	**734**	719
Other non-insurance liabilities		**4,169**	**1,059**	**2,359**	**7,587**	5,722
Liabilities held for sale		**-**	**-**	**-**	**-**	770
Total liabilities		**26,838**	**14,441**	**12,111**	**53,390**	49,381
Total equity and liabilities		**26,838**	**14,441**	**16,068**	**57,347**	52,930

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

		31 Dec 2015 £m			31 Dec 2014 £m
	Note	Variable annuity separate account assets and liabilities note (i)	Fixed annuity, GIC and other business note (i)	Total	Total
Assets					
Intangible assets attributable to shareholders:					
Deferred acquisition costs and other intangibles		-	**6,168**	**6,168**	5,197
Total		-	**6,168**	**6,168**	5,197
Deferred tax assets		-	**2,448**	**2,448**	2,343
Other non-investment and non-cash assets[note (ii)]		-	**7,205**	**7,205**	6,617
Investments of long-term business and other operations:					
Investment properties		-	**5**	**5**	28
Financial investments:					
Loans	C3.4	-	**7,418**	**7,418**	6,719
Equity securities and portfolio holdings in unit trusts[note (iii)]		**91,022**	**194**	**91,216**	82,081
Debt securities	C3.3	-	**34,071**	**34,071**	32,980
Other investments[note (iv)]		-	**1,715**	**1,715**	1,670
Total investments		**91,022**	**43,403**	**134,425**	123,478
Cash and cash equivalents		-	**1,405**	**1,405**	904
Total assets		**91,022**	**60,629**	**151,651**	138,539
Equity and liabilities					
Equity					
Shareholders' equity[note (v)]		-	**4,154**	**4,154**	4,067
Total equity		-	**4,154**	**4,154**	4,067
Liabilities					
Policyholder liabilities:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**91,022**	**47,891**	**138,913**	126,746
Total	C4.1(c)	**91,022**	**47,891**	**138,913**	126,746
Core structural borrowings of shareholder-financed operations		-	**169**	**169**	160
Operational borrowings attributable to shareholder-financed operations		-	**66**	**66**	179
Deferred tax liabilities		-	**2,086**	**2,086**	2,308
Other non-insurance liabilities		-	**6,263**	**6,263**	5,079
Total liabilities		**91,022**	**56,475**	**147,497**	134,472
Total equity and liabilities		**91,022**	**60,629**	**151,651**	138,539

Notes

(i) These amounts are for separate account assets and liabilities for all variable annuity products comprising those with and without guarantees. Assets and liabilities attaching to variable annuity business that are not held in the separate account, eg, in respect of guarantees are shown within other business.

(ii) Included within other non-investment and non-cash assets of £7,205 million (2014: £6,617 million) were balances of £6,211 million (2014: £5,979 million) for reinsurers' share of insurance contract liabilities. Of the £6,211 million as at 31 December 2015, £5,388 million related to the reinsurance ceded by the REALIC business (2014: £5,174 million). Jackson holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 31 December 2015, the funds withheld liability of £2,347 million (2014: £2,201 million) was recorded within other non-insurance liabilities.

(iii) Equity securities and portfolio holdings in unit trusts include investments in mutual funds, the majority of which are equity-based.

(iv) Other investments comprise:

	2015 £m	2014 £m
Derivative assets*	**905**	916
Partnerships in investment pools and other**	**810**	754
	1,715	1,670

* After taking account of the derivative liabilities of £249 million (2014: £251 million), which are included in other non-insurance liabilities, the derivative position for US operations is a net asset of £656 million (2014: £665 million).

** Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in 162 (2014: 164) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(v) Changes in shareholders' equity:

	2015 £m	2014 £m
Operating profit based on longer-term investment returns B1.1	**1,691**	1,431
Short-term fluctuations in investment returns B1.2	**(424)**	(1,103)
Amortisation of acquisition accounting adjustments arising from the purchase of REALIC	**(68)**	(71)
Profit before shareholder tax	**1,199**	257
Tax B5	**(236)**	(8)
Profit for the year	**963**	249

	2015 £m	2014 £m
Profit for the year (as above)	**963**	249
Items recognised in other comprehensive income:		
Exchange movements	**230**	235
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding (losses) gains arising during the year	**(1,256)**	1,039
Less: net gains included in the income statement on disposal and impairment	**(49)**	(83)
Total unrealised valuation movements	**(1,305)**	956
Related change in amortisation of deferred acquisition costs C5.1(b)	**337**	(87)
Related tax	**339**	(304)
Total other comprehensive (loss) income	**(399)**	800
Total comprehensive income for the year	**564**	1,049
Dividends, interest payments to central companies and other movements	**(477)**	(428)
Net increase in equity	**87**	621
Shareholders' equity at beginning of year	**4,067**	3,446
Shareholders' equity at end of year	**4,154**	4,067

C2.3 UK insurance operations

Of the total investments of £165 billion in UK insurance operations, £104 billion of investments are held by Scottish Amicable Insurance Fund and the PAC with-profits sub-fund. Shareholders are exposed only indirectly to value movements on these assets.

		31 Dec 2015 £m						31 Dec 2014 £m
				Other funds and subsidiaries				
By operating segment	Note	Scottish Amicable Insurance Fund note (i)	PAC with -profits sub-fund note (ii)	Unit-linked assets and liabilities	Annuity and other long-term business	Total	Total	Total
Assets								
Intangible assets attributable to shareholders:								
Deferred acquisition costs and other intangible assets		**-**	**-**	**-**	**83**	**83**	**83**	86
Total		**-**	**-**	**-**	**83**	**83**	**83**	86
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes		**-**	**185**	**-**	**-**	**-**	**185**	186
Deferred acquisition costs		**-**	**8**	**-**	**-**	**-**	**8**	7
Total		**-**	**193**	**-**	**-**	**-**	**193**	193
Total		**-**	**193**	**-**	**83**	**83**	**276**	279
Deferred tax assets		**1**	**82**	**-**	**49**	**49**	**132**	132
Other non-investment and non-cash assets		**171**	**4,131**	**371**	**2,536**	**2,907**	**7,209**	6,826
Investments of long-term business and other operations:								
Investment properties		**358**	**10,757**	**705**	**1,592**	**2,297**	**13,412**	12,736
Investments in joint ventures and associates accounted for using the equity method		**-**	**434**	**-**	**-**	**-**	**434**	536
Financial investments:								
Loans	C3.4	**61**	**1,998**	**-**	**1,512**	**1,512**	**3,571**	4,254
Equity securities and portfolio holdings in unit trusts		**2,530**	**29,804**	**15,214**	**45**	**15,259**	**47,593**	43,468
Debt securities	C3.3	**2,331**	**42,204**	**6,481**	**32,085**	**38,566**	**83,101**	86,349
Other investments[note (iii)]		**210**	**4,807**	**13**	**456**	**469**	**5,486**	5,782
Deposits		**399**	**8,383**	**835**	**1,609**	**2,444**	**11,226**	12,253
Total investments		**5,889**	**98,387**	**23,248**	**37,299**	**60,547**	**164,823**	165,378
Properties held for sale		**-**	**2**	**-**	**-**	**-**	**2**	5
Cash and cash equivalents		**169**	**1,591**	**466**	**654**	**1,120**	**2,880**	2,457
Total assets		**6,230**	**104,386**	**24,085**	**40,621**	**64,706**	**175,322**	175,077

	Note	31 Dec 2015 £m Scottish Amicable Insurance Fund note (i)	PAC with-profits sub-fund note (ii)	Other funds and subsidiaries: Unit-linked assets and liabilities	Other funds and subsidiaries: Annuity and other long-term business	Other funds and subsidiaries: Total	Total note (iv)	31 Dec 2014 £m Total
Equity and liabilities								
Equity								
Shareholders' equity		**-**	**-**	**-**	**5,140**	**5,140**	**5,140**	3,804
Total equity		**-**	**-**	**-**	**5,140**	**5,140**	**5,140**	3,804
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**5,919**	**83,607**	**21,442**	**31,382**	**52,824**	**142,350**	144,088
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)		**-**	**10,543**	**-**	**-**	**-**	**10,543**	10,348
Total	C4.1(d)	**5,919**	**94,150**	**21,442**	**31,382**	**52,824**	**152,893**	154,436
Operational borrowings attributable to shareholder-financed operations		**-**	**-**	**4**	**175**	**179**	**179**	74
Borrowings attributable to with-profits funds		**12**	**1,320**	**-**	**-**	**-**	**1,332**	1,093
Deferred tax liabilities		**31**	**821**	**-**	**310**	**310**	**1,162**	1,228
Other non-insurance liabilities		**268**	**8,095**	**2,639**	**3,614**	**6,253**	**14,616**	14,442
Total liabilities		**6,230**	**104,386**	**24,085**	**35,481**	**59,566**	**170,182**	171,273
Total equity and liabilities		**6,230**	**104,386**	**24,085**	**40,621**	**64,706**	**175,322**	175,077

Notes

(i) The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. SAIF is a separate sub-fund within the PAC long-term business fund.

(ii) 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). Included in the PAC with-profits fund is £10.8 billion (2014: £11.7 billion) of non-profits annuities liabilities. The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 4 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

(iii) Other investments comprise:

	2015 £m	2014 £m
Derivative assets*	**1,930**	2,344
Partnerships in investment pools and other**	**3,556**	3,438
	5,486	5,782

* After taking account of derivative liabilities of £2,125 million (2014: £1,381 million), which are also included in the statement of financial position, the overall derivative position was a net liability of £195 million (2014: net asset of £963 million).

** Partnerships in investment pools and other comprise mainly investments held by the PAC with-profits fund. These investments are primarily investments in limited partnerships and additionally, investments in property funds.

(iv) The shareholders' equity at 31 December 2015 includes 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 shareholders' equity.

C2.4 Asset management operations

	Note	31 Dec 2015 £m M&G	Prudential Capital	US	Eastspring Investments	Total	31 Dec 2014 £m Total
Assets							
Intangible assets:							
Goodwill		**1,153**	**-**	**16**	**61**	**1,230**	1,230
Deferred acquisition costs and other intangible assets		**16**	**-**	**3**	**2**	**21**	21
Total		**1,169**	**-**	**19**	**63**	**1,251**	1,251
Other non-investment and non-cash assets		**715**	**614**	**236**	**79**	**1,644**	1,605
Investments in joint ventures and associates accounted for using the equity method		**29**	**-**	**-**	**96**	**125**	107
Financial investments:							
Loans	C3.4	**-**	**885**	**-**	**-**	**885**	854
Equity securities and portfolio holdings in unit trusts		**70**	**-**	**-**	**15**	**85**	79
Debt securities	C3.3	**-**	**2,204**	**-**	**-**	**2,204**	2,293
Other investments		**15**	**74**	**5**	**-**	**94**	121
Deposits		**-**	**-**	**50**	**39**	**89**	74
Total investments		**114**	**3,163**	**55**	**150**	**3,482**	3,528
Cash and cash equivalents		**430**	**415**	**79**	**130**	**1,054**	1,044
Total assets		**2,428**	**4,192**	**389**	**422**	**7,431**	7,428
Equity and liabilities							
Equity							
Shareholders' equity		**1,774**	**70**	**182**	**306**	**2,332**	2,077
Total equity		**1,774**	**70**	**182**	**306**	**2,332**	2,077
Liabilities							
Core structural borrowing of shareholder-financed operations		**-**	**275**	**-**	**-**	**275**	275
Operational borrowings attributable to shareholder-financed operations		**10**	**-**	**-**	**-**	**10**	6
Intra-group debt represented by operational borrowings at Group level note (i)		**-**	**1,705**	**-**	**-**	**1,705**	2,004
Other non-insurance liabilities note (ii)		**644**	**2,142**	**207**	**116**	**3,109**	3,066
Total liabilities		**654**	**4,122**	**207**	**116**	**5,099**	5,351
Total equity and liabilities		**2,428**	**4,192**	**389**	**422**	**7,431**	7,428

Notes

(i) Intra-group debt represented by operational borrowings at Group level, which are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2015 £m	2014 £m
Commercial Paper	**1,107**	1,704
Medium Term Notes	**598**	300
Total intra-group debt represented by operational borrowings at Group level	**1,705**	2,004

(ii) Other non-insurance liabilities consist primarily of intra-group balances, derivative liabilities and other creditors.

C3 Assets and Liabilities - classification and measurement

C3.1 Group assets and liabilities - classification

The classification of the Group's assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments, the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Group has followed the principles under IFRS 13 'Fair Value Measurement'. The basis applied is summarised below:

	31 December 2015 £m					**31 December 2014 £m**				
	At fair value		**Cost/ amortised cost/ IFRS 4 basis value** note (i)	**Total carrying value**	**Fair value, where applicable**	**At fair value**		**Cost/ amortised cost/ IFRS 4 basis value** note (i)	**Total carrying value**	**Fair value, where applicable**
Assets	**Through profit or loss**	**Available-for-sale**				**Through profit or loss**	**Available-for-sale**			
Intangible assets attributable to shareholders:										
Goodwill	**-**	**-**	**1,463**	**1,463**		-	-	1,463	1,463	
Deferred acquisition costs and other intangible assets	**-**	**-**	**8,422**	**8,422**		-	-	7,261	7,261	
Total	**-**	**-**	**9,885**	**9,885**		-	-	8,724	8,724	
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	**-**	**-**	**185**	**185**		-	-	186	186	
Deferred acquisition costs and other intangible assets	**-**	**-**	**50**	**50**		-	-	61	61	
Total	**-**	**-**	**235**	**235**		-	-	247	247	
Total intangible assets	**-**	**-**	**10,120**	**10,120**		-	-	8,971	8,971	
Other non-investment and non-cash assets:										
Property, plant and equipment	**-**	**-**	**1,197**	**1,197**		-	-	978	978	
Reinsurers' share of insurance contract liabilities	**-**	**-**	**7,903**	**7,903**		-	-	7,167	7,167	
Deferred tax assets	**-**	**-**	**2,819**	**2,819**		-	-	2,765	2,765	
Current tax recoverable	**-**	**-**	**477**	**477**		-	-	117	117	
Accrued investment income	**-**	**-**	**2,751**	**2,751**	**2,751**	-	-	2,667	2,667	2,667
Other debtors	**-**	**-**	**1,955**	**1,955**	**1,955**	-	-	1,852	1,852	1,852
Total	**-**	**-**	**17,102**	**17,102**		-	-	15,546	15,546	
Investments of long-term business and other operations:note (ii)										
Investment properties	**13,422**	**-**	**-**	**13,422**	**13,422**	12,764	-	-	12,764	12,764
Investments accounted for using the equity method	**-**	**-**	**1,034**	**1,034**		-	-	1,017	1,017	
Loans	**2,438**	**-**	**10,520**	**12,958**	**13,482**	2,291	-	10,550	12,841	13,548
Equity securities and portfolio holdings in unit trusts	**157,453**	**-**	**-**	**157,453**	**157,453**	144,862	-	-	144,862	144,862
Debt securities	**113,687**	**33,984**	**-**	**147,671**	**147,671**	112,354	32,897	-	145,251	145,251
Other investments	**7,353**	**-**	**-**	**7,353**	**7,353**	7,623	-	-	7,623	7,623
Deposits	**-**	**-**	**12,088**	**12,088**	**12,088**	-	-	13,096	13,096	13,096
Total investments	**294,353**	**33,984**	**23,642**	**351,979**		279,894	32,897	24,663	337,454	
Assets held for sale	**2**	**-**	**-**	**2**	**2**	824	-	-	824	824
Cash and cash equivalents	**-**	**-**	**7,782**	**7,782**	**7,782**	-	-	6,409	6,409	6,409
Total assets	**294,355**	**33,984**	**58,646**	**386,985**		280,718	32,897	55,589	369,204	

	2015 £m					2014 £m				
	At fair value		Cost/ amortised cost/ IFRS 4 basis value	Total carrying value	Fair value, where applicable	At fair value		Cost/ amortised cost/ IFRS 4 basis value	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale				Through profit or loss	Available-for-sale			
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities	**-**	**-**	**260,622**	**260,622**		-	-	250,038	250,038	
Investment contract liabilities with discretionary participation features note (iii)	**-**	**-**	**42,959**	**42,959**		-	-	39,277	39,277	
Investment contract liabilities without discretionary participation features	**16,022**	**-**	**2,784**	**18,806**	**18,842**	17,554	-	2,670	20,224	20,211
Unallocated surplus of with-profits funds	**-**	**-**	**13,227**	**13,227**		-	-	12,450	12,450	
Total	**16,022**	**-**	**319,592**	**335,614**		17,554	-	304,435	321,989	
Core structural borrowings of shareholder-financed operations	**-**	**-**	**5,011**	**5,011**	**5,419**	-	-	4,304	4,304	4,925
Other borrowings:										
Operational borrowings attributable to shareholder-financed operations	**-**	**-**	**1,960**	**1,960**	**1,960**	-	-	2,263	2,263	2,263
Borrowings attributable to with-profits operations	**-**	**-**	**1,332**	**1,332**	**1,344**	-	-	1,093	1,093	1,108
Other non-insurance liabilities:										
Obligations under funding, securities lending and sale and repurchase agreements	**-**	**-**	**3,765**	**3,765**	**3,775**	-	-	2,347	2,347	2,361
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**7,873**	**-**	**-**	**7,873**	**7,873**	7,357	-	-	7,357	7,357
Deferred tax liabilities	**-**	**-**	**4,010**	**4,010**		-	-	4,291	4,291	
Current tax liabilities	**-**	**-**	**325**	**325**		-	-	617	617	
Accruals and deferred income	**-**	**-**	**952**	**952**		-	-	947	947	
Other creditors	**322**	**-**	**4,554**	**4,876**	**4,876**	327	-	3,935	4,262	4,262
Provisions	**-**	**-**	**604**	**604**		-	-	724	724	
Derivative liabilities	**3,119**	**-**	**-**	**3,119**	**3,119**	2,323	-	-	2,323	2,323
Other liabilities	**2,347**	**-**	**2,241**	**4,588**	**4,588**	2,201	-	1,904	4,105	4,105
Total	**13,661**	**-**	**16,451**	**30,112**		12,208	-	14,765	26,973	
Liabilities held for sale	**-**	**-**	**-**	**-**		770	-	-	770	770
Total liabilities	**29,683**	**-**	**344,346**	**374,029**		30,532	-	326,860	357,392	

Notes

(i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.

(ii) Realised gains and losses on the Group's investments for 2015 recognised in the income statement amounted to a net gain of £3.0 billion (2014: £2.9 billion).

(iii) The carrying value of investment contracts with discretionary participation features is on IFRS 4 basis. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure participation features.

C3.2 Group assets and liabilities - measurement

(a) Determination of fair value

The fair values of the assets and liabilities of the Group as shown in this note have been determined on the following bases. 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 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%

*Loans in the above table are those classified as fair value through profit and loss in note C3.1.

	31 Dec 2014 £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	31,136	2,832	694	34,662
Debt securities	16,415	42,576	582	59,573
Other investments (including derivative assets)	96	1,997	3,252	5,345
Derivative liabilities	(72)	(1,024)	-	(1,096)
Total financial investments, net of derivative liabilities	47,575	46,381	4,528	98,484
Percentage of total	48%	47%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	108,392	336	21	108,749
Debt securities	4,509	6,375	11	10,895
Other investments (including derivative assets)	4	29	-	33
Derivative liabilities	(10)	(12)	-	(22)
Total financial investments, net of derivative liabilities	112,895	6,728	32	119,655
Percentage of total	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	-	266	2,025	2,291
Equity securities and portfolio holdings in unit trusts	1,303	116	32	1,451
Debt securities	15,806	58,780	197	74,783
Other investments (including derivative assets)	-	1,469	776	2,245
Derivative liabilities	-	(867)	(338)	(1,205)
Total financial investments, net of derivative liabilities	17,109	59,764	2,692	79,565
Percentage of total	22%	75%	3%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	-	266	2,025	2,291
Equity securities and portfolio holdings in unit trusts	140,831	3,284	747	144,862
Debt securities	36,730	107,731	790	145,251
Other investments (including derivative assets)	100	3,495	4,028	7,623
Derivative liabilities	(82)	(1,903)	(338)	(2,323)
Total financial investments, net of derivative liabilities	177,579	112,873	7,252	297,704
Investment contracts liabilities without discretionary participation features held at fair value	-	(17,554)	-	(17,554)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,395)	(671)	(1,291)	(7,357)
Other financial liabilities held at fair value	-	(327)	(2,201)	(2,528)
Total financial instruments at fair value	172,184	94,321	3,760	270,265
Percentage of total	64%	35%	1%	100%

*Loans in the above table are those classified as fair value through profit or loss in note C3.1.

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 2014 in respect of Japan life business included a net financial instruments balance of £844 million, primarily for equity securities and debt securities. Of this amount, £814 million was classified as level 1 and £30 million as level 2.

Investment properties at fair value

	£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**	
2015	**-**	**-**	**13,422**	**13,422**
2014	-	-	12,764	12,764

(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 which 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 £104,464 million at 31 December 2015 (2014: £107,731 million), £10,331 million are valued internally (2014: £10,093 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 which 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 2015, the Group held £4,108 million (2014: £3,760 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2014: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

Included within these amounts were loans of £2,183 million at 31 December 2015 (2014: £2,025 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 £2,347 million at 31 December 2015 (2014: £2,201 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 £(164) million (2014: £(176) million), the level 3 fair valued financial assets net of financial liabilities were £4,272 million (2014: £3,936 million). Of this amount, a net liability of £(77) million (2014: net asset of £11 million) were internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2014: 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 £381 million (2014: £298 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 £852 million (2014: £1,002 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds which are managed on behalf of third parties.
(c) Liabilities of £(1,013) million (2014: £(1,269) 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 £(353) million (2014: £(23) 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 £56 million (2014: £3 million).

Of the internally valued net liability referred to above of £(77) million (2014: net asset of £11 million):

(a) A net asset of £29 million (2014: net liability of £(133) 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 £(106) million (2014: net asset of £144 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 £11 million (2014: £14 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £10 million (2014: a decrease of £13 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £1 million decrease (2014: 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 which 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 which are virtually identical to 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 2015, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £648 million and transfers from level 2 to level 1 of £283 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 2015, the transfers into level 3 were £136 million and the transfers out of level 3 were £92 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.

C3.3 Debt securities

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

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2015 provided in the notes below.

	2015 £m	2014 £m
Insurance operations:		
Asia note (a)	**28,292**	23,629
US note (b)	**34,071**	32,980
UK note (c)	**83,101**	86,349
Other operations note (d)	**2,207**	2,293
Total	**147,671**	145,251

In the tables below, with the exception of some mortgage-backed securities, Standard & Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

(a) Asia insurance operations

	2015 £m				2014 £m
	With-profits business	Unit-linked assets	Other business	Total	Total
S&P – AAA	**831**	**30**	**178**	**1,039**	962
S&P – AA+ to AA-	**5,997**	**395**	**1,228**	**7,620**	6,332
S&P – A+ to A-	**1,872**	**341**	**1,701**	**3,914**	3,922
S&P – BBB+ to BBB-	**1,872**	**734**	**1,527**	**4,133**	3,545
S&P – Other	**1,778**	**192**	**1,213**	**3,183**	1,839
	12,350	**1,692**	**5,847**	**19,889**	16,600
Moody's – Aaa	**558**	**184**	**290**	**1,032**	1,282
Moody's – Aa1 to Aa3	**173**	**9**	**1,310**	**1,492**	1,141
Moody's – A1 to A3	**497**	**68**	**178**	**743**	366
Moody's – Baa1 to Baa3	**324**	**285**	**181**	**790**	585
Moody's – Other	**79**	**10**	**9**	**98**	68
	1,631	**556**	**1,968**	**4,155**	3,442
Fitch	**861**	**162**	**389**	**1,412**	1,009
Other	**1,493**	**399**	**944**	**2,836**	2,578
Total debt securities	**16,335**	**2,809**	**9,148**	**28,292**	23,629

In addition to the debt securities shown above, the assets held for sale on the consolidated statement of financial position at 31 December 2014 in respect of Japan life business included a debt securities balance of £351 million.

The following table analyses debt securities of 'Other business' which are not externally rated by S&P, Moody's or Fitch.

	2015 £m	2014 £m
Government bonds	**162**	174
Corporate bonds*	**481**	654
Other	**301**	134
	944	962

* Rated as investment grade by local external ratings agencies.

(b) US insurance operations
(i) Overview

	2015 £m	2014 £m
Corporate and government security and commercial loans:		
Government	**4,242**	3,972
Publicly traded and SEC Rule 144A securities*	**21,776**	20,745
Non-SEC Rule 144A securities	**3,733**	3,745
Total	**29,751**	28,462
Residential mortgage-backed securities (RMBS)	**1,284**	1,567
Commercial mortgage-backed securities (CMBS)	**2,403**	2,343
Other debt securities	**633**	608
Total US debt securities†	**34,071**	32,980

* 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:

	2015 £m	2014 £m
Available-for-sale	**33,984**	32,897
Fair value through profit or loss:		
Securities held to back liabilities for funds withheld under reinsurance arrangement	**87**	83
	34,071	32,980

(ii) Valuation basis, presentation of gains and losses and securities in an unrealised loss position

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables', debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 13 requires classification of the fair values applied by the Group into a three-level hierarchy. At 31 December 2015, 0.1 per cent of Jackson's debt securities were classified as level 3 (31 December 2014: 0.1 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

Except for certain assets covering liabilities that are measured at fair value, the debt securities of the US insurance operations are classified as available-for-sale. Unless impaired, fair value movements are recognised in other comprehensive income. Realised gains and losses, including impairments, recorded in the income statement are as shown in note B1.2 of this report.

Movements in unrealised gains and losses on 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 £1,840 million to a net unrealised gain of £592 million as analysed in the table below. This decrease reflects the effects of increasing long-term interest rates and credit spreads.

	2015	Changes in unrealised appreciation**	Foreign exchange translation	2014
		Reflected as part of movement in other comprehensive income		
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**13,163**			5,899
Unrealised loss	**(673)**	**(464)**	**(29)**	(180)
Fair value (as included in statement of financial position)	**12,490**			5,719
Assets fair valued at or above book value				
Book value*	**20,229**			25,158
Unrealised gain	**1,265**	**(841)**	**86**	2,020
Fair value (as included in statement of financial position)	**21,494**			27,178
Total				
Book value*	**33,392**			31,057
Net unrealised gain	**592**	**(1,305)**	**57**	1,840
Fair value (as included in the footnote above in the overview table and the statement of financial position)	**33,984**			32,897

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

** Translated at the average rate of US$1.4739: £1.00.

Debt securities classified as available-for-sale in an unrealised loss position

(a) 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:

	2015 £m		2014 £m	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**
Between 90% and 100%	**11,058**	**(320)**	5,429	(124)
Between 80% and 90%	**902**	**(144)**	245	(37)
Below 80%:				
Residential mortgage-backed securities - sub-prime	**4**	**(1)**	4	(1)
Commercial mortgage-backed securities	**-**	**-**	10	(3)
Other asset-backed securities	**9**	**(7)**	9	(6)
Corporates	**517**	**(201)**	22	(9)
	530	**(209)**	45	(19)
Total	**12,490**	**(673)**	5,719	(180)

(b) Unrealised losses by maturity of security

	2015 £m	2014 £m
1 year to 5 years	**(51)**	(5)
5 years to 10 years	**(334)**	(90)
More than 10 years	**(247)**	(54)
Mortgage-backed and other debt securities	**(41)**	(31)
Total	**(673)**	(180)

(c) 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:

	2015 £m			2014 £m		
	Non-investment grade	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	**(13)**	**(148)**	**(161)**	(18)	(46)	(64)
6 months to 1 year	**(17)**	**(332)**	**(349)**	(1)	(1)	(2)
1 year to 2 years	**(16)**	**(63)**	**(79)**	(6)	(51)	(57)
2 years to 3 years	**(3)**	**(38)**	**(41)**	(1)	(36)	(37)
More than 3 years	**(3)**	**(40)**	**(43)**	(7)	(13)	(20)
Total	**(52)**	**(621)**	**(673)**	(33)	(147)	(180)

Further, the following table shows the age analysis as at 31 December 2015, of the securities whose fair values were below 80 per cent of the book value:

	2015 £m		2014 £m	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Less than 3 months	**450**	**(165)**	17	(7)
3 months to 6 months	**64**	**(34)**	3	(1)
More than 6 months	**16**	**(10)**	25	(11)
	530	**(209)**	45	(19)

(iii) Ratings

The following table summarises the securities detailed above by rating using S&P, Moody's, Fitch and implicit ratings of mortgage-backed securities based on National Association of Insurance Commissioners (NAIC) valuations.

	2015 £m	2014 £m
S&P – AAA	**196**	164
S&P – AA+ to AA-	**5,512**	6,067
S&P – A+ to A-	**8,592**	8,640
S&P – BBB+ to BBB-	**11,378**	10,308
S&P – Other	**817**	1,016
	26,495	26,195
Moody's – Aaa	**963**	84
Moody's – Aa1 to Aa3	**41**	29
Moody's – A1 to A3	**49**	27
Moody's – Baa1 to Baa3	**88**	72
Moody's – Other	**13**	8
	1,154	220
Implicit ratings of MBS based on NAIC* valuations (see below)		
NAIC 1	**2,746**	2,786
NAIC 2	**45**	85
NAIC 3-6	**17**	58
	2,808	2,929
Fitch	**345**	300
Other **	**3,269**	3,336
Total debt securities (see overview table in note (i) above)	**34,071**	32,980

* 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.

** The amounts within 'Other' which are not rated by S&P, Moody's nor Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2015 £m	2014 £m
NAIC 1	**1,588**	1,322
NAIC 2	**1,549**	1,890
NAIC 3-6	**132**	124
	3,269	3,336

For some mortgage-backed securities within Jackson, the table above includes these securities using the regulatory ratings detail issued by the NAIC. These regulatory ratings levels were established by an external third party, BlackRock Solutions.

(c) UK insurance operations

	2015 £m						
			Other funds and subsidiaries			UK insurance operations	
	Scottish Amicable Insurance Fund	PAC with-profits fund	Unit-linked assets	PRIL	Other annuity and long-term business	2015 Total £m	2014 Total £m
S&P – AAA	**216**	**4,067**	**984**	**3,779**	**531**	**9,577**	9,376
S&P – AA+ to AA-	**454**	**5,627**	**853**	**3,990**	**518**	**11,442**	11,249
S&P – A+ to A-	**514**	**7,937**	**1,049**	**6,239**	**700**	**16,439**	21,491
S&P – BBB+ to BBB-	**618**	**10,953**	**1,888**	**3,912**	**717**	**18,088**	16,741
S&P – Other	**140**	**2,277**	**244**	**269**	**60**	**2,990**	2,867
	1,942	**30,861**	**5,018**	**18,189**	**2,526**	**58,536**	61,724
Moody's – Aaa	**31**	**1,230**	**106**	**399**	**51**	**1,817**	2,063
Moody's – Aa1 to Aa3	**67**	**2,159**	**989**	**3,611**	**901**	**7,727**	7,129
Moody's – A1 to A3	**51**	**921**	**112**	**1,466**	**188**	**2,738**	2,686
Moody's – Baa1 to Baa3	**29**	**569**	**100**	**304**	**29**	**1,031**	1,376
Moody's – Other	**7**	**244**	**10**	**57**	**-**	**318**	436
	185	**5,123**	**1,317**	**5,837**	**1,169**	**13,631**	13,690
Fitch	**12**	**323**	**43**	**160**	**14**	**552**	848
Other	**192**	**5,897**	**103**	**3,839**	**351**	**10,382**	10,087
Total debt securities	**2,331**	**42,204**	**6,481**	**28,025**	**4,060**	**83,101**	86,349

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £10,382 million total debt securities held at 31 December 2015 (2014: £10,087 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2015 £m	2014 £m
Internal ratings or unrated:		
AAA to A-	**5,570**	4,917
BBB to B-	**3,234**	3,755
Below B- or unrated	**1,578**	1,415
Total	**10,382**	10,087

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £4,190 million for PRIL and other annuity and long-term business investments for non-linked shareholder-backed business which are not externally rated, £1,256 million were internally rated AA+ to AA-, £1,808 million A+ to A-, £988 million BBB+ to BBB-, £60 million BB+ to BB- and £78 million that were internally rated B+ and below or unrated.

(d) Other operations

The debt securities are principally held by Prudential Capital.

	2015 £m	2014 £m
AAA to A- by S&P or equivalent ratings	**2,090**	2,056
Other	**117**	237
Total	**2,207**	2,293

(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 2015 is as follows:

	2015 £m	2014 £m
Shareholder-backed operations:		
Asia insurance operations note (i)	**111**	104
US insurance operations note (ii)	**4,320**	4,518
UK insurance operations (2015: 21% AAA, 40% AA)note (iii)	**1,531**	1,864
Asset management operationsnote (iv)	**911**	875
	6,873	7,361
With-profits operations:		
Asia insurance operations note (i)	**262**	228
UK insurance operations (2015: 52% AAA, 20% AA)note (iii)	**4,600**	5,126
	4,862	5,354
Total	**11,735**	12,715

Notes

(i) Asia insurance operations
The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £262 million, 84 per cent (31 December 2014: 99 per cent) are investment grade.

(ii) US insurance operations
US insurance operations' exposure to asset-backed securities at 31 December 2015 comprises:

	2015 £m	2014 £m
RMBS		
RMBS Sub-prime (2015: 4% AAA, 13% AA, 7% A)	**191**	235
Alt-A (2015: 1% AA, 3% A)	**191**	244
Prime including agency (2015: 77% AA, 2% A)	**902**	1,088
CMBS (2015: 57% AAA, 24% AA, 16% A)	**2,403**	2,343
CDO funds (2015: 44% AAA, 2% AA, 23% A), including £nil exposure to sub-prime	**52**	53
Other ABS (2015: 24% AAA, 12% AA, 54% A), including £69 million exposure to sub-prime	**581**	555
Total	**4,320**	4,518

(iii) UK insurance operations
The majority of holdings of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. Of the holdings of the with-profits operations, £1,140 million (2014: £1,333 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 £911 million, 95 per cent (2014: 89 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 2015 are analysed as follows:

Exposure to sovereign debts

	2015 £m		2014 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	**55**	**60**	62	61
Spain	**1**	**17**	1	18
France	**19**	**-**	20	-
Germany*	**409**	**358**	388	336
Other Eurozone (principally Belgium)	**62**	**44**	5	29
Total Eurozone	**546**	**479**	476	444
United Kingdom	**4,997**	**1,802**	4,104	2,065
United States**	**3,911**	**6,893**	3,607	5,771
Other, predominantly Asia	**3,368**	**1,737**	2,787	1,714
Total	**12,822**	**10,911**	10,974	9,994

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

Exposure to bank debt securities

	2015 £m							
	Senior debt			Subordinated debt				
Shareholder-backed business	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	2015 Total £m	2014 Total £m
Italy	**-**	**30**	**30**	**-**	**-**	**-**	**30**	31
Spain	**143**	**11**	**154**	**-**	**-**	**-**	**154**	133
France	**26**	**126**	**152**	**8**	**66**	**74**	**226**	249
Germany	**66**	**4**	**70**	**-**	**60**	**60**	**130**	111
Netherlands	**-**	**31**	**31**	**-**	**-**	**-**	**31**	124
Other Eurozone	**-**	**20**	**20**	**-**	**11**	**11**	**31**	53
Total Eurozone	**235**	**222**	**457**	**8**	**137**	**145**	**602**	701
United Kingdom	**423**	**157**	**580**	**6**	**371**	**377**	**957**	1,296
United States	**-**	**2,227**	**2,227**	**4**	**226**	**230**	**2,457**	2,484
Other, predominantly Asia	**19**	**333**	**352**	**53**	**313**	**366**	**718**	735
Total	**677**	**2,939**	**3,616**	**71**	**1,047**	**1,118**	**4,734**	5,216
With-profits funds								
Italy	**-**	**57**	**57**	**-**	**-**	**-**	**57**	67
Spain	**156**	**26**	**182**	**-**	**-**	**-**	**182**	186
France	**9**	**179**	**188**	**-**	**62**	**62**	**250**	206
Germany	**94**	**17**	**111**	**-**	**-**	**-**	**111**	128
Netherlands	**-**	**200**	**200**	**5**	**-**	**5**	**205**	195
Other Eurozone	**-**	**35**	**35**	**-**	**-**	**-**	**35**	24
Total Eurozone	**259**	**514**	**773**	**5**	**62**	**67**	**840**	806
United Kingdom	**545**	**289**	**834**	**27**	**490**	**517**	**1,351**	1,561
United States	**-**	**1,414**	**1,414**	**141**	**241**	**382**	**1,796**	2,064
Other, predominantly Asia	**257**	**888**	**1,145**	**189**	**322**	**511**	**1,656**	1,396
Total	**1,061**	**3,105**	**4,166**	**362**	**1,115**	**1,477**	**5,643**	5,827

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.

C3.4 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 which are held to back liabilities for funds withheld under reinsurance arrangement and are also accounted on a fair value basis. See note (b).

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

	2015 £m	2014 £m
Insurance operations:		
Asia[note (a)]	**1,084**	1,014
US[note (b)]	**7,418**	6,719
UK[note (c)]	**3,571**	4,254
Asset management operations[note (d)]	**885**	854
Total	**12,958**	12,841

(a) Asia insurance operations

The loans of the Group's Asia insurance operations comprise:

	2015 £m	2014 £m
Mortgage loans‡	**130**	88
Policy loans‡	**721**	672
Other loans‡‡	**233**	254
Total Asia insurance operations loans	**1,084**	1,014

‡ The mortgage and policy loans are secured by properties and life insurance policies respectively.
‡‡ The majority of the other loans are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

(b) US insurance operations

The loans of the Group's US insurance operations comprise:

	2015 £m			2014 £m		
	Loans backing liabilities for funds withheld	Other loans	Total	Loans backing liabilities for funds withheld	Other loans	Total
Mortgage loans†	**-**	**4,367**	**4,367**	-	3,847	3,847
Policy loans††	**2,183**	**868**	**3,051**	2,025	847	2,872
Total US insurance operations loans	**2,183**	**5,235**	**7,418**	2,025	4,694	6,719

† All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are industrial, multi-family residential, suburban office, retail and hotel.
†† The policy loans are fully secured by individual life insurance policies or annuity policies. Policy loans backing liabilities for funds withheld under reinsurance arrangements are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

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 £8.6 million (2014: £7.2 million). The portfolio has a current estimated average loan to value of 45 per cent (2014: 59 per cent).

At 31 December 2015, Jackson had mortgage loans with a carrying value of £nil (2014: £13 million) where the contractual terms of the agreements had been restructured.

(c) UK insurance operations

The loans of the Group's UK insurance operations comprise:

	2015 £m	2014 £m
SAIF and PAC WPSF		
Mortgage loans†	**727**	1,145
Policy loans	**8**	10
Other loans‡	**1,324**	1,510
Total SAIF and PAC WPSF loans	**2,059**	2,665
Shareholder-backed operations		
Mortgage loans†	**1,508**	1,585
Other loans	**4**	4
Total loans of shareholder-backed operations	**1,512**	1,589
Total UK insurance operations loans	**3,571**	4,254

† The mortgage loans are collateralised by properties. By carrying value, 78 per cent of the £1,508 million held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 30 per cent.
‡ Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

(d) 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:

	2015 £m	**2014 £m**
Loans and receivables internal ratings:		
AAA	**-**	101
A+ to A-	**157**	161
BBB+ to BBB-	**607**	244
BB+ to BB-	**119**	49
B and other	**2**	299
Total	**885**	854

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 2014	35,146	107,411	146,616	289,173
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	31,910	107,411	134,632	273,953
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	77	-	11,984	12,061
- Group's share of policyholder liabilities of joint ventures§	3,159	-	-	3,159
Reallocation of unallocated surplus for the domestication of the Hong Kong branch*	1,690	-	(1,690)	-
Net flows:				
Premiums	7,058	15,492	7,902	30,452
Surrenders	(2,425)	(5,922)	(5,656)	(14,003)
Maturities/Deaths	(1,259)	(1,307)	(6,756)	(9,322)
Net flows	3,374	8,263	(4,510)	7,127
Shareholders' transfers post tax	(40)	-	(200)	(240)
Investment-related items and other movements	3,480	3,712	14,310	21,502
Foreign exchange translation differences	1,372	7,360	(90)	8,642
As at 31 December 2014 / 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§	**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**
At 31 December 2015	**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§	**4,970**	**-**	**-**	**4,970**
Average policyholder liability balances†				
2015	**44,573**	**132,830**	**143,219**	**320,622**
2014	38,993	117,079	139,362	295,434

* On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date, the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

† 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 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 the joint venture life businesses in China, India and of the Takaful business in Malaysia.

¶ The policyholder liabilities of the Asia insurance operations of £41,255 million (2014: £38,705 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,261 million (2014: £1,363 million) to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £42,516 million (2014: £40,068 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 and 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 2014	21,931	107,411	50,779	180,121
Net flows:				
Premiums	4,799	15,492	4,951	25,242
Surrenders	(2,218)	(5,922)	(3,149)	(11,289)
Maturities/Deaths	(644)	(1,307)	(2,412)	(4,363)
Net flows[note (a)]	1,937	8,263	(610)	9,590
Investment-related items and other movements	1,859	3,712	4,840	10,411
Foreign exchange translation differences	683	7,360	-	8,043
At 31 December 2014 / 1 January 2015	26,410	126,746	55,009	208,165
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	22,195	126,746	55,009	203,950
- Group's share of policyholder liabilities relating to joint ventures	4,215	-	-	4,215
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[note (b)]	**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**

Notes

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

(b) Policyholder liabilities relating to shareholder-backed business grew by £11.4 billion from £208.2 billion at 31 December 2014 to £219.6 billion at 31 December 2015. The increase reflects positive net flows (premiums net of upfront charges less surrenders, withdrawals, maturities and deaths) of £7.6 billion in 2015 (2014: £9.6 billion), driven by strong inflows of £8.5 billion in the US and £1.9 billion in Asia, together with a positive £7.2 billion increase from foreign exchange effects following a strengthening of the US dollar.

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 2014	13,215	13,765	8,166	35,146
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	13,138	11,918	6,854	31,910
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	77	-	-	77
- Group's share of policyholder liabilities relating to joint ventures‡	-	1,847	1,312	3,159
Reallocation of unallocated surplus for the domestication of the Hong Kong branch[note (b)]	1,690	-	-	1,690
Premiums				
New business	425	1,337	997	2,759
In-force	1,834	1,375	1,090	4,299
	2,259	2,712	2,087	7,058
Surrenders [note (d)]	(207)	(1,939)	(279)	(2,425)
Maturities/Deaths	(615)	(40)	(604)	(1,259)
Net flows [note (c)]	1,437	733	1,204	3,374
Shareholders' transfers post tax	(40)	-	-	(40)
Investment-related items and other movements [note (e)]	1,621	1,336	523	3,480
Foreign exchange translation differences [note (a)]	689	375	308	1,372
At 31 December 2014 / 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‡	**-**	**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 (d)]	**(242)**	**(2,043)**	**(265)**	**(2,550)**
Maturities/Deaths	**(647)**	**(88)**	**(530)**	**(1,265)**
Net flows [note (c)]	**2,102**	**687**	**1,180**	**3,969**
Shareholders' transfers post tax	**(43)**	**-**	**-**	**(43)**
Investment-related items and other movements [note (e)]	**(243)**	**(536)**	**415**	**(364)**
Foreign exchange translation differences[note (a)]	**506**	**(394)**	**82**	**194**
At 31 December 2015[note (c)]	**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‡	**-**	**2,611**	**2,359**	**4,970**
Average policyholder liability balances†				
2015	**17,446**	**16,088**	**11,039**	**44,573**
2014	14,823	14,987	9,183	38,993

† 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 are accounted for on an equity method basis and the Group's share of the policyholder liabilities as shown above relate to the joint venture life businesses in China, India and of the Takaful business in Malaysia.

§ The policyholder liabilities of the with-profits business of £18,381 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,261 million to the Hong Kong with-profits business (2014: £1,363 million). Including this amount the Asia with-profits policyholder liabilities are £19,642 million.

Notes

(a) Movements in the year have been translated at the average exchange rates for the year ended 31 December 2015. The closing balance has been translated at the closing spot rates as at 31 December 2015. Differences upon retranslation are included in foreign exchange translation differences.

(b) On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

(c) Net flows have increased by £595 million to £3,969 million in 2015 compared with £3,374 million in 2014 reflecting increased flows from new business and growth in the in-force books.

(d) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 8.7 per cent in 2015, lower than the 10.1 per cent recorded in 2014 (based on opening liabilities).

(e) Investment-related items and other movements for 2015 principally represents unrealised losses on bonds and equities, following rising bond yields and lower Asian equity markets in 2015.

(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 2015 and 2014, taking account of expected future premiums and investment returns:

	2015 £m	**2014 £m**
Policyholder liabilities	**41,255**	38,705
Expected maturity:	**%**	%
0 to 5 years	**23**	23
5 to 10 years	**20**	20
10 to 15 years	**17**	17
15 to 20 years	**12**	12
20 to 25 years	**9**	9
Over 25 years	**19**	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 2014	65,681	41,730	107,411
Premiums	12,220	3,272	15,492
Surrenders	(3,699)	(2,223)	(5,922)
Maturities/Deaths	(547)	(760)	(1,307)
Net flows note (b)	7,974	289	8,263
Transfers from general to separate account	1,395	(1,395)	-
Investment-related items and other movements note (c)	1,963	1,749	3,712
Foreign exchange translation differences note (a)	4,728	2,632	7,360
At 31 December 2014 / 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 note (c)	**(4,351)**	**527**	**(3,824)**
Foreign exchange translation differences note (a)	**4,898**	**2,617**	**7,515**
At 31 December 2015	**91,022**	**47,891**	**138,913**
Average policyholder liability balances*			
2015	**86,382**	**46,448**	**132,830**
2014	73,711	43,368	117,079

* Averages have been based on opening and closing balances.

Notes

(a) Movements in the year have been translated at an average rate of US$1.53/£1.00 (2014: US$1.65/£1.00). The closing balances have been translated at closing rate of US$1.47/£1.00 (2014: US$1.56/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows for the year were £8,476 million compared with £8,263 million in 2014, reflecting continued strong in-flows into the variable annuity business.

(c) Negative investment-related items and other movements in variable annuity separate account liabilities of £4,351 million for 2015 primarily reflects the decreases in equities and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £527 million primarily reflect the increase in interest credited to the policyholder accounts in the year and an increase in other guarantee reserves.

(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 2015 and 2014:

	2015			2014		
	Fixed annuity and other business (including GICs and similar contracts) £m	Variable annuity £m	Total £m	Fixed annuity and other business (including GICs and similar contracts) £m	Variable annuity £m	Total £m
Policyholder liabilities	**47,891**	**91,022**	**138,913**	45,005	81,741	126,746
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	**48**	**43**	**44**	46	48	47
5 to 10 years	**26**	**28**	**28**	27	29	29
10 to 15 years	**12**	**15**	**14**	12	13	13
15 to 20 years	**7**	**8**	**8**	7	6	6
20 to 25 years	**4**	**4**	**4**	4	3	3
Over 25 years	**3**	**2**	**2**	4	1	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		
	SAIF and PAC with-profits sub-fund £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
At 1 January 2014	95,837	23,652	27,127	146,616
Comprising:				
- Policyholder liabilities	83,853	23,652	27,127	134,632
- Unallocated surplus of with-profits funds	11,984	-	-	11,984
Reallocation of unallocated surplus for the domestication of the Hong Kong branch[note (a)]	(1,690)	-	-	(1,690)
Premiums	2,951	1,405	3,546	7,902
Surrenders	(2,507)	(2,934)	(215)	(5,656)
Maturities/Deaths	(4,344)	(587)	(1,825)	(6,756)
Net flows [note (b)]	(3,900)	(2,116)	1,506	(4,510)
Shareholders' transfers post tax	(200)	-	-	(200)
Switches	(167)	167	-	-
Investment-related items and other movements	9,637	1,597	3,076	14,310
Foreign exchange translation differences	(90)	-	-	(90)
At 31 December 2014 / 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 (b)]	**(968)**	**(2,626)**	**(68)**	**(3,662)**
Shareholders' transfers post tax	**(214)**	**-**	**-**	**(214)**
Switches	**(189)**	**189**	**-**	**-**
Investment-related items and other movements [note (c)]	**1,999**	**579**	**(259)**	**2,319**
Foreign exchange translation differences	**14**	**-**	**-**	**14**
At 31 December 2015	**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**
Average policyholder liability balances*				
2015	**89,303**	**22,371**	**31,545**	**143,219**
2014	86,467	23,476	29,419	139,362

*Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

Notes

(a) On 1 January 2014, following consultation with the policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. From this date the unallocated surplus of the Hong Kong with-profits business is reported within the Asia insurance operations segment.

(b) Net outflows improved from £4,510 million in 2014 to £3,662 million in 2015, 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 the introduction of pension freedoms and lower level of bulks. The levels of inflows/outflows for unit-linked business is driven by corporate pension schemes with transfers in or out from only a small number of schemes influencing the level of flows in the year.

(c) Investment-related items and other movements of £2,319 million mainly reflects investment return earned in the year, attributable to policyholders.

(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 2015 and 2014, for insurance contracts, as defined by IFRS:

	2015 £m									
	With-profits business			Annuity business (Insurance contracts)			Other			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	PRIL	Total	Insurance contracts	Investments contracts	Total	
Policyholder liabilities	**35,962**	**42,736**	**78,698**	**10,828**	**22,092**	**32,920**	**14,919**	**15,813**	**30,732**	**142,350**
	2015 %									
Expected maturity:										
0 to 5 years	**40**	**40**	**40**	**33**	**25**	**27**	**37**	**36**	**37**	**36**
5 to 10 years	**23**	**27**	**25**	**25**	**21**	**23**	**25**	**23**	**24**	**24**
10 to 15 years	**14**	**17**	**16**	**18**	**18**	**18**	**15**	**17**	**16**	**16**
15 to 20 years	**9**	**10**	**10**	**11**	**14**	**13**	**9**	**12**	**10**	**11**
20 to 25 years	**6**	**4**	**5**	**6**	**10**	**9**	**6**	**6**	**6**	**6**
over 25 years	**8**	**2**	**4**	**7**	**12**	**10**	**8**	**6**	**7**	**7**
	2014 £m									
Policyholder liabilities	38,287	39,084	77,371	11,708	22,186	33,894	15,474	17,349	32,823	144,088
	2014 %									
Expected maturity:										
0 to 5 years	40	39	39	31	25	27	37	36	36	36
5 to 10 years	24	26	25	25	22	23	25	22	24	24
10 to 15 years	14	17	16	18	18	18	16	16	16	17
15 to 20 years	9	11	10	11	14	13	10	11	11	11
20 to 25 years	6	5	5	7	9	9	5	8	6	6
over 25 years	7	2	5	8	12	10	7	7	7	6

– 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.
– 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

C5.1 Intangible assets attributable to shareholders

(a) Goodwill attributable to shareholders

	2015 £m	2014 £m
Cost		
At beginning of year	**1,583**	1,581
Disposal of Japan life business	**(120)**	-
Additional consideration paid on previously acquired business	**2**	-
Exchange differences	**(2)**	2
At end of year	**1,463**	1,583
Aggregate impairment	**-**	(120)
Net book amount at end of year	**1,463**	1,463

Goodwill attributable to shareholders comprises:

	2015 £m	2014 £m
M&G	**1,153**	1,153
Other	**310**	310
	1,463	1,463

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

The aggregate goodwill impairment of £120 million at 31 December 2014 related to the goodwill held by the Japan life business, prior to its sale in February 2015.

(b) Deferred acquisition costs and other intangible assets attributable to shareholders

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

	2015 £m	2014 £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**6,948**	5,840
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**74**	87
	7,022	5,927
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**45**	59
Distribution rights and other intangibles	**1,355**	1,275
	1,400	1,334
Total of deferred acquisition costs and other intangible assets	**8,422**	7,261

	2015 £m						2014 £m
	Deferred acquisition costs						
	Asia	US	UK	Asset management	PVIF and other intangibles[1]	Total	Total
Balance at 1 January	**650**	**5,177**	**83**	**17**	**1,334**	**7,261**	5,295
Additions	**265**	**734**	**10**	**-**	**181**	**1,190**	1,768
Amortisation to the income statement:[2]							
Operating profit	**(138)**	**(516)**	**(12)**	**(5)**	**(91)**	**(762)**	(696)
Non-operating profit	**-**	**93**	**-**	**-**	**-**	**93**	653
	(138)	**(423)**	**(12)**	**(5)**	**(91)**	**(669)**	(43)
Disposals and transfers	**-**	**-**	**-**	**-**	**(8)**	**(8)**	(6)
Exchange differences and other movements	**4**	**323**	**-**	**-**	**(16)**	**311**	334
Amortisation of DAC related to net unrealised valuation movements on Jackson's available-for-sale securities recognised within other comprehensive income[2]	**-**	**337**	**-**	**-**	**-**	**337**	(87)
Balance at 31 December	**781**	**6,148**	**81**	**12**	**1,400**	**8,422**	7,261

1 PVIF and other intangibles includes amounts in relation to software rights with additions of £34 million, amortisation of £29 million and a balance at 31 December 2015 of £71 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 Jackson'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. The amounts included in the income statements 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.

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:

	2015 £m	2014 £m
Variable annuity business	**5,713**	5,002
Other business	**703**	759
Cumulative shadow DAC (for unrealised gains booked in other comprehensive income)*	**(268)**	(584)
Total DAC for US operations	**6,148**	5,177

* Consequent upon the negative unrealised valuation movement in 2015 of £1,305 million (2014: positive unrealised valuation movement of £956 million), there is a gain of £337 million (2014: a charge of £87 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 2015, the cumulative shadow DAC balance as shown in the table above was negative £268 million (2014: negative £584 million).

Overview of the deferral and amortisation of acquisition costs for Jackson
Under IFRS 4, the Group applies ‘grandfathered’ US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson 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 a combination of historical and future expected gross profits on the relevant contracts. For fixed and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders, which is based on an annual spread analysis. Expected gross profits also 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 mortality, lapse and expense experience is performed using internally developed experience studies.

Acquisition costs for Jackson's variable annuity products are also amortised in line with the emergence of profits. The measurement of amortisation depends on historical and expected future gross profits which include fees (including those for guaranteed minimum death, income, or withdrawal benefits) as well as components related to mortality, lapse and expense.

Mean reversion technique

For variable annuity products, under US GAAP (as ‘grandfathered’ under IFRS 4) Jackson applies a mean reversion technique for its amortisation of deferred acquisition costs against projected gross profits. This technique is applied with the objective of adjusting the amortisation of deferred acquisition costs that would otherwise be highly volatile due to fluctuations in the level of future gross profits arising from changes in equity market levels. The mean reversion technique achieves this objective by applying a dynamic adjustment to the assumption for short-term future investment returns. Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding three years, including the current period, the 7.4 per cent long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) is realised on average over the entire eight-year period. Projected returns after the mean reversion period revert back to the 7.4 per cent assumption.

However, to ensure that the methodology does not over anticipate a reversion to the long-term level of returns following adverse markets, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year.

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 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 2015, the DAC amortisation charge for operating profit was determined after including a charge for accelerated amortisation of £2 million (2014: charge for accelerated amortisation of £13 million). The 2015 amount primarily reflects the offsetting impacts of the separate account performance of negative 2 per cent, which is lower than the assumed level for the year, and the effect of releasing the 2012 fund returns of 11 per cent from the mean reversion formula.

As noted above, 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 2016, it would take approximate movements in separate account values of more than either negative 17 per cent or positive 67 per cent for the mean reversion assumption to move outside the corridor.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2015 £m	2014 £m
Holding company operations:		
Perpetual Subordinated Capital Securities note (i)	**1,895**	1,789
Subordinated Notes note (iv)	**2,123**	1,531
Subordinated debt total	**4,018**	3,320
Senior debt: note (ii)		
£300m 6.875% Bonds 2023	**300**	300
£250m 5.875% Bonds 2029	**249**	249
Holding company total	**4,567**	3,869
Prudential Capital bank loan note (iii)	**275**	275
Jackson US$250m 8.15% Surplus Notes 2027	**169**	160
Total (per consolidated statement of financial position)	**5,011**	4,304

Notes

(i) The Group has designated all US$2.8 billion (2014: US$2.8 billion) of its 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 has been made in two tranches: a £160 million loan maturing on 20 December 2017 and a £115 million loan also maturing on 20 December 2017. These two tranches are currently drawn at a cost of 12 month LIBOR plus 0.40 per cent.

(iv) In June 2015, the company issued core structural borrowings of £600 million 5.00 per cent subordinated notes due in 2055. The proceeds net of discount adjustment and costs, were £590 million.

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2015 £m	2014 £m
Borrowings in respect of short-term fixed income securities programmes note (ii)	**1,705**	2,004
Non-recourse borrowings of US operations	**-**	19
Other borrowings note (iii)	**255**	240
Total note (i)	**1,960**	2,263

Notes

(i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2015 which will mature in October 2016. These Notes have been wholly subscribed to a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These Notes were originally issued in October 2008 and have been reissued upon their maturity.

(ii) In January and November 2015, the Company issued £300 million Medium Term Notes which 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.

(iii) Other borrowings mainly 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. In addition, other borrowings include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

(b) Borrowings attributable to with-profits operations

	2015 £m	2014 £m
Non-recourse borrowings of consolidated investment funds*	**1,158**	924
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc†	**100**	100
Other borrowings (predominantly obligations under finance leases)	**74**	69
Total	**1,332**	1,093

* 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 for which 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 rates for those operations where the basis of insurance liabilities is sensitive to current market movements		
	Interest rate and price risk			
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 this 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 enjoys 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, although the with-profits business generally has a lower terminal bonus element than in the UK, the investment portfolio still 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
With-profits business
Similar principles to those explained for UK with-profits business in C7.4 apply to profit emergence for the Asia with-profits business. Correspondingly, the profit emergence reflects bonus declaration and is relatively insensitive to period by period fluctuations in insurance risk or interest rate movements.

Unit-linked business
As for the UK insurance operations, for unit-linked business, the main factor affecting the profit and shareholders' equity of the Asia operations is investment performance through asset management fees. The sensitivity of profits and shareholders' equity to changes in insurance risk, interest rate risk and credit risk are not material.

Other business
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 2015, 10-year government bond rates vary from territory to territory and range from 1.0 per cent to 8.9 per cent (2014: 1.6 per cent to 8.0 per cent).

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

The estimated sensitivity to the decrease and increase in interest rates at 31 December 2015 and 2014 is as follows:

	2015 £m		2014 £m	
	Decrease of 1%	**Increase of 1%**	**Decrease of 1%**	**Increase of 1%**
Profit before tax attributable to shareholders	**185**	**(339)**	(54)	(137)
Related deferred tax (where applicable)	**(34)**	**59**	(5)	24
Net effect on profit and shareholders' equity	**151**	**(280)**	(59)	(113)

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 business has limited exposure to equity and property investment (31 December 2015: £840 million). Generally changes in equity and property investment values are not directly offset by movements in 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, which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2015 and 2014 would be as follows:

	2015 £m		2014 £m	
	Decrease		Decrease	
	of 20%	**of 10%**	**of 20%**	**of 10%**
Profit before tax attributable to shareholders	**(169)**	**(85)**	(187)	(93)
Related deferred tax (where applicable)	**21**	**10**	23	11
Net effect on profit and shareholders' equity	**(148)**	**(75)**	(164)	(82)

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.

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 £43 million (2014: £40 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 2015, 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	
	2015 £m	**2014 £m**	**2015 £m**	**2014 £m**
Profit before tax attributable to shareholders	**(94)**	(111)	**115**	135
Profit for the year	**(79)**	(95)	**97**	117
Shareholders' equity, excluding goodwill, attributable to Asia operations	**(367)**	(315)	**449**	384

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 92 per cent (2014: 94 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 8 per cent (2014: 6 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 which 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 Guaranteed Minimum Withdrawal Benefit 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.

Value movements on the derivatives are reported within the income statement. In preparing Jackson's segment profit as shown in note B1.1 value movements on Jackson's derivative contracts, are included within short-term fluctuations in investment returns and excluded from operating results based on longer-term investment returns.

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.
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 which 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 2015 and 2014, 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 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**		

31 December 2014	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%	64,344	1,463	65.0 years	
GMWB - Premium only	0%	2,151	32		
GMWB*	0-5%**	264	17		
GMAB - Premium only	0%	53	-		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		6,581	193	65.0 years	
GMWB - Highest anniversary only		2,131	85		
GMWB*		830	58		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	3,978	302	67.5 years	
GMIB†	0-6%	1,595	360		1.4 years
GMWB*	0-8%**	57,323	2,033		

* Amounts shown for Guaranteed Minimum Withdrawal Benefit 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 ten year bonus period. For example 1 + 10 x 0.05 is similar to 1.041 growing at a compound rate of 4.01 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:

	2015 £m	2014 £m
Mutual fund type:		
Equity	**55,488**	50,071
Bond	**11,535**	11,139
Balanced	**13,546**	12,901
Money market	**832**	675
Total	**81,401**	74,786

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed index annuity liabilities and Guaranteed Minimum Death Benefit and Guaranteed Minimum Withdrawal Benefit 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 2015, 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.

	2015 £m				2014 £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	**738**	**259**	**(86)**	**(128)**	360	130	8	(25)
Related deferred tax effects	**(258)**	**(91)**	**30**	**45**	(126)	(46)	(3)	9
Net sensitivity of profit after tax and shareholders' equity	**480**	**168**	**(56)**	**(83)**	234	84	5	(16)

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 2015 and 2014.

ii Sensitivity to interest rate risk

Notwithstanding the market risk exposure previously described, 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 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 Guaranteed Minimum Withdrawal Benefit 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 2015 and 2014 is as follows:

	2015 £m				2014 £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)	**(1,776)**	**(847)**	**628**	**1,120**	(1,398)	(690)	494	875
Related effect on charge for deferred tax	**621**	**296**	**(220)**	**(392)**	489	242	(173)	(306)
Net profit effect	**(1,155)**	**(551)**	**408**	**728**	(909)	(448)	321	569
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	**3,167**	**1,782**	**(1,782)**	**(3,167)**	2,979	1,663	(1,663)	(2,979)
Related effect on movement in deferred tax	**(1,108)**	**(624)**	**624**	**1,108**	(1,043)	(582)	582	1,043
Net effect	**2,059**	**1,158**	**(1,158)**	**(2,059)**	1,936	1,081	(1,081)	(1,936)
Total net effect on shareholders' equity	**904**	**607**	**(750)**	**(1,331)**	1,027	633	(760)	(1,367)

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 reflects 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 2015, the average and closing rates were US$1.53 (2014: $1.65) and US$1.47 (2014: US$1.56) 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	
	2015 £m	**2014 £m**	**2015 £m**	**2014 £m**
Profit before tax attributable to shareholders [note]	**(109)**	(23)	**133**	29
Profit for the year	**(87)**	(23)	**107**	28
Shareholders' equity attributable to US insurance operations	**(378)**	(370)	**462**	452

Note: Sensitivity on profit (loss) before tax ie aggregate of the operating profit based on longer-term investment returns and short-term fluctuations in investment returns.

iv Other sensitivities

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

As with other shareholder-backed business the profit or loss for Jackson is presented by distinguishing the result for the year between an operating result based on longer-term investment returns and short-term fluctuations in investment returns. In this way the most significant direct effect of market changes that have taken place to the Jackson result are separately identified. The principal determinants of variations in operating profit based on longer-term returns are:

- Growth in the size of assets under management covering the liabilities for the contracts in force;
- Variations in fees and other income, offset by variations in market value adjustment payments and, where necessary, strengthening of liabilities;
- Spread returns for the difference between investment returns and rates credited to policyholders; and
- Amortisation of deferred acquisition costs.

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 Guaranteed Minimum Death Benefit 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 Guaranteed Minimum Withdrawal Benefit product features. 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 2015 was 7.4 per cent (2014: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

- Through the projected expected gross profits which are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail in note C5.1(b) above; 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 Prudential Retirement Income Limited and 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

SAIF
Shareholders have no interest in the profits of the ring-fenced fund of SAIF but are entitled to the asset management fees paid on the assets of the fund.

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-profit 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.

Mortality and other insurance risk are relatively minor factors in the determination of the bonus rates. Adverse persistency experience can affect the level of profitability from with-profits but in any given one year, the shareholders' share of cost of bonus may only be marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

Shareholder-backed annuity business

The principal items affecting the IFRS results of the UK shareholder-backed annuity business are mortality experience and assumptions, and credit risk. The assets covering the liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities. These liabilities are valued for IFRS reporting purposes by applying discount rates that reflect the market rates of return attaching to the covering assets.

Except to the extent of any asset/liability duration mismatch which is reviewed regularly, and exposure to credit risk, the sensitivity of the Group's results to market risk for movements in the carrying value of the liabilities and covering assets is broadly neutral on a net basis.

The main market risk sensitivity for the UK shareholder-backed annuity business arises from interest rate risk on the debt securities which substantially represent shareholders' equity. This shareholders' equity comprises the net assets held within the long-term fund of the company that cover regulatory basis liabilities that are not recognised for IFRS reporting purposes, for example contingency reserves, and shareholder capital held outside the long-term fund.

In summary, 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 (2014: £94 million). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £176 million (2014: £190 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase pre-tax profit by £35 million (2014: £30 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 £115 million (2014: £101 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 2015 annuity liabilities accounted for 98 per cent (2014: 98 per cent) of UK shareholder-backed business liabilities. For annuity business, liabilities are exposed to interest rate risk. However, the net exposure to the Prudential Assurance Company with-profits sub-fund (for its non-profit annuity business) and shareholders (for annuity liabilities of Prudential Retirement Income Limited and the non-profit sub-fund) 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 capital reporting requirements and IFRS is not the same with contingency reserves and some other margins for prudence within the assumptions required under the regulatory solvency basis not included for IFRS reporting purposes. As a result IFRS equity is higher than regulatory capital and therefore more sensitive to interest rate and credit risk.

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

	2015 £m				2014 £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	**10,862**	**4,812**	**(3,935)**	**(7,219)**	11,559	5,063	(4,085)	(7,457)
Policyholder liabilities	**(8,738)**	**(3,909)**	**3,208**	**5,872**	(9,550)	(4,250)	3,454	6,297
Related deferred tax effects	**(402)**	**(172)**	**138**	**257**	(402)	(163)	126	232
Net sensitivity of profit after tax and shareholders' equity	**1,722**	**731**	**(589)**	**(1,090)**	1,607	650	(505)	(928)

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.

	2015 £m		2014 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit	**(327)**	**(163)**	(347)	(173)
Related deferred tax effects	**66**	**33**	75	37
Net sensitivity of profit after tax and shareholders' equity	**(261)**	**(130)**	(272)	(136)

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 £11 million and £38 million respectively (2014: £9 million and £33 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 2015 by asset management operations were £2,204 million (2014: £2,293 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

C8.1 Deferred tax

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

	Deferred tax assets		Deferred tax liabilities	
	2015 £m	**2014 £m**	**2015 £m**	**2014 £m**
Unrealised losses or gains on investments	**21**	83	**(1,036)**	(1,697)
Balances relating to investment and insurance contracts	**1**	4	**(543)**	(499)
Short-term temporary differences	**2,752**	2,607	**(2,400)**	(2,065)
Capital allowances	**10**	9	**(31)**	(30)
Unused deferred tax losses	**35**	62		-
Total	**2,819**	2,765	**(4,010)**	(4,291)

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. Accordingly, for the 2015 full year results and financial position at 31 December 2015 the possible tax benefit of approximately £98 million (2014: £110 million), which may arise from capital losses valued at approximately £0.5 billion (2014: £0.5 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £52 million (2014: £47 million), which may arise from trading tax losses and other potential temporary differences totalling £0.3 billion (2014: £0.2 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £36 million will expire within the next seven years. Of the remaining losses £1 million will expire within 20 years and the rest have no expiry date.

The table that follows provides a breakdown of the recognised deferred tax assets set out in the table above for both the short-term temporary differences and unused tax losses split by business unit. The table also shows the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits is not significantly impacted by any current proposed changes to future accounting standards.

	Short-term temporary differences		Unused tax losses	
	2015 £m	**Expected period of recoverability**	**2015 £m**	**Expected period of recoverability**
Asia insurance operations	**34**	**1 to 3 years**	**30**	**3 to 5 years**
US insurance operations	**2,433**	**With run-off of in-force book**	**-**	**-**
UK insurance operations	**128**	**1 to 10 years**	**-**	**-**
Other operations	**157**	**1 to 10 years**	**5**	**1 to 3 years**
Total	**2,752**		**35**	

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 19 per cent from 1 April 2017 and a further reduction to 18 per cent from 1 April 2020 was substantively enacted on 26 October 2015 which has had the effect of reducing the UK with-profits and shareholder-backed business element of the deferred tax balances as at 31 December 2015 by £17 million and the effects of these changes are reflected in the financial statements for the year ended 31 December 2015.

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 plans 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 84 per cent (2014: 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:

	2015 £m					2014 £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)	**969**	**(82)**	**75**	**(1)**	**961**	840	(144)	60	(1)	755
Less: unrecognised surplus note (i)	**(800)**	**-**	**-**	**-**	**(800)**	(710)	-	-	-	(710)
Economic surplus (deficit) (including investment in Prudential insurance policies)	**169**	**(82)**	**75**	**(1)**	**161**	130	(144)	60	(1)	45
Attributable to:										
PAC with-profits fund	**118**	**(33)**	**-**	**-**	**85**	91	(72)	-	-	19
Shareholder-backed operations	**51**	**(49)**	**75**	**(1)**	**76**	39	(72)	60	(1)	26
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies note (iii)	**-**	**-**	**(77)**	-	**(77)**	-	-	(132)	-	(132)
IAS 19 pension asset (liability) on the Group statement of financial position note (iv)	**169**	**(82)**	**(2)**	**(1)**	**84**	130	(144)	(72)	(1)	(87)

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 2015 (2014: approximately 50/50).

(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 2015, the PSPS pension asset of £169 million (2014: £130 million) and the other schemes' pension liabilities of £85 million (2014: £217 million) are included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position.

Triennial actuarial valuations

The last completed actuarial valuation of PSPS was as at 5 April 2014 by CG Singer, Fellow of the Institute of Actuaries, of Towers Watson Limited. This valuation was finalised in the first half of 2015 and demonstrated the scheme to be 107 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. The contributions into the scheme are payable at the minimum level required under the scheme rules. Excluding expenses, the contributions are payable at approximately £6 million per annum for on-going service of active members of the scheme. No deficit or other funding is required. Deficit funding for PSPS, when applicable, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations based on the sourcing of previous contributions. Employer contributions for on-going service of current employees are apportioned in the ratio relevant to current activity.

The last completed actuarial valuation of SASPS was as at 31 March 2014 by Jonathan Seed, Fellow of the Institute of Actuaries, of Xafinity Consulting Limited. This valuation was finalised in the first half of 2015 and demonstrated the scheme to be 78 per cent funded. It has been agreed with the Trustees that the level of deficit funding be increased from the previous level of £13.1 million per annum to £21.0 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, to eliminate the actuarial deficit. The deficit funding will be reviewed every three years at subsequent valuations.

The last completed actuarial valuation of M&GGPS was as at 31 December 2014 by Paul Belok, Fellow of the Institute of Actuaries, of AON Hewitt Limited. This valuation was finalised in the second half of 2015 and demonstrated the scheme to be

98.6 per cent funded. It has been agreed with the Trustees that no deficit funding is required from 1 January 2016. Deficit funding of £9.3 million was paid in 2015 (2014: £18.6 million).

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.

(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:

	2015 %	**2014 %**
Discount rate*	**3.8**	3.5
Rate of increase in salaries	**3.0**	3.0
Rate of inflation**		
Retail prices index (RPI)	**3.0**	3.0
Consumer prices index (CPI)	**2.0**	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	**3.0**	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. The allowance made is in line with a custom calibration and was updated in 2014 to reflect the 2012 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries (CMI). For the PSPS immediate annuities in payment, in 2015 and 2014, a long-term improvement rate of 1.75 per cent per annum and 1.25 per cent per annum were 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 2015, the investments in Prudential insurance policies comprise £125 million (2014: £131 million) for PSPS and £77 million (2014: £132 million) for the M&GGPS. 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, as a substantial portion of the Company's interest in the underlying surplus of PSPS is not recognised, the adjustment is 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:

	2015 £m				
	Surplus (deficit) in schemes at 1 Jan 2015	(Charge) credit to income statement or other comprehensive income	Actuarial gains and losses in other comprehensive income	Contributions paid	Surplus (deficit) in schemes at 31 Dec 2015
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**755**	**36**	**115**	**55**	**961**
Less: amount attributable to PAC with-profits fund	**(525)**	**(38)**	**(78)**	**(17)**	**(658)**
Shareholders' share:					
Gross of tax surplus (deficit)	**230**	**(2)**	**37**	**38**	**303**
Related tax	**(46)**	**-**	**(7)**	**(7)**	**(60)**
Net of shareholders' tax	**184**	**(2)**	**30**	**31**	**243**
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	**(710)**	**(26)**	**(64)**	**-**	**(800)**
Less: amount attributable to PAC with-profits fund	**506**	**18**	**49**	**-**	**573**
Shareholders' share:					
Gross of tax surplus (deficit)	**(204)**	**(8)**	**(15)**	**-**	**(227)**
Related tax	**41**	**1**	**3**	**-**	**45**
Net of shareholders' tax	**(163)**	**(7)**	**(12)**	**-**	**(182)**
With the effect of IFRIC 14					
Surplus (deficit)	**45**	**10**	**51**	**55**	**161**
Less: amount attributable to PAC with-profits fund	**(19)**	**(20)**	**(29)**	**(17)**	**(85)**
Shareholders' share:					
Gross of tax surplus (deficit)	**26**	**(10)**	**22**	**38**	**76**
Related tax	**(5)**	**2**	**(4)**	**(7)**	**(14)**
Net of shareholders' tax	**21**	**(8)**	**18**	**31**	**62**

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:

	2015				2014			
	PSPS £m	Other schemes £m	Total £m	%	PSPS £m	Other schemes £m	Total £m	%
Equities								
UK	**126**	**70**	**196**	**3**	126	86	212	2
Overseas	**151**	**329**	**480**	**6**	143	317	460	6
Bonds								
Government	**4,795**	**427**	**5,222**	**67**	5,078	440	5,518	68
Corporate	**970**	**145**	**1,115**	**14**	931	117	1,048	13
Asset-backed securities	**135**	**21**	**156**	**2**	197	26	223	3
Derivatives	**183**	**(5)**	**178**	**2**	159	(13)	146	2
Properties	**70**	**62**	**132**	**2**	93	57	150	2
Other assets	**298**	**42**	**340**	**4**	270	40	310	4
Total value of assets**	**6,728**	**1,091**	**7,819**	**100**	6,997	1,070	8,067	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		
	2015	2014			2015	2014
Discount rate	**3.8%**	3.5%	**Decrease by 0.2%**	**Increase in scheme liabilities by:**		
				PSPS	**3.3%**	3.4%
				Other schemes	**5.0%**	5.2%
Discount rate	**3.8%**	3.5%	**Increase by 0.2%**	**Decrease in scheme liabilities by:**		
				PSPS	**3.1%**	3.2%
				Other schemes	**4.6%**	4.9%
Rate of inflation	**3.0%**	3.0%	**RPI: Decrease by 0.2%**	**Decrease in scheme liabilities by:**		
	2.0%	2.0%	**CPI: Decrease by 0.2%**	**PSPS**	**0.5%**	0.6%
			with consequent reduction in salary increases	**Other schemes**	**4.0%**	4.2%
Mortality rate			**Increase life expectancy by 1 year**	**Increase in scheme liabilities by:**		
				PSPS	**3.2%**	3.3%
				Other schemes	**2.8%**	3.0%

C10 Share capital, share premium and own shares

Issued shares of 5p each fully paid	2015 Number of ordinary shares	2015 Share capital £m	2015 Share premium £m	2014 Number of ordinary shares	2014 Share capital £m	2014 Share premium £m
At 1 January	**2,567,779,950**	**128**	**1,908**	2,560,381,736	128	1,895
Shares issued under share-based schemes	**4,675,008**	**-**	**7**	7,398,214	-	13
At 31 December	**2,572,454,958**	**128**	**1,915**	2,567,779,950	128	1,908

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 2015, 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 2015	**8,795,617**	**288p**	**1,155p**	**2021**
31 December 2014	8,624,491	288p	1,155p	2020

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 £219 million as at 31 December 2015 (2014: £195 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2015, 10.5 million (2014: 10.3 million) Prudential plc shares with a market value of £161 million (2014: £153 million) were held in such trusts all of which are for employee incentive plans. The maximum number of shares held during 2015 was 10.5 million which was in December 2015.

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

	2015 Number of shares	2015 Share Price Low £	2015 Share Price High £	2015 Cost £	2014 Number of shares	2014 Share Price Low £	2014 Share Price High £	2014 Cost £
January	52,474	14.83	15.11	786,584	13,740	13.56	13.56	186,314
February	49,423	16.01	16.14	795,683	16,841	12.77	12.77	215,060
March	4,660,458	16.44	17.01	78,940,633	4,623,303	12.82	13.59	60,161,823
April	52,371	16.78	17.24	892,795	149,199	13.12	13.48	2,006,955
May	145,542	16.07	16.61	2,357,705	1,361,688	13.90	14.13	19,184,679
June	160,078	15.65	16.20	2,563,060	11,290	13.80	13.80	155,802
July	55,208	15.04	15.99	868,713	10,745	13.83	13.83	148,550
August	57,653	15.07	15.17	868,091	11,321	13.22	13.22	149,607
September	154,461	13.57	14.31	2,149,244	355,268	14.18	14.41	5,074,731
October	58,087	15.14	15.22	879,999	51,199	13.75	13.84	704,601
November	56,948	15.35	15.61	866,033	51,314	14.36	14.47	737,173
December	61,441	15.07	15.08	923,600	1,223,290	14.41	15.47	17,983,248
Total	**5,564,144**			**92,892,140**	7,879,198			106,708,543

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 2015 was 6.1 million (2014: 7.5 million) and the cost of acquiring these shares of £54 million (2014: £67 million) is included in the cost of own shares. The market value of these shares as at 31 December 2015 was £94 million (2014: £112 million). During 2015, these funds made net disposals of 1,402,697 Prudential shares (2014: net additions of 405,940) for a net decrease of £13 million to book cost (2014: net increase of £7 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 2015 or 2014.

D OTHER NOTES

D1 Sale of Japan life business

On 5 February 2015, the Group announced that it had completed the sale of its closed book life insurance business in Japan, PCA Life Insurance Company Limited to SBI Holdings, Inc. following regulatory approvals. The transaction was announced on 16 July 2013. Of the agreed US$85 million cash consideration, the Group received US$68 million on completion of the transaction, and a further payment of up to US$17 million will be received contingent upon the future performance of the Japan life business.

The Japan life business had been classified as held for sale on the statement of financial position of the Group since 2013. The held for sale assets and liabilities of the Japan life business on the statement of financial positional as at 31 December 2014 were as follows:

	2014 £m
Assets	
Investments	898
Other assets	45
	943
Adjustment for remeasurement of the carrying value to fair value less costs to sell	(124)
Assets held for sale	819
Liabilities	
Policyholder liabilities	717
Other liabilities	53
Liabilities held for sale	770
Net assets	49

Upon its classification as held for sale in 2013, the IFRS carrying value of the Japan life business was set to represent the proceeds, net of related expenses. Subsequent remeasurement of the carrying value of the Japan life business in 2014 resulted in a charge in the income statement of £(13) million in 2014. These amounts, together with the results of the business including short-term value movements on investments also included in the income statement, netted to an insignificant amount for those periods.

On completion of the sale, the cumulative foreign exchange translation loss of the Japan life business of £46 million, that had arisen from 2004 (the year of the Group's conversion to IFRS) to disposal was recycled from other comprehensive income through the profit and loss account in 2015 as required by IAS 21. This amount is included within 'Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income' in the supplementary analysis of profit of the Group as shown in note B1.1. The adjustment has no net effect on shareholders' equity.

D2 Contingencies and related obligations

The Group is involved in a number of litigation and regulatory issues. These include civil proceedings involving Jackson, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. Whilst 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 and special dividends for the year ended 31 December 2015, which were approved by the Board of Directors after 31 December 2015 are 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).

	2015 £m					
	Asia	**US**	**UK**	**Total**	**Average liability** note (iv)	**Total bps** note (ii)
Spread income	**153**	**746**	**258**	**1,157**	**73,511**	**157**
Fee income	**162**	**1,672**	**62**	**1,896**	**125,380**	**151**
With-profits	**45**	**-**	**269**	**314**	**106,749**	**29**
Insurance margin	**783**	**796**	**180**	**1,759**		
Margin on revenues	**1,732**	**-**	**179**	**1,911**		
Expenses:						
Acquisition costs note (i)	**(1,161)**	**(939)**	**(86)**	**(2,186)**	**5,607**	**(39)%**
Administration expenses	**(701)**	**(828)**	**(159)**	**(1,688)**	**206,423**	**(82)**
DAC adjustments note (vi)	**124**	**218**	**(2)**	**340**		
Expected return on shareholder assets	**72**	**26**	**127**	**225**		
	1,209	**1,691**	**828**	**3,728**		
Impact of specific management actions in second half of 2015 ahead of Solvency II	**-**	**-**	**339**	**339**		
Long-term business operating profit	**1,209**	**1,691**	**1,167**	**4,067**		

See notes at the end of this section.

	2014 AER £m					
	Asia	**US**	**UK** note (v)	**Total**	**Average liability** note (iv)	**Total bps** note(ii)
Spread income	125	734	272	1,131	67,252	168
Fee income	155	1,402	61	1,618	110,955	146
With-profits	43	-	255	298	101,290	29
Insurance margin	675	670	73	1,418		
Margin on revenues	1,545	-	176	1,721		
Expenses:						
Acquisition costs note (i)	(1,031)	(887)	(96)	(2,014)	4,627	(44)%
Administration expenses	(618)	(693)	(143)	(1,454)	186,049	(78)
DAC adjustments note (vi)	92	191	(6)	277		
Expected return on shareholder assets	64	14	137	215		
Long-term business operating profit	1,050	1,431	729	3,210		

See notes at the end of this section.

	2014 CER £m note (iii)					
	Asia	**US**	**UK** note (v)	**Total**	**Average liability** note (iv)	**Total bps** note (ii)
Spread income	126	791	272	1,189	69,628	171
Fee income	154	1,511	61	1,726	116,507	148
With-profits	44	-	255	299	101,653	29
Insurance margin	669	722	73	1,464		
Margin on revenues	1,532	-	176	1,708		
Expenses:						
Acquisition costs[note (i)]	(1,025)	(956)	(96)	(2,077)	4,778	(43)%
Administration expenses	(615)	(747)	(143)	(1,505)	194,588	(77)
DAC adjustments[note (vi)]	92	206	(6)	292		
Expected return on shareholder assets	63	16	137	216		
Long-term business operating profit	1,040	1,543	729	3,312		

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

	Asia								
	2015			2014 AER			2014 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	**153**	**11,039**	**139**	125	9,183	136	126	9,333	135
Fee income	**162**	**16,088**	**101**	155	14,987	103	154	14,967	103
With-profits	**45**	**17,446**	**26**	43	14,823	29	44	15,186	29
Insurance margin	**783**			675			669		
Margin on revenues	**1,732**			1,545			1,532		
Expenses:									
Acquisition costs[note (i)]	**(1,161)**	**2,853**	**(41)%**	(1,031)	2,237	(46)%	(1,025)	2,267	(45)%
Administration expenses	**(701)**	**27,127**	**(258)**	(618)	24,170	(256)	(615)	24,300	(253)
DAC adjustments[note (vi)]	**124**			92			92		
Expected return on shareholder assets	**72**			64			63		
Operating profit	**1,209**			1,050			1,040		

See notes at the end of the section.

Analysis of Asia operating profit drivers:

- Spread income increased by 21 per cent at constant exchange rates to £153 million in 2015, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
- Fee income increased by 5 per cent at constant exchange rates from £154 million in 2014 to £162 million in 2015, broadly in line with the increase in movement in average unit-linked liabilities.
- Insurance margin increased by 17 per cent at constant exchange rates to £783 million in 2015, predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products.
- Margin on revenues increased by £200 million at constant exchange rates to £1,732 million in 2015, primarily reflecting higher premium income recognised in the year.
- Acquisition costs increased by 13 per cent at constant exchange rates (AER 13 per cent) to £1,161 million in 2015, compared to the 26 per cent increase in APE sales (AER 28 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 68 per cent (2014: 66 per cent at CER), the small increase being the result of changes to product and country mix.
- Administration expenses increased by 14 per cent at constant exchange rates to £701 million in 2015 as the business continues to expand. At constant exchange rates, the administration expense ratio has increased from 253 basis points in 2014 to 258 basis points in 2015, the result of changes to product and country mix.

Margin analysis of long-term insurance business – US

	US								
	2015			2014 AER			2014 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	**746**	**30,927**	**241**	734	28,650	256	791	30,876	256
Fee income	**1,672**	**86,921**	**192**	1,402	72,492	193	1,511	78,064	194
Insurance margin	**796**			670			722		
Expenses									
Acquisition costs[note (i)]	**(939)**	**1,729**	**(54)%**	(887)	1,556	(57)%	(956)	1,677	(57)%
Administration expenses	**(828)**	**125,380**	**(66)**	(693)	108,984	(64)	(747)	117,393	(64)
DAC adjustments	**218**			191			206		
Expected return on shareholder assets	**26**			14			16		
Operating profit	**1,691**			1,431			1,543		

See notes at the end of this section

Analysis of US operating profit drivers:

– Spread income declined by 6 per cent at constant exchange rates (AER increased by 2 per cent) to £746 million in 2015. The reported spread margin decreased to 241 basis points from 256 basis points in 2014 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 166 basis points (2014 CER: 182 basis points and AER: 183 basis points).

– Fee income increased by 11 per cent at constant exchange rates (AER 19 per cent) to £1,672 million in 2015, primarily due to higher average separate account balances reflecting positive net cash flows from variable annuity business. Fee income margin has remained broadly in line with the prior year at 192 basis points (2014 CER: 194 basis points and AER: 193 basis points).

– Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin increased to £796 million in 2015 compared to £722 million in the previous year at constant exchange rates primarily due to higher fee income from variable annuity guarantees following positive net flows in recent periods into variable annuity business with guarantees. REALIC contributed £215 million to this total (2014: £233 million at constant exchange rates).

– Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, decreased in absolute terms at constant exchange rates in line with trends observed in recent years. As a percentage of APE sales, acquisition costs have decreased to 54 per cent, compared to 57 per cent in 2014. This is due to the continued increase in producers selecting asset-based commissions which are treated as an administrative expense in this analysis, rather than front-end commissions.

– Administration expenses increased to £828 million in 2015 compared to £747 million for 2014 at constant exchange rates (AER £693 million), primarily as a result of higher asset-based commissions paid on the larger 2015 separate account balance subject to these trail 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 unchanged at 36 basis points (2014: CER 36 basis points and AER 36 basis points).

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

	2015 £m				2014 AER £m				2014 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	**2,412**			**2,412**	2,127			2,127	2,293			2,293
Less new business strain		**(939)**	**734**	**(205)**		(887)	678	(209)		(956)	731	(225)
Other DAC adjustments - amortisation of previously deferred acquisition costs:												
Normal			**(514)**	**(514)**			(474)	(474)			(511)	(511)
(Accelerated)/Decelerated			**(2)**	**(2)**			(13)	(13)			(14)	(14)
Total	**2,412**	**(939)**	**218**	**1,691**	2,127	(887)	191	1,431	2,293	(956)	206	1,543

Margin analysis of long-term insurance business – UK

	UK					
	2015			**2014** 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	**258**	**31,545**	**82**	272	29,419	92
Fee income	**62**	**22,371**	**28**	61	23,476	26
With-profits	**269**	**89,303**	**30**	255	86,467	29
Insurance margin	**180**			73		
Margin on revenues	**179**			176		
Expenses:						
Acquisition costs[note (i)]	**(86)**	**1,025**	**(8)%**	(96)	834	(12)%
Administration expenses	**(159)**	**53,916**	**(29)**	(143)	52,895	(27)
DAC adjustments	**(2)**			(6)		
Expected return on shareholder's assets	**127**			137		
	828			729		
Impact of specific management actions in second half of 2015 ahead of Solvency II	**339**			-		
Operating profit	**1,167**			729		

See notes at the end of this section

Analysis of UK operating profit drivers:

- Spread income reduced from £272 million in 2014 to £258 million in 2015, mainly due to lower annuity new business profit post the reforms brought about by Pension Freedoms.
- 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 43 bps (2014: 41 bps).
- With-profits transfers increased from £255 million in 2014 to £269 million in 2015, due to an increase in terminal bonus rates.
- Insurance margin increased to £180 million in 2015, reflecting the higher contribution from longevity reinsurance transactions undertaken during the first half of the year, positive experience in the year and the modest net effect of the annual review of assumptions.
- Margin on revenues represents premium charges for expenses and other sundry net income received by the UK. The 2015 margin remained stable at £179 million compared to the previous year.
- Acquisition costs incurred declined to £86 million, equivalent to 8 per cent of total APE sales in 2015 (2014: 12 per cent). The decline reflects a shift in business mix towards with-profits business where acquisition costs are funded by the estate. The acquisition cost ratio is also distorted by the high contribution to APE of bulk annuity sales in the year, where acquisition costs are comparatively lower. Acquisition costs expressed as a percentage of shareholder-backed APE sales (excluding the bulk annuity transactions) were 36 per cent (2014: 36 per cent).
- Administration expenses increased by £16 million to £159 million in 2015 largely due to increased spend associated with UK pension reforms.
- The contribution from specific management actions undertaken in the second half of 2015 to position the balance sheet more effectively under the new Solvency II regime was £339 million. Further explanation and analysis is provided in Additional Unaudited IFRS Financial Information section I(d).

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 2014 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 derived from month end balances throughout the year as opposed to opening and closing balances only. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administrative expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.
(v) In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.
(vi) The DAC adjustments contain a charge of £3 million in respect of joint ventures in 2015 (2014: AER credit of £11 million).

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:

	2015 £m	AER 2014 £m	CER 2014 £m	2014 AER vs 2015	2014 CER vs 2015
Hong Kong	**150**	109	118	38%	27%
Indonesia	**356**	309	295	15%	21%
Malaysia	**120**	118	107	2%	12%
Philippines	**32**	28	29	14%	10%
Singapore	**204**	214	213	(5)%	(4)%
Thailand	**70**	53	54	32%	30%
Vietnam	**86**	72	75	19%	15%
SE Asia Operations inc. Hong Kong	**1,018**	903	891	13%	14%
China	**32**	13	14	146%	129%
India	**42**	49	49	(14)%	(14)%
Korea	**38**	32	32	19%	19%
Taiwan	**25**	15	15	67%	67%
Other	**(4)**	(9)	(9)	56%	56%
Non-recurrent items[note (ii)]	**62**	49	50	27%	24%
Total insurance operations[note (i)]	**1,213**	1,052	1,042	15%	16%
Development expenses	**(4)**	(2)	(2)	100%	100%
Total long-term business operating profit	**1,209**	1,050	1,040	15%	16%
Eastspring Investments	**115**	90	91	28%	26%
Total Asia operations	**1,324**	1,140	1,131	16%	17%

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:

	2015 £m	2014 £m	
		AER	CER
New business strain*	**(4)**	(18)	(23)
Business in force	**1,155**	1,021	1,015
Non-recurrent items[note (ii)]	**62**	49	50
Total	**1,213**	1,052	1,042

* The IFRS new business strain corresponds to approximately 0.1 per cent of new business APE premiums for 2015 (2014: approximately 0.8 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 £62 million in 2015 (2014: £49 million) represent a number of items none of which are individually significant and that are not anticipated to reoccur in subsequent years.

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

	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 expense[note (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%**			

	2014 £m				
	M&G note (ii)	**Eastspring Investments** notes (ii),(iii)	**Prudential Capital**	**US**	**Total**
Operating income before performance-related fees	954	240	130	303	1,627
Performance-related fees	33	1	-	-	34
Operating income (net of commission)[note (i)]	987	241	130	303	1,661
Operating expense[note (i)]	(554)	(140)	(88)	(291)	(1,073)
Share of associate's results	13	-	-	-	13
Group's share of tax on joint ventures' operating profit	-	(11)	-	-	(11)
Operating profit based on longer-term investment returns	446	90	42	12	590
Average funds under management	£250.0bn	£68.8bn			
Margin based on operating income*	38bps	35bps			
Cost / income ratio**	58%	59%			

(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**
2015	**582**	**87**	**357**	**19**	**939**	**37**
2014	593	84	361	20	954	38

	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**
2015	**188**	**61**	**116**	**21**	**304**	**36**
2014	139	60	101	22	240	35

* 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 which 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 effectively under the new Solvency II regime

In the second half of 2015 and ahead of securing Solvency II internal model approval, a number of specific actions were taken by Prudential's UK life business to position the balance sheet more efficiently under the new regime. These actions included extending the reinsurance of longevity risk to cover £8.7 billion of annuity liabilities (on a Pillar 1 basis) by the end of 2015 (end 2014: programme covered £2.3 billion of liabilities). It also included the repositioning of the fixed income asset portfolio, increasing to 95 per cent the proportion that would benefit from the matching adjustment under Solvency II. 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 2015	**Second half 2015**	**Full year 2015**	**Full year 2014**
Shareholder annuity new business	66	57	123	162
In-force business:				
Longevity reinsurance transactions	61	170	231	30
Impact of specific management actions ahead of Solvency II	-	169	169	-
	61	339	400	30
With-profits and other in-force	309	335	644	537
Total Life IFRS operating profit	436	731	1,167	729

	Underlying free surplus generation of UK long-term business			
	First half 2015	**Second half 2015**	**Full year 2015**	**Full year 2014**
Expected in-force and return on net worth	310	310	620	571
Longevity reinsurance transactions	52	148	200	30
Impact of specific management actions ahead of Solvency II	-	75	75	-
	52	223	275	30
Changes in operating assumptions, experience variances and solvency II and other restructuring costs	(10)	(7)	(17)	36
Underlying free surplus generated from in-force business	352	526	878	637
New business strain	(57)	(8)	(65)	(65)
Total underlying free surplus generation	295	518	813	572

	EEV post-tax operating profit of UK long-term business			
	First half 2015	**Second half 2015**	**Full year 2015**	**Full year 2014**
Unwind of discount and other expected return	245	243	488	410
Longevity reinsurance transactions	(46)	(88)	(134)	(8)
Impact of specific management actions ahead of Solvency II	-	75	75	-
	(46)	(13)	(59)	(8)
Changes in operating assumptions and experience variances	57	59	116	74
Operating profit from in-force business	256	289	545	476
New business profit	155	163	318	259
Total post-tax Life EEV operating profit	411	452	863	735

II Other Information

II(a) Holding company cash flow

	2015 £m	2014 £m
Net cash remitted by business units:		
UK net remittances to the Group		
UK Life fund paid to the Group	**200**	193
Shareholder-backed business:		
Other UK paid to the Group	**131**	132
Total UK net remittances to the Group	**331**	325
US remittances to the Group	**470**	415
Asia net remittances to the Group		
Asia paid to the Group:		
Long-term business	**494**	453
Other operations	**74**	60
	568	513
Group invested in Asia:		
Long-term business	**(5)**	(3)
Other operations (including funding of regional head office costs)	**(96)**	(110)
	(101)	(113)
Total Asia net remittances to the Group	**467**	400
M&G remittances to the Group	**302**	285
PruCap remittances to the Group	**55**	57
Net remittances to the Group from business units	**1,625**	1,482
Net interest paid	**(290)**	(335)
Tax received	**145**	198
Corporate activities	**(193)**	(193)
Solvency II costs	**(16)**	(23)
Total central outflows	**(354)**	(353)
Operating holding company cash flow before dividend*	**1,271**	1,129
Dividend paid	**(974)**	(895)
Operating holding company cash flow after dividend*	**297**	234
Non-operating net cash flow**	**376**	(978)
Total holding company cash flow	**673**	(744)
Cash and short-term investments at beginning of year	**1,480**	2,230
Foreign exchange movements	**20**	(6)
Cash and short-term investments at end of year	**2,173**	1,480

***** Including central finance subsidiaries.

**Non-operating net cash flow is principally for corporate transactions for distribution rights and acquired subsidiaries and issue and repayment of subordinated debt.

II(b) Funds under management

(a) Summary

	2015 £bn	2014 £bn
Business area:		
Asia operations	**54.0**	49.0
US operations	**134.6**	123.6
UK operations	**168.4**	169.0
Prudential Group funds under management note (i)	**357.0**	341.6
External funds note (ii)	**151.6**	154.3
Total funds under management	**508.6**	495.9

Notes

(i) Prudential Group funds under management of £357.0 billion (2014: £341.6 billion) comprise:

	2015 £bn	2014 £bn
Total investments per the consolidated statement of financial position	**352.0**	337.4
Less: investments in joint ventures and associates accounted for using the equity method	**(1.0)**	(1.0)
Investment properties which are held for sale or occupied by the Group (included in other IFRS captions)	**0.4**	0.3
Internally managed funds held in joint ventures	**5.6**	4.9
Prudential Group funds under management	**357.0**	341.6

(ii) External funds shown above as at 31 December 2015 of £151.6 billion (2014: £154.3 billion) comprise £162.7 billion (2014: £167.2 billion) of funds managed by M&G and Eastspring Investments as shown in note (b) below less £11.1 billion (2014: £12.9 billion) that are classified within Prudential Group's funds.

(b) Investment products – external funds under management

	2015 £m			2014 £m		
	Eastspring Investments note	M&G	Group total	Eastspring Investments note	M&G	Group total
1 January	**30,133**	**137,047**	**167,180**	22,222	125,989	148,211
Market gross inflows	**110,396**	**33,626**	**144,022**	82,440	38,017	120,457
Redemptions	**(103,360)**	**(40,634)**	**(143,994)**	(77,001)	(30,930)	(107,931)
Market exchange translation and other movements	**(882)**	**(3,634)**	**(4,516)**	2,472	3,971	6,443
31 December	**36,287**	**126,405**	**162,692**	30,133	137,047	167,180

Note

The £162.7 billion (2014: £167.2 billion) investment products comprise £156.7 billion (2014: £162.4 billion) plus Asia Money Market Funds of £6.0 billion (2014: £4.8 billion)

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

	Eastspring Investments		M&G	
	2015 £bn note	2014 £bn note	2015 £bn	2014 £bn
External funds under management	**36.3**	30.1	**126.4**	137.0
Internal funds under management	**52.8**	47.2	**119.7**	127.0
Total funds under management	**89.1**	77.3	**246.1**	264.0

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 31 December 2015 of £6.0 billion (2014: £4.8 billion).

II(c) Solvency II capital position at 31 December 2015

The estimated Group Solvency II surplus at 31 December 2015 was £9.7 billion, before allowing for the 2015 second interim ordinary and special dividend.

Estimated Group Solvency II capital position	31 December 2015 £bn
Own funds	20.1
Solvency capital requirement	10.4
Surplus	**9.7**
Solvency ratio	**193%**

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: represent Jackson's local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level); and
    - Solvency Capital Requirement: represent 150 per cent of Jackson's local US Risk Based Capital requirement (Company Action Level);

- Non-recognition of a portion of Solvency II surplus capital relating to the Group's Asian life operations, reflecting regulatory prudence;
- Matching adjustment for UK annuities, based on the 31 December 2015 calibration published by the European Insurance and Occupational Pensions Authority; and
- Transitional measures which have the effect of preserving the Solvency II surplus for our UK business at the same level as under Solvency I, for business written before 1 January 2016.

The Group's Solvency II capital surplus excludes:

- Diversification benefits between Jackson and the rest of the Group;
- Surplus in ring-fenced with-profits funds including the shareholder's share of the estate of with-profits funds; and
- Surplus in pension funds.

Analysis of movement in capital position

We previously reported our economic capital results at year end 2013 and year end 2014 before there was certainty in the final outcome of Solvency II and before we received internal model approval. The Solvency II results now reflect the output from our approved internal model under the final Solvency II rules. Allowing for this change in basis, the movement from the previously reported economic capital basis solvency surplus at 31 December 2014 to the Solvency II approved internal model surplus at 31 December 2015 is set out in the table below:

Analysis of movement in Group surplus	£bn
Economic capital surplus as at 1 January 2015	**9.7**
Operating experience	2.4
Non-operating experience (including market movements)	(0.6)
Other capital movements	
Subordinated debt issuance	0.6
Foreign currency translation impacts	0.2
Dividends paid	(1.0)
Methodology and calibration changes	
Changes to Own Funds (net of transitionals) and Solvency Capital Requirement calibration strengthening	(0.2)
Effect of partial derecognition of Asia Solvency II surplus	(1.4)
Estimated solvency II surplus as at 31 December 2015	**9.7**

The movement in Group surplus over 2015 is driven by:

- *Operating experience of £2.4 billion:* generated by in-force business and new business written in 2015, including £0.4 billion of benefit from the specific actions taken in the second half of the year to position the balance sheet more efficiently under the new Solvency II regime;
- *Non-operating experience of £0.6 billion:* mainly arising from negative market experience during the year; and
- *Other capital movements:* comprising an increase in capital from subordinated debt issuance, a gain from positive foreign currency translation effects and a reduction in surplus from payment of dividends.

In addition, the methodology and calibration changes arising from Solvency II relate to:

- A £0.2 billion reduction in surplus due to an increase in the Solvency Capital Requirement from strengthening of internal model calibrations, mainly relating to longevity risk, operational risk, credit risk and correlations, and a corresponding increase in the risk margin, which is partially offset by UK transitionals; and

- A £1.4 billion reduction in surplus due to the negative impact of Solvency II rules for "contract boundaries" and a reduction in the capital surplus of the Group's Asian life operations, as agreed with the Prudential Regulation Authority.

The change in US treatment from including 150 per cent, rather than 250 per cent of US Risk Based Capital (Company Action Level) in the Group Solvency Capital Requirement, is offset by a corresponding reduction in the Group Own Funds and therefore has no impact on surplus despite the positive impact on the solvency ratio.

The impacts above, including the impact of the change in basis from economic capital to Solvency II, represent an overall reduction in the Group solvency ratio from 218 per cent to 193 per cent.

Analysis of movement in Group solvency position (£ billion)	**Own Funds**	**Solvency Capital Requirement**	**Surplus**	**Solvency ratio**
Economic capital position at 1 January 2015	**17.9**	**8.2**	**9.7**	**218%**
Capital generation and other movements	2.0	0.4	1.6	13%
Methodology and calibration changes				
Changes to Own Funds (net of transitionals) and Solvency Capital Requirement calibration strengthening	2.3	2.5	(0.2)	(32)%
Effect of partial derecognition of Asia Solvency II surplus	(1.4)	-	(1.4)	(12)%
US Risk Based Capital treatment	(0.7)	(0.7)	-	6%
Estimated Solvency II position at 31 December 2015	**20.1**	**10.4**	**9.7**	**193%**

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

Reconciliation of IFRS equity to Group Solvency II Own Funds

Reconciliation of IFRS equity to Group Solvency II Own Funds	31 December 2015 £bn
IFRS shareholders' equity	**13.0**
Restate US insurance entities from IFRS onto local US statutory basis	(1.5)
Remove DAC, goodwill & intangibles	(3.7)
Add subordinated-debt	4.4
Impact of risk margin (net of transitionals)	(2.5)
Add value of shareholder-transfers	3.1
Liability valuation differences	8.6
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	(0.9)
Other	(0.4)
Estimated Solvency II Own Funds	20.1

The key items of the reconciliation are:

- £1.5 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 £0.7 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;
- £3.7 billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;
- £4.4 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;
- £2.5 billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of transitionals, all of which are not applicable under IFRS;
- £3.1 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholder's 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;
- £8.6 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;
- £0.9 billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above; and
- £0.4 billion due to other items, including the impact of revaluing loans, borrowings and debt from IFRS to Solvency II.

Sensitivity analysis

At 31 December 2015, the estimated sensitivity of the Group Solvency II surplus to significant changes in market conditions is as follows:

- An instantaneous 20 per cent fall in equity markets would reduce surplus by £1.0 billion and reduce the solvency ratio to 186 per cent;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce surplus by £1.8 billion and reduce the solvency ratio to 179 per cent;
- A 50 basis points reduction in interest rates (subject to a floor of zero and allowing for transitional recalculation) would reduce surplus by £1.1 billion and reduce the solvency ratio to 179 per cent;
- A 100 basis points increase in interest rates (allowing for transitional recalculation) would increase surplus by £1.1 billion and increase the solvency ratio to 210 per cent; and
- A 100 basis points increase in credit spreads (with credit defaults of 10 times the expected level in Jackson) would reduce surplus by £1.2 billion and reduce the solvency ratio to 187 per cent.

UK Solvency II capital position[1, 2]

On the same basis as above, the estimated UK Solvency II surplus at 31 December 2015 was £3.3 billion. This relates to shareholder-backed business including the shareholders' share of future with-profits transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements.

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 2015 was £3.2 billion.

Estimated solvency II capital position 31 December 2015	UK Shareholder £bn	UK with-profits £bn
Own Funds	10.5	7.6
Solvency Capital Requirement	7.2	4.4
Surplus	**3.3**	**3.2**
Solvency ratio	146%	175%

The UK with-profits funds surplus has reduced from £3.7 billion at 30 June 2015 to £3.2 billion at 31 December 2015. This is principally due an increase in the equity backing ratio of the Prudential Assurance Company with-profits sub-fund by 5 per cent, in order to utilise the strength of the fund in line with the Principles and Practices of Financial Management, and strong new business growth.

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

Reconciliation of UK with-profits funds	31 December 2015 £bn
IFRS unallocated surplus of UK with-profits funds	**10.5**
Existing adjustments from IFRS to Solvency I in Capital Position Statement:	
Value of shareholder transfers	**(2.1)**
Other valuation differences	**(0.7)**
With-profits fund estate (Solvency I Pillar 1 Peak 2 basis)	**7.7**
Adjustments to Solvency II:	
Risk margin (net of transitional)	**(0.7)**
Other valuation differences	**0.6**
Estimated Solvency II Own Funds	**7.6**

A reconciliation from IFRS to Solvency I is disclosed annually in the *Capital Position Statement* in the Group IFRS financial statements. The additional reconciling items to Solvency II mainly reflect the risk margin net of transitionals, with other items including differences in the definition of the risk-free rate and the matching adjustment impact for non-profit annuity liabilities within the with-profits funds.

UK shareholder sensitivity analysis

At 31 December 2015, the estimated sensitivity of the UK shareholder Solvency II surplus to significant changes in market conditions is as follows:

- An instantaneous 20 per cent fall in equity markets would reduce surplus by £0.4 billion;
- 40 per cent fall in equity markets would reduce surplus by £0.8 billion;
- A 50 basis points reduction in interest rates (subject to a floor of zero and allowing for transitional recalculation) would reduce surplus by £0.7 billion;
- A 100 basis points increase in interest rates (allowing for transitional recalculation) would increase surplus by £0.9 billion;
- A 100 basis points increase in credit spreads would reduce surplus by £0.2 billion; and
- 15 per cent of the UK annuity portfolio downgrading by one whole letter rating would reduce surplus by £0.5 billion.

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 Prudential Assurance Company Ltd and all its subsidiaries.

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

II(d) IGD capital position at 31 December 2015

Up to 31 December 2015, Prudential was subject to the capital adequacy requirements of the European Union Insurance Groups Directive as implemented by the Prudential Regulation Authority in the UK. The Insurance Groups Directive capital surplus represents the aggregated surplus capital (on a Prudential Regulation Authority consistent basis) of the Group's regulated subsidiaries less the Group's borrowings. No diversification benefit is recognised. We estimate that our Insurance Groups Directive capital surplus is £5.5 billion at 31 December 2015 (before taking into account 2015 second interim dividend), with available capital covering our capital requirements 2.5 times. This compares to a capital surplus of £4.7 billion at the end of 2014 (before taking into account the 2014 final dividend).

The movements in 2015 mainly comprise:

- net capital generation (inclusive of market and foreign exchange movements) mainly through operating earnings (in-force releases less investment in new business, net of tax) of £1.8 billion; and
- £0.6 billion of subordinated debt issuance;

Offset by:

- Final 2014 dividend of £0.7 billion and first interim 2015 dividend of £0.3 billion; and
- External financing costs and other central costs, net of tax, of £0.6 billion;

IGD surplus represents the accumulation of surpluses across all of our operations based on local regulatory minimum capital requirements with some adjustments, pursuant to the requirements of Solvency I. The calculation does not fully adjust capital requirements for risk nor does it capture the true economic value of assets.

European Embedded Value (EEV) basis results

Notes on the EEV basis results

Additional unaudited financial information

<u>Description of EEV basis reporting</u>

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

The European Embedded Value principles were published by the CFO Forum of major European insurers in May 2004 and subsequently supplemented by Additional Guidance issued in October 2005. The impact of Solvency II is not reflected in these results in line with the guidance issued by the CFO Forum in October 2015 (see note 15 for further details). The 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 13 and 14.

European Embedded Value (EEV) Basis Results

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

Results analysis by business area

	Note	**2015 £m**	2014 £m note (iii)
Asia operations			
New business	3	**1,490**	1,162
Business in force	4	**831**	738
Long-term business		**2,321**	1,900
Eastspring Investments		**101**	78
Total		**2,422**	1,978
US operations			
New business	3	**809**	694
Business in force	4	**999**	834
Long-term business		**1,808**	1,528
Broker-dealer and asset management		**7**	6
Total		**1,815**	1,534
UK operations*			
New business	3	**318**	259
Business in force	4	**545**	476
Long-term business		**863**	735
General insurance commission		**22**	19
Total UK insurance operations		**885**	754
M&G		**358**	353
Prudential Capital		**18**	33
Total		**1,261**	1,140
Other income and expenditure[note (i)]		**(566)**	(531)
Solvency II and restructuring costs[note (ii)]		**(51)**	(36)
Results of the sold PruHealth and PruProtect businesses		**-**	11
Operating profit based on longer-term investment returns		**4,881**	4,096
Analysed as profit (loss) from:			
New business*	3	**2,617**	2,115
Business in force*	4	**2,375**	2,048
Long-term business*		**4,992**	4,163
Asset management		**484**	470
Other results		**(595)**	(537)
		4,881	4,096

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses which is shown separately.

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 13(a)(vii)) and an adjustment for the shareholders' share of the pension costs attributable to the with-profits business.

(ii) Solvency II and restructuring costs comprise the net of tax charge recognised on an IFRS basis and the additional amount recognised on the 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.

Basic earnings per share

	2015	2014
Based on post-tax operating profit including longer-term investment returns (in pence)	**191.2p**	160.7p
Based on post-tax profit attributable to equity holders of the Company (in pence)	**154.8p**	170.4p
Average number of shares (millions)	**2,553**	2,549

POST-TAX SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	**2015 £m**	2014 £m
Asia operations		**2,422**	1,978
US operations		**1,815**	1,534
UK operations*		**1,261**	1,140
Other income and expenditure		**(566)**	(531)
Solvency II and restructuring costs		**(51)**	(36)
Results of the sold PruHealth and PruProtect businesses		**-**	11
Operating profit based on longer-term investment returns		**4,881**	4,096
Short-term fluctuations in investment returns	5	**(1,208)**	763
Effect of changes in economic assumptions	6	**57**	(369)
Mark to market value movements on core borrowings		**221**	(187)
Gain on sale of PruHealth and PruProtect**		**-**	44
Costs of domestication of Hong Kong branch		**-**	(4)
Total non-operating (loss) profit		**(930)**	247
Profit for the year attributable to equity holders of the Company		**3,951**	4,343

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses which is shown separately.

** In November 2014, PAC completed the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited resulting in a gain of £44 million in 2014.

MOVEMENT IN SHAREHOLDERS' EQUITY

	Note	**2015 £m**	2014 £m
Profit for the year attributable to equity shareholders		**3,951**	4,343
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges		**244**	737
Dividends		**(974)**	(895)
New share capital subscribed		**7**	13
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		**25**	(11)
Reserve movements in respect of share-based payments		**39**	106
Treasury shares		**(18)**	(54)
Mark to market value movements on Jackson assets backing surplus and required capital		**(76)**	77
Net increase in shareholders' equity	9	**3,198**	4,316
Shareholders' equity at beginning of year:			
As previously reported	9	**29,161**	24,856
Effect of the domestication of Hong Kong branch on 1 January 2014*		**-**	(11)
		29,161	24,845
Shareholders' equity at end of year	9	**32,359**	29,161

* On 1 January 2014, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The overall EEV basis effect of £(11) million represents the cost of holding higher required capital levels in the stand-alone Hong Kong shareholder-backed long-term insurance business.

Comprising:	**31 Dec 2015 £m**			31 Dec 2014 £m		
	Long-term business operations note 9	**Asset management and other operations**	**Total**	Long-term business operations	Asset management and other operations	Total
Asia operations	**13,876**	**306**	**14,182**	12,545	274	12,819
US operations	**9,487**	**182**	**9,669**	8,379	157	8,536
UK insurance operations	**9,647**	**22**	**9,669**	8,433	19	8,452
M&G	**-**	**1,774**	**1,774**	-	1,572	1,572
Prudential Capital	**-**	**70**	**70**	-	74	74
Other operations	**-**	**(3,005)**	**(3,005)**	-	(2,292)	(2,292)
Shareholders' equity at end of year	**33,010**	**(651)**	**32,359**	29,357	(196)	29,161
Representing:						
Net assets excluding acquired goodwill and holding company net borrowings	**32,777**	**866**	**33,643**	29,124	1,542	30,666
Acquired goodwill	**233**	**1,230**	**1,463**	233	1,230	1,463
Holding company net borrowings at market value[note 7]	-	**(2,747)**	**(2,747)**	-	(2,968)	(2,968)
	33,010	**(651)**	**32,359**	29,357	(196)	29,161

SUMMARY STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2015 £m	31 Dec 2014 £m
Total assets less liabilities, before deduction for insurance funds		**340,666**	326,633
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		**(327,711)**	(314,822)
Less shareholders' accrued interest in the long-term business		**19,404**	17,350
		(308,307)	(297,472)
Total net assets	9	**32,359**	29,161
Share capital		**128**	128
Share premium		**1,915**	1,908
IFRS basis shareholders' reserves		**10,912**	9,775
Total IFRS basis shareholders' equity	9	**12,955**	11,811
Additional EEV basis retained profit	9	**19,404**	17,350
Total EEV basis shareholders' equity (excluding non-controlling interests)	9	**32,359**	29,161

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Net asset value per share

	31 Dec 2015	31 Dec 2014
Based on EEV basis shareholders' equity of £32,359 million (2014: £29,161 million) (in pence)	**1,258p**	1,136p
Number of issued shares at year end (millions)	**2,572**	2,568
Annualised return on embedded value*	**17%**	16%

* Annualised return on embedded value is based on EEV post-tax operating profit, as a percentage of opening EEV basis shareholders' equity.

NOTES ON THE EEV BASIS RESULTS

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in May 2004, subsequently supplemented by Additional Guidance on EEV Disclosure issued in October 2005. The impact of Solvency II is not reflected in these results in line with the guidance issued by the CFO Forum in October 2015 (see note 15 for further details). 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 2015 EEV basis results supplement to the Company's statutory accounts for 2015. 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. Except for the change in presentation of the operating results for UK operations to show separately the contribution from the sold PruHealth and PruProtect businesses and the presentation of Prudential Capital as a separate segment, the 2014 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2014. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 13.

2 Results analysis by business area

The 2014 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2014 CER comparative results are translated at 2015 average exchange rates.

Annual premium and contribution equivalents (APE)note 16

		2015 £m	2014 £m		% change	
	Note		AER	CER	AER	CER
Asia operations		**2,853**	2,237	2,267	28%	26%
US operations		**1,729**	1,556	1,677	11%	3%
UK operations*		**1,025**	834	834	23%	23%
Total*	3	**5,607**	4,627	4,778	21%	17%

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Post-tax operating profit

		2015 £m	2014 £m		% change	
	Note		AER	CER	AER	CER
Asia operations						
New business	3	**1,490**	1,162	1,168	28%	28%
Business in force	4	**831**	738	735	13%	13%
Long-term business		**2,321**	1,900	1,903	22%	22%
Eastspring Investments		**101**	78	79	29%	28%
Total		**2,422**	1,978	1,982	22%	22%
US operations						
New business	3	**809**	694	748	17%	8%
Business in force	4	**999**	834	899	20%	11%
Long-term business		**1,808**	1,528	1,647	18%	10%
Broker-dealer and asset management		**7**	6	7	17%	-
Total		**1,815**	1,534	1,654	18%	10%
UK operations*						
New business	3	**318**	259	259	23%	23%
Business in force	4	**545**	476	476	14%	14%
Long-term business		**863**	735	735	17%	17%
General insurance commission		**22**	19	19	16%	16%
Total UK insurance operations		**885**	754	754	17%	17%
M&G		**358**	353	353	1%	1%
Prudential Capital		**18**	33	33	(45)%	(45)%
Total		**1,261**	1,140	1,140	11%	11%
Other income and expenditure		**(566)**	(531)	(531)	(7)%	(7)%
Solvency II and restructuring costs		**(51)**	(36)	(36)	(42)%	(42)%
Results of the sold PruHealth and PruProtect businesses		**-**	11	11	(100)%	(100)%
Operating profit based on longer-term investment returns		**4,881**	4,096	4,220	19%	16%
Analysed as profit (loss) from:						
New business*	3	**2,617**	2,115	2,175	24%	20%
Business in force*	4	**2,375**	2,048	2,110	16%	13%
Total long-term business*		**4,992**	4,163	4,285	20%	16%
Asset management		**484**	470	472	3%	3%
Other results		**(595)**	(537)	(537)	(11)%	(11)%
		4,881	4,096	4,220	19%	16%

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses, which is shown separately.

Post-tax profit

	Note	2015 £m	2014 £m		% change	
			AER	CER	AER	CER
Operating profit based on longer-term investment returns		**4,881**	4,096	4,220	19%	16%
Short-term fluctuations in investment returns	5	**(1,208)**	763	771	(258)%	(257)%
Effect of changes in economic assumptions	6	**57**	(369)	(389)	115%	115%
Other non-operating profit (loss)		**221**	(147)	(147)	250%	250%
Total non-operating (loss) profit		**(930)**	247	235	(477)%	(496)%
Profit for the year attributable to shareholders		**3,951**	4,343	4,455	(9)%	(11)%

Basic earnings per share (in pence)

	2015	2014		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns	**191.2p**	160.7p	165.6p	19%	15%
Based on post-tax profit	**154.8p**	170.4p	174.8p	(9)%	(11)%

3 Analysis of new business contribution

(i) Group summary

	2015				
	Annual premium and contribution equivalents (APE) £m	**Present value of new business premiums (PVNBP) £m**	**New business contribution £m**	**New business margin**	
				APE %	**PVNBP %**
	note 16	note 16	note		
Asia operations[note (ii)]	**2,853**	**15,208**	**1,490**	**52**	**9.8**
US operations	**1,729**	**17,286**	**809**	**47**	**4.7**
UK insurance operations	**1,025**	**9,069**	**318**	**31**	**3.5**
Total	**5,607**	**41,563**	**2,617**	**47**	**6.3**

	2014				
	Annual premium and contribution equivalents (APE) £m	Present value of new business premiums (PVNBP) £m	New business contribution £m	New business margin	
				APE %	PVNBP %
	note 16	note 16	note		
Asia operations[note (ii)]	2,237	12,331	1,162	52	9.4
US operations	1,556	15,555	694	45	4.5
UK insurance operations*	834	7,305	259	31	3.5
Total*	4,627	35,191	2,115	46	6.0

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Note

The increase in new business contribution of £502 million from £2,115 million for 2014 to £2,617 million for 2015 comprises an increase on a CER basis of £442 million and an increase of £60 million for foreign exchange effects. The increase of £442 million on the CER basis comprises a contribution of £377 million for higher sales volumes, a £21 million effect of higher long-term interest rates (generated by the active basis of setting economic assumptions) (analysed as Asia £(2) million, US £20 million and UK £3 million) and a £44 million impact of pricing, product and other actions.

(ii) Asia operations – new business contribution by territory

	2015 £m	2014 £m	
		AER	CER
China	**30**	27	29
Hong Kong	**835**	405	436
India	**18**	12	12
Indonesia	**229**	296	282
Korea	**8**	11	11
Taiwan	**28**	29	30
Other	**342**	382	368
Total Asia operations	**1,490**	1,162	1,168

4 Operating profit from business in force

(i) Group summary

	2015 £m			
	Asia operations note (ii)	**US operations** note (iii)	**UK insurance operations** note (iv)	**Total** note
Unwind of discount and other expected returns	**749**	**472**	**488**	**1,709**
Effect of changes in operating assumptions	**12**	**115**	**55**	**182**
Experience variances and other items	**70**	**412**	**2**	**484**
Total	**831**	**999**	**545**	**2,375**

	2014 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total note
Unwind of discount and other expected returns	648	382	410	1,440
Effect of changes in operating assumptions	52	86	-	138
Experience variances and other items	38	366	66	470
Total	738	834	476	2,048

Note
The movement in operating profit from business in force of £327 million from £2,048 million for 2014 to £2,375 million for 2015 comprises:

	2015 £m
Increase in unwind of discount and other expected returns:	
Effects of changes in:	
Interest rates	**6**
Foreign exchange	**22**
Growth in opening value and other items	**241**
	269
Year-on-year change in effects of operating assumptions, experience variances and other items	**58**
Net increase in operating profit from business in force	**327**

(ii) Asia operations

	2015 £m	2014 £m
Unwind of discount and other expected returns[note (a)]	**749**	648
Effect of changes in operating assumptions:		
Mortality and morbidity[note (b)]	**63**	27
Persistency and withdrawals[note (c)]	**(46)**	(17)
Expense	**(1)**	(5)
Other[note (d)]	**(4)**	47
	12	52
Experience variances and other items:		
Mortality and morbidity[note (e)]	**58**	23
Persistency and withdrawals[note (f)]	**20**	44
Expense[note (g)]	**(32)**	(27)
Other including development expenses	**24**	(2)
	70	38
Total Asia operations	**831**	738

Notes
(a) The increase in unwind of discount and other expected returns of £101 million from £648 million for 2014 to £749 million for 2015 comprises an effect of £119 million for the growth in the opening in-force value, partially offset by a £(10) million decrease from changes in interest rates and an £(8) million decrease for foreign exchange effects.
(b) The 2015 credit of £63 million for mortality and morbidity assumptions mainly reflects the effect of lower projected mortality rates for traditional and linked business in Malaysia. The 2014 credit of £27 million reflected a number of offsetting items, including the effect of reduced projected mortality rates in Hong Kong.
(c) The 2015 charge of £(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. The 2014 charge of £(17) million mainly reflected increased partial withdrawal assumptions on unit-linked business in Korea.
(d) The 2014 credit of £47 million for other assumption changes reflected a number of offsetting items, including modelling improvements and those arising from asset allocation changes in Hong Kong.
(e) The positive mortality and morbidity experience variance in 2015 of £58 million (2014: £23 million) mainly reflects better than expected experience in Hong Kong and Indonesia.
(f) The positive £20 million for persistency and withdrawals experience in 2015 (2014: £44 million) is driven mainly by favourable experience in Hong Kong.
(g) The expense experience variance in 2015 is negative £(32) million (2014: £(27) million). The variance principally arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan) and from short-term overruns in India.

(iii) US operations

	2015 £m	2014 £m
Unwind of discount and other expected returns[note (a)]	**472**	382
Effect of changes in operating assumptions:		
Persistency[note (b)]	**139**	55
Other	**(24)**	31
	115	86
Experience variances and other items:		
Spread experience variance[note (c)]	**149**	192
Amortisation of interest-related realised gains and losses[note (d)]	**70**	56
Other[note (e)]	**193**	118
	412	366
Total US operations	**999**	834

Notes

(a) The increase in unwind of discount and other expected returns of £90 million from £382 million for 2014 to £472 million for 2015 comprises a £56 million effect for the underlying growth in the in-force book, a £30 million foreign currency translation effect, and a £4 million impact of the 10 basis points increase in US 10-year treasury rates.

(b) The credit of £139 million in 2015 (2014: £55 million) for persistency assumption changes principally relates to reduced lapse rates for variable annuity business to more closely align to recent experience.

(c) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 14 (ii)). The spread experience variance in 2015 of £149 million (2014: £192 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 year when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(e) Other experience variances of £193 million in 2015 (2014: £118 million) include the effects of positive persistency experience and other favourable experience variances. The 2015 result benefits from higher levels of tax relief from prior period adjustments.

(iv) UK insurance operations

	2015 £m	2014 £m
Unwind of discount and other expected returns[note (a)]	**488**	410
Reduction in future UK corporate tax rate[note (b)]	**55**	-
Other[note (c)]	**2**	66
Total UK insurance operations	**545**	476

Notes

(a) The increase in unwind of discount and other expected returns of £78 million from 2014 of £410 million to £488 million for 2015 comprises an effect of £66 million reflecting the underlying growth in the in-force book and a £12 million effect of the 20 basis points increase in gilt yields.

(b) The £55 million credit in 2015 for the change in UK corporate tax rates reflects the beneficial effect of applying lower corporation tax rates (note 14) to future life profits from in-force business in the UK.

(c) Other items of £2 million (2014: £66 million) comprise the following:

	2015 £m	2014 £m
Longevity reinsurance[note (d)]	**(134)**	(8)
Impact of specific management actions in second half of 2015 ahead of Solvency II[note (e)]	**75**	-
Other items[note (f)]	**61**	74
	2	66

(d) During 2015 we extended our longevity reinsurance programme to cover an additional £6.4 billion of annuity liabilities at a net cost of £(134) million. Of this total, some £4.8 billion was transacted in the second half of 2015 at a net cost of £(88) million.

(e) The £75 million benefit arose from the specific management actions taken in the second half of 2015 to position the balance sheet more efficiently under the new Solvency II regime.

(f) The credit of £61 million for 2015 comprises assumption updates and experience variances for mortality, expense, persistency and other items.

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns included in profit for the year arise as follows:

(i) Group summary

	2015 £m	2014 £m
Asia operations[note (ii)]	**(206)**	439
US operations[note (iii)]	**(753)**	(166)
UK insurance operations[note (iv)]	**(194)**	583
Other operations[note (v)]	**(55)**	(93)
Total	**(1,208)**	763

(ii) Asia operations

The short-term fluctuations in investment returns for Asia operations comprise:

	2015 £m	2014 £m
Hong Kong	**(144)**	178
Indonesia	**(53)**	35
Singapore	**(104)**	92
Taiwan	**44**	23
Other	**51**	111
Total Asia operations[note]	**(206)**	439

Note

For 2015, the charge of £(144) million in Hong Kong, £(53) million in Indonesia and £(104) million in Singapore principally arise from unrealised losses on bonds backing surplus assets driven by increases in long-term interest rates (as shown in note14(i)) and from the effect of falls in equity markets in the region. The credit of £44 million in Taiwan arises from unrealised gains on bonds following the decrease in long-term interest rates.

(iii) US operations

The short-term fluctuations in investment returns for US operations comprise:

	2015 £m	2014 £m
Investment return related experience on fixed income securities[note (a)]	**(17)**	31
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity and other items[note (b)]	**(736)**	(197)
Total US operations	**(753)**	(166)

Notes

(a) The (charge) credit 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 effect of market fluctuations on the growth in separate account asset values in the current reporting period; 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:

	2015 £m	2014 £m
Shareholder-backed annuity[note (a)]	**(88)**	310
With-profits, unit-linked and other[note (b)]	**(106)**	273
Total UK insurance operations	**(194)**	583

Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:
- (losses) gains on surplus assets compared to the expected long-term rate of return reflecting (increases) reductions 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 and other short-term fluctuations in investment returns.

(b) The £(106) million fluctuation in 2015 for with-profits, unit-linked and other business represents the impact of achieving a 3.1 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 5.4 per cent (2014: total return of 9.5 per cent compared to assumed rate of 5.0 per cent). This line also includes 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 declines in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns for other operations of £(55) million (2014: £(93) million) include unrealised value movements on investments held outside our main life operations.

6 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

	2015 £m	2014 £m
Asia operations[note (ii)]	(148)	(269)
US operations[note (iii)]	109	(77)
UK insurance operations[note (iv)]	96	(23)
Total	57	(369)

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations comprises:

	2015 £m	2014 £m
Hong Kong	100	(121)
Indonesia	(15)	25
Malaysia	(30)	11
Singapore	(50)	(42)
Taiwan	(97)	(21)
Other	(56)	(121)
Total Asia operations[note]	(148)	(269)

Note

The negative 2015 effect in Malaysia, Indonesia and Singapore reflects the impact of valuing future health and protection profits at higher discount rates, driven by the increase in long-term interest rates in these countries (see note 14(i)). The negative effect in Taiwan is driven by a decrease in fund earned rates reflecting the decline in long-term interest rates and changes to the asset portfolio mix. The positive impact in Hong Kong is driven by the effect of higher assumed future fund earned rates for participating business.

(iii) US operations

The effect of changes in economic assumptions for US operations comprises:

	2015 £m	2014 £m
Variable annuity business	104	(228)
Fixed annuity and other general account business	5	151
Total US operations[note]	109	(77)

Note

For 2015, the credit of £109 million mainly reflects the increase in the assumed separate account return and reinvestment rates for variable annuity business, following the 10 basis points increase in the US treasury rate (2014: decrease of 90 basis points), resulting in higher projected fee income and a decrease in projected benefit costs.

(iv) UK insurance operations

The effect of changes in economic assumptions for UK insurance operations comprises:

	2015 £m	2014 £m
Shareholder-backed annuity business[note (a)]	(56)	352
With-profits and other business[note (b)]	152	(375)
Total UK insurance operations	96	(23)

Notes

(a) For shareholder-backed annuity business the overall negative (2014: positive) effect reflects the change in the present value of projected spread income arising mainly from the increase (2014: reduction) in the risk discount rates as shown in note 14(iii).

(b) The credit of £152 million in 2015 reflects the net effect of changes in fund earned rates and risk discount rates (as shown in note 14 (iii)), driven by the 20 basis points increase in gilt rates (2014: decrease of 130 basis points), together with the impact from changes in the composition of the asset portfolio.

7 Net core structural borrowings of shareholder-financed operations

	31 Dec 2015 £m			31 Dec 2014 £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* cash and short-term investments	**(2,173)**	**-**	**(2,173)**	(1,480)	-	(1,480)
Core structural borrowings – central funds[note]	**4,567**	**353**	**4,920**	3,869	579	4,448
Holding company net borrowings	**2,394**	**353**	**2,747**	2,389	579	2,968
Core structural borrowings – Prudential Capital	**275**	**-**	**275**	275	-	275
Core structural borrowings – Jackson	**169**	**55**	**224**	160	42	202
Net core structural borrowings of shareholder-financed operations	**2,838**	**408**	**3,246**	2,824	621	3,445

* Including central finance subsidiaries.

Note
In June 2015, the Company issued core structural borrowings of £600 million 5.00 per cent subordinated notes due in 2055. The proceeds, net of discount adjustment and costs, were £590 million.

8 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.

(i) Underlying free surplus generated

The 2014 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2014 CER comparative results are translated at 2015 average exchange rates.

	2015 £m	2014 £m		% change	
		AER	CER	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	**985**	860	851	15%	16%
Investment in new business[notes (ii)(a), (ii)(g)]	**(413)**	(346)	(352)	(19)%	(17)%
Long-term business	**572**	514	499	11%	15%
Eastspring Investments[note (ii)(b)]	**101**	78	79	29%	28%
Total	**673**	592	578	14%	16%
US operations					
Underlying free surplus generated from in-force life business	**1,426**	1,191	1,284	20%	11%
Investment in new business[note (ii)(a)]	**(267)**	(187)	(201)	(43)%	(33)%
Long-term business	**1,159**	1,004	1,083	15%	7%
Broker-dealer and asset management[note (ii)(b)]	**7**	6	7	17%	-
Total	**1,166**	1,010	1,090	15%	7%
UK insurance operations*					
Underlying free surplus generated from in-force life business	**878**	637	637	38%	38%
Investment in new business[note (ii)(a)]	**(65)**	(65)	(65)	-	-
Long-term business	**813**	572	572	42%	42%
General insurance commission[note (ii)(b)]	**22**	19	19	16%	16%
Total	**835**	591	591	41%	41%
M&G[note (ii)(b)]	**358**	353	353	1%	1%
Prudential Capital[note (ii)(b)]	**18**	33	33	(45)%	(45)%
Underlying free surplus generated	**3,050**	2,579	2,645	18%	15%
Representing:					
Long-term business:*					
Expected in-force cashflows (including expected return on net assets)	**2,730**	2,374	2,436	15%	12%
Effects of changes in operating assumptions, operating experience variances and other operating items	**559**	314	336	78%	66%
Underlying free surplus generated from in-force life business	**3,289**	2,688	2,772	22%	19%
Investment in new business[notes (ii)(a), (ii)(g)]	**(745)**	(598)	(618)	(25)%	(21)%
Total long-term business*	**2,544**	2,090	2,154	22%	18%
Asset management and general insurance commission[note (ii)(b)]	**506**	489	491	3%	3%
Underlying free surplus generated	**3,050**	2,579	2,645	18%	15%

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

(ii) Movement in free surplus

Long-term business and asset management operations	2015 £m Long-term business note 10	2015 £m Asset management and UK general insurance commission note (b)	2015 £m Free surplus of long-term business, asset management and UK general insurance commission	2014 £m Free surplus of long-term business, asset management and UK general insurance commission
Underlying movement:*				
Investment in new business[notes (a), (g)]	**(745)**	**-**	**(745)**	(598)
Business in force:				
Expected in-force cash flows (including expected return on net assets)	**2,730**	**506**	**3,236**	2,863
Effects of changes in operating assumptions, operating experience variances and other operating items	**559**	**-**	**559**	314
	2,544	**506**	**3,050**	2,579
Disposal of Japan Life business[note (h)]	**23**	**-**	**23**	-
Gain on sale of PruHealth and PruProtect	**-**	**-**	**-**	130
Other non-operating items[note (c)]	**(407)**	**(53)**	**(460)**	(266)
	2,160	**453**	**2,613**	2,443
Net cash flows to parent company[note (d)]	**(1,271)**	**(354)**	**(1,625)**	(1,482)
Exchange movements, timing differences and other items[note (e)]	**560**	**159**	**719**	130
Net movement in free surplus	**1,449**	**258**	**1,707**	1,091
Balance at beginning of year:				
As previously reported	**4,193**	**866**	**5,059**	4,003
Effect of domestication of Hong Kong branch**	**-**	**-**	**-**	(35)
Balance at end of year[note (g)]	**5,642**	**1,124**	**6,766**	5,059
Representing:				
Asia operations	**1,503**	**245**	**1,748**	1,560
US operations	**1,567**	**166**	**1,733**	1,557
UK operations	**2,572**	**713**	**3,285**	1,942
	5,642	**1,124**	**6,766**	5,059
Balance at beginning of year:				
Asia operations	1,347	213	1,560	1,379
US operations	1,416	141	1,557	1,074
UK operations	1,430	512	1,942	1,550
	4,193	866	5,059	4,003

* In order to show the UK long-term business on a comparable basis, the 2014 comparative underlying movement in free surplus excludes the contribution from the sold PruHealth and PruProtect businesses.

** On 1 January 2014, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The 2014 EEV basis results included opening adjustments arising from the transfer of capital that was previously held within the UK business in respect of the Hong Kong branch operations and additional capital requirements arising from the newly established subsidiaries with an overall effect of £(35) million.

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.

(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 movements, timing differences and other items represent:

	2015 £m Long-term business	2015 £m Asset management and UK general insurance commission	2015 £m Total
Exchange movements[note 10]	**67**	**3**	**70**
Mark to market value movements on Jackson assets backing surplus and required capital[note 9]	**(76)**	**-**	**(76)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**14**	**8**	**22**
Other items[note (f)]	**555**	**148**	**703**
	560	**159**	**719**

(f) Other items include the effect of intra-group loans, contingent loan repayments as shown in note 10(i), timing differences arising on statutory transfers and other non-cash items. For 2015, other items for long-term business include 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.

(g) Investment in new business includes the annual amortisation charge of amounts incurred to secure exclusive distribution rights through our bancassurance partners at a rate that reflects the pattern in which the future economic benefits are expected to be consumed by reference to new business levels. Included within the overall free surplus balance of our Asia life entities is £287 million representing unamortised amounts incurred to secure exclusive distribution rights through bancassurance partners. These amounts exclude £971 million of Asia distribution rights intangibles that are financed by loan arrangements from central companies, the costs of which are allocated to the Asia life segment as the amortisation cost is incurred.

(h) The credit of £23 million in free surplus in 2015 reflects the release of required capital and transfer of value of in-force business on the completion of the sale of the Japan Life business (see note 10).

9 Reconciliation of movement in shareholders' equity

	2015 £m					
	Long-term business operations					
	Asia operations note (i)	US operations	UK insurance operations	Total long-term business operations	Other operations note (i)	Group Total
Operating profit (based on longer-term investment returns)						
Long-term business:						
New business[note 3]	**1,490**	**809**	**318**	**2,617**	**-**	**2,617**
Business in force[note 4]	**831**	**999**	**545**	**2,375**	**-**	**2,375**
	2,321	**1,808**	**863**	**4,992**	**-**	**4,992**
Asset management	**-**	**-**	**-**	**-**	**484**	**484**
Other results	**-**	**(1)**	**(28)**	**(29)**	**(566)**	**(595)**
Operating profit based on longer-term investment returns	**2,321**	**1,807**	**835**	**4,963**	**(82)**	**4,881**
Total non-operating (loss) profit	**(354)**	**(654)**	**(98)**	**(1,106)**	**176**	**(930)**
Profit for the year	**1,967**	**1,153**	**737**	**3,857**	**94**	**3,951**
Other items taken directly to equity						
Exchange movements on foreign operations and net investment hedges	**(157)**	**510**	**-**	**353**	**(109)**	**244**
Intra-group dividends (including statutory transfers) and investment in operations[note (ii)]	**(472)**	**(465)**	**(215)**	**(1,152)**	**1,152**	**-**
External dividends	**-**	**-**	**-**	**-**	**(974)**	**(974)**
Other movements[note (iii)]	**(7)**	**(14)**	**692**	**671**	**(618)**	**53**
Mark to market value movements on Jackson assets backing surplus and required capital	**-**	**(76)**	**-**	**(76)**	**-**	**(76)**
Net increase in shareholders' equity	**1,331**	**1,108**	**1,214**	**3,653**	**(455)**	**3,198**
Shareholders' equity at beginning of year	**12,312**	**8,379**	**8,433**	**29,124**	**37**	**29,161**
Shareholders' equity at end of year	**13,643**	**9,487**	**9,647**	**32,777**	**(418)**	**32,359**
Representing:						
Statutory IFRS basis shareholders' equity:						
Net assets (liabilities)	**3,723**	**4,154**	**5,118**	**12,995**	**(1,503)**	**11,492**
Goodwill	**-**	**-**	**-**	**-**	**1,463**	**1,463**
Total IFRS basis shareholders' equity	**3,723**	**4,154**	**5,118**	**12,995**	**(40)**	**12,955**
Additional retained profit (loss) on an EEV basis[note (iv)]	**9,920**	**5,333**	**4,529**	**19,782**	**(378)**	**19,404**
EEV basis shareholders' equity	**13,643**	**9,487**	**9,647**	**32,777**	**(418)**	**32,359**
Balance at beginning of year:						
Statutory IFRS basis shareholders' equity:						
Net assets (liabilities)	3,315	4,067	3,785	11,167	(819)	10,348
Goodwill	-	-	-	-	1,463	1,463
Total IFRS basis shareholders' equity	3,315	4,067	3,785	11,167	644	11,811
Additional retained profit (loss) on an EEV basis[note (iv)]	8,997	4,312	4,648	17,957	(607)	17,350
EEV basis shareholders' equity	12,312	8,379	8,433	29,124	37	29,161

Notes

(i) For the purposes of the table above, goodwill of £233 million (2014: £233 million) related to Asia long-term operations is included in Other operations.

(ii) Intra-group dividends (including statutory transfers) represent dividends that have been declared in the year and amounts accrued in respect of statutory transfers. Investments in operations reflect increases in share capital. The amounts included in note 8 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, timing differences arising on statutory transfers and other non-cash items.

(iii) Other movements include 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, which has no overall effect on the Group's EEV. Other movements also includes a credit of £25 million (2014: a charge of £(11) million) for the shareholders' share of actuarial and other gains and losses on the defined benefit pension schemes.

(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 £(353) million (2014: £(579) million), as shown in note 7.

10 Reconciliation of movement in net worth and value of in-force for long-term business

	2015 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note (iii)	Total long-term business operations
Group					
Shareholders' equity at beginning of year	**4,193**	**4,556**	**8,749**	**20,375**	**29,124**
New business contribution[note (ii)]	**(745)**	**493**	**(252)**	**2,869**	**2,617**
Existing business – transfer to net worth	**2,611**	**(355)**	**2,256**	**(2,256)**	**-**
Expected return on existing business[note 4]	**119**	**129**	**248**	**1,461**	**1,709**
Changes in operating assumptions and experience variances[note 4]	**588**	**88**	**676**	**(10)**	**666**
Solvency II and restructuring costs	**(29)**	**-**	**(29)**	**-**	**(29)**
Operating profit based on longer-term investment returns	**2,544**	**355**	**2,899**	**2,064**	**4,963**
Disposal of Japan Life business	**23**	**(48)**	**(25)**	**25**	**-**
Other non-operating items	**(407)**	**(216)**	**(623)**	**(483)**	**(1,106)**
Profit from long-term business	**2,160**	**91**	**2,251**	**1,606**	**3,857**
Exchange movements on foreign operations and net investment hedges	**67**	**57**	**124**	**229**	**353**
Intra-group dividends (including statutory transfers) and investment in operations[note (i)]	**(1,373)**	**-**	**(1,373)**	**221**	**(1,152)**
Other movements[note (v)]	**595**	**-**	**595**	**-**	**595**
Shareholders' equity at end of year	**5,642**	**4,704**	**10,346**	**22,431**	**32,777**
Representing:					
Asia operations					
Shareholders' equity at beginning of year	**1,347**	**1,327**	**2,674**	**9,638**	**12,312**
New business contribution[note (ii)]	**(413)**	**124**	**(289)**	**1,779**	**1,490**
Existing business – transfer to net worth	**974**	**(77)**	**897**	**(897)**	**-**
Expected return on existing business[note 4]	**30**	**43**	**73**	**676**	**749**
Changes in operating assumptions and experience variances[note 4]	**(19)**	**65**	**46**	**36**	**82**
Operating profit based on longer-term investment returns	**572**	**155**	**727**	**1,594**	**2,321**
Disposal of Japan Life business	**23**	**(48)**	**(25)**	**25**	**-**
Other non-operating items	**61**	**(6)**	**55**	**(409)**	**(354)**
Profit from long-term business	**656**	**101**	**757**	**1,210**	**1,967**
Exchange movements on foreign operations and net investment hedges	**(21)**	**(42)**	**(63)**	**(94)**	**(157)**
Intra-group dividends and investment in operations	**(472)**	**-**	**(472)**	**-**	**(472)**
Other movements	**(7)**	**-**	**(7)**	**-**	**(7)**
Shareholders' equity at end of year	**1,503**	**1,386**	**2,889**	**10,754**	**13,643**
US operations					
Shareholders' equity at beginning of year	**1,416**	**1,710**	**3,126**	**5,253**	**8,379**
New business contribution[note (ii)]	**(267)**	**284**	**17**	**792**	**809**
Existing business – transfer to net worth	**1,064**	**(196)**	**868**	**(868)**	**-**
Expected return on existing business[note 4]	**42**	**49**	**91**	**381**	**472**
Changes in operating assumptions and experience variances[note 4]	**321**	**22**	**343**	**184**	**527**
Solvency II and restructuring costs	**(1)**	**-**	**(1)**	**-**	**(1)**
Operating profit based on longer-term investment returns	**1,159**	**159**	**1,318**	**489**	**1,807**
Other non-operating items	**(541)**	**(162)**	**(703)**	**49**	**(654)**
Profit from long-term business	**618**	**(3)**	**615**	**538**	**1,153**
Exchange movements on foreign operations and net investment hedges	**88**	**99**	**187**	**323**	**510**
Intra-group dividends	**(465)**	**-**	**(465)**	**-**	**(465)**
Other movements	**(90)**	**-**	**(90)**	**-**	**(90)**
Shareholders' equity at end of year	**1,567**	**1,806**	**3,373**	**6,114**	**9,487**
UK insurance operations					
Shareholders' equity at beginning of year	**1,430**	**1,519**	**2,949**	**5,484**	**8,433**
New business contribution[note (ii)]	**(65)**	**85**	**20**	**298**	**318**
Existing business – transfer to net worth	**573**	**(82)**	**491**	**(491)**	**-**
Expected return on existing business[note 4]	**47**	**37**	**84**	**404**	**488**
Changes in operating assumptions and experience variances[note 4]	**286**	**1**	**287**	**(230)**	**57**
Solvency II and restructuring costs	**(28)**	**-**	**(28)**	**-**	**(28)**
Operating profit based on longer-term investment returns	**813**	**41**	**854**	**(19)**	**835**
Other non-operating items	**73**	**(48)**	**25**	**(123)**	**(98)**
Profit from long-term business	**886**	**(7)**	**879**	**(142)**	**737**
Intra-group dividends (including statutory transfers)[note (i)]	**(436)**	**-**	**(436)**	**221**	**(215)**
Other movements[note (v)]	**692**	**-**	**692**	**-**	**692**
Shareholders' equity at end of year	**2,572**	**1,512**	**4,084**	**5,563**	**9,647**

Notes

(i) For UK insurance operations, the amounts shown for intra-group dividends (including statutory transfers) in free surplus of £(436) million and in the value of in-force of £221 million include the impact of intragroup contingent loan repayments during the year. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses 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.

(ii) New business contribution per £1 million of free surplus invested:

	2015 £m				2014 £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
Post-tax new business contribution[note 3]	**1,490**	**809**	**318**	**2,617**	1,162	694	259	2,115
Free surplus invested in new business	**(413)**	**(267)**	**(65)**	**(745)**	(346)	(187)	(65)	(598)
Post-tax new business contribution per £1 million of free surplus invested	**3.6**	**3.0**	**4.9**	**3.5**	3.4	3.7	4.0	3.5

* In order to show the UK long-term business on a comparable basis, the 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses.

(iii) The 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 2015 £m				31 Dec 2014 £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	**11,280**	**7,355**	**5,817**	**24,452**	10,168	5,914	5,756	21,838
Cost of capital	**(438)**	**(229)**	**(254)**	**(921)**	(417)	(199)	(272)	(888)
Cost of time value of guarantees[note (iv)]	**(88)**	**(1,012)**	**-**	**(1,100)**	(113)	(462)	-	(575)
Net value of in-force business	**10,754**	**6,114**	**5,563**	**22,431**	9,638	5,253	5,484	20,375

(iv) The increase in the cost of time value of guarantees for US operations from £(462) million in 2014 to £(1,012) million in 2015 primarily relates to variable annuity business, mainly arising from the level of equity market performance.

(v) Other movements for UK insurance operations include the effect of a classification change, as discussed in note 9(iii).

11 Expected transfer of value of in-force business to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2015 and 2014 totals in the tables below for the emergence of free surplus as follows:

	2015 £m	2014 £m
Required capital[note 10]	**4,704**	4,556
Value of in-force (VIF)[note 10]	**22,431**	20,375
Add back: deduction for cost of time value of guarantees[note 10]	**1,100**	575
Expected cash flow from sale of Japan Life business	**-**	(23)
Other items[note]	**(1,948)**	(1,382)
Total	**26,287**	24,101

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 includes the deduction of the value 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 embedded value 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.

		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	**5,689**	**2,097**	**1,498**	**962**	**576**	**544**	**12**
Total	**26,287**	**10,374**	**6,802**	**3,760**	**2,074**	**2,714**	**563**
	100%	**40%**	**26%**	**14%**	**8%**	**10%**	**2%**

		2014 £m					
		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2014 Total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations	10,859	3,660	2,289	1,553	1,026	1,874	457
US operations	7,471	3,867	2,298	873	334	99	-
UK insurance operations	5,771	2,111	1,464	973	606	604	13
Total	24,101	9,638	6,051	3,399	1,966	2,577	470
	100%	40%	25%	14%	8%	11%	2%

12 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 and the new business contribution after the effect of required capital for 2015 and 2014 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase and decrease in interest rates, 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);
- 5 basis point increase in UK long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK annuities.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

New business contribution

	2015 £m				2014 £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 3]	**1,490**	**809**	**318**	**2,617**	1,162	694	259	2,115
Discount rates – 1% increase	**(260)**	**(38)**	**(40)**	**(338)**	(176)	(27)	(38)	(241)
Interest rates – 1% increase	**28**	**80**	**7**	**115**	13	61	(15)	59
Interest rates – 1% decrease	**(78)**	**(127)**	**(9)**	**(214)**	(52)	(101)	19	(134)
Equity/property yields – 1% rise	**73**	**95**	**20**	**188**	46	73	12	131
Long-term expected defaults – 5 bps increase	**-**	**-**	**(8)**	**(8)**	-	-	(10)	(10)
Liquidity premium – 10 bps increase	**-**	**-**	**16**	**16**	-	-	20	20

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Embedded value of long-term business operations

	31 Dec 2015 £m				31 Dec 2014 £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]	**13,643**	**9,487**	**9,647**	**32,777**	12,312	8,379	8,433	29,124
Discount rates – 1% increase	**(1,448)**	**(271)**	**(586)**	**(2,305)**	(1,214)	(268)	(602)	(2,084)
Interest rates – 1% increase	**(380)**	**(46)**	**(328)**	**(754)**	(462)	(232)	(362)	(1,056)
Interest rates – 1% decrease	**132**	**(93)**	**426**	**465**	211	16	452	679
Equity/property yields – 1% rise	**506**	**514**	**271**	**1,291**	435	365	282	1,082
Equity/property market values – 10% fall	**(246)**	**(411)**	**(373)**	**(1,030)**	(221)	(129)	(380)	(730)
Statutory minimum capital	**148**	**162**	**4**	**314**	129	139	4	272
Long-term expected defaults – 5 bps increase	**-**	**-**	**(141)**	**(141)**	-	-	(139)	(139)
Liquidity premium – 10 bps increase	**-**	**-**	**282**	**282**	-	-	278	278

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 assumption 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 embedded value as at 31 December and the new business contribution after the effect of required capital for 2015 and 2014 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

	2015 £m				2014 £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 3]	**1,490**	**809**	**318**	**2,617**	1,162	694	259	2,115
Maintenance expenses – 10% decrease	**28**	**8**	**2**	**38**	23	8	3	34
Lapse rates – 10% decrease	**112**	**25**	**9**	**146**	88	27	6	121
Mortality and morbidity – 5% decrease	**50**	**1**	**(13)**	**38**	52	2	(20)	34
Change representing effect on:								
Life business	**50**	**1**	**1**	**52**	52	2	1	55
UK annuities	**-**	**-**	**(14)**	**(14)**	-	-	(21)	(21)

* In order to show the UK long-term business on a comparable basis, the 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses.

Embedded value of long-term business operations

	31 Dec 2015 £m				31 Dec 2014 £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]	**13,643**	**9,487**	**9,647**	**32,777**	12,312	8,379	8,433	29,124
Maintenance expenses – 10% decrease	**153**	**80**	**68**	**301**	136	71	56	263
Lapse rates – 10% decrease	**508**	**394**	**75**	**977**	422	354	67	843
Mortality and morbidity – 5% decrease	**449**	**172**	**(299)**	**322**	433	163	(347)	249
Change representing effect on:								
Life business	**449**	**172**	**11**	**632**	433	163	9	605
UK annuities	**-**	**-**	**(310)**	**(310)**	-	-	(356)	(356)

13 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 13(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 13(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 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 other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 13(a)(vii).

The definition of long-term business operations is consistent with previous practice and 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 14). 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 new business amounts and one-tenth of single new business amounts. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of new regular premium 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 the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result 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 capital supporting the Group's long-term business. This capital is referred to as required capital. 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 investment earnings (post-tax) 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 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 2015, 87 per cent (2014: 86 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 (2014: 2.7 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 at specified dates during the accumulation period (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 policyholder's value in the event of poor equity market performance. Jackson hedges the GMDB and GMWB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities 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 Pillar I Peak 2 basis of £47 million at 31 December 2015 (31 December 2014: £50 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 Pillar I Peak 2 basis of £412 million was held in SAIF at 31 December 2015 (31 December 2014: £549 million) to honour the guarantees. As described in note 13(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.

Time value
The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other 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 14(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. 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 required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set to an amount at least equal to the higher of Solvency I Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations 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 new business and in-force 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 covered business assets.

(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. 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 14(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 long duration liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for:

- expected long-term defaults, derived as a percentage of historical default experience based on Moody's data for the period 1970 to 2009, and the definition of the credit rating assigned to each asset held is the second highest credit rating published by Moody's, Standard & Poor's and Fitch;
- a credit risk premium, derived as the excess over the expected long-term defaults, of the 95th percentile of historical cumulative defaults based on Moody's data for the period 1970 to 2009, and subject to a minimum margin over expected long-term defaults of 50 per cent;
- an allowance for a 1-notch downgrade of the asset portfolio subject to credit risk; and
- an allowance for short-term downgrades and defaults.

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 expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium, 1-notch downgrade and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate, shown in note 14(iii).

(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 gilts, 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 US business and UK business other than shareholder-backed annuity, no additional allowance is necessary. For UK shareholder-backed annuity business a further allowance of 50 basis points is used to reflect the longevity risk which is of particular relevance. 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.

(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 rates of exchange. The principal exchange rates are shown in note A1 of the IFRS 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 year.

(xi) Inter-company arrangements
The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension polices 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 PRIL. In addition, the free surplus and value of in-force business are calculated after taking account of the impact of contingent loan arrangements between Group companies (movements in the contingent loan liability are reflected via the projected cash flows in the value of in-force and the related funding is reflected in free surplus).

(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 13(b)(ii) below) and incorporate the following:

- new business contribution, as defined in note 13(a)(ii);
- unwind of discount on the value of in-force business and other expected returns, as described in note 13(b)(iii) below;
- the impact of routine changes of estimates relating to non-economic assumptions, as described in note 13(b)(iv) below; and
- non-economic experience variances, as described in note 13(b)(v) below.

In order to show the UK long-term business result on a comparable basis, the presentation of 2014 results has been adjusted to show the results of the sold PruHealth and PruProtect businesses separately.

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 includes:

- the effect on free surplus generated from the disposal of the Japan Life business in 2015;
- the gain on sale of the PruHealth and PruProtect businesses in 2014; and
- the costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

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 13(b)(iii) below.

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity 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-year risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force adjusted to reflect end-of-year 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 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 period economic and operating assumption changes); and
- required capital and surplus assets.

In applying this general approach, the unwind of discount included in operating profit for the with-profits business of UK insurance operations is determined by reference to the opening value of in-force, as adjusted for the effects 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 2015 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £58 million lower (31 December 2014: £194 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 change is delineated to show the effect on the opening value of in-force as operating assumption changes, with the experience variance subsequently being determined by reference to the end-of-year assumptions (see note 13(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-year 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.

14 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 rates of return on government bonds. 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)]

	Risk discount rate %				10-year government bond yield %		Expected long-term Inflation %	
	New business		In force					
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014	**31 Dec 2015**	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
China	**9.4**	10.2	**9.4**	10.2	**2.9**	3.7	**2.5**	2.5
Hong Kong[notes (b), (c)]	**3.7**	3.7	**3.7**	3.7	**2.3**	2.2	**2.3**	2.3
Indonesia	**12.8**	12.0	**12.8**	12.0	**8.9**	7.9	**5.0**	5.0
Korea	**6.1**	6.7	**5.7**	6.5	**2.1**	2.6	**3.0**	3.0
Malaysia[note (c)]	**6.6**	6.6	**6.7**	6.6	**4.2**	4.1	**2.5**	2.5
Philippines	**11.3**	10.8	**11.3**	10.8	**4.6**	4.0	**4.0**	4.0
Singapore[note (c)]	**4.3**	4.3	**5.1**	5.0	**2.6**	2.3	**2.0**	2.0
Taiwan	**4.0**	4.2	**3.9**	4.1	**1.0**	1.6	**1.0**	1.0
Thailand	**9.3**	9.5	**9.3**	9.5	**2.5**	2.7	**3.0**	3.0
Vietnam	**13.8**	14.0	**13.8**	14.0	**7.1**	7.2	**5.5**	5.5
Total weighted risk discount rate[note (a)]	**5.9**	6.9	**6.4**	6.6				

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 result and the closing value of in-force business. The changes in the risk discount rates for individual Asia territories reflect the movements in 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 8.6 per cent (2014: from 3.5 per cent to 8.7 per cent). The mean equity return assumptions for the most significant equity holdings of the Asia operations were:

	31 Dec 2015 %	31 Dec 2014 %
Hong Kong	**6.3**	6.2
Malaysia	**10.2**	10.1
Singapore	**8.6**	8.3

(ii) US operations

	31 Dec 2015 %	31 Dec 2014 %
Assumed new business spread margins:*		
Fixed annuity business:**		
January to June issues	**1.25**	1.5
July to December issues	**1.5**	1.5
Fixed index annuity business:		
January to June issues	**1.5**	2.0
July to December issues	**1.75**	2.0
Institutional business	**0.7**	0.7
Allowance for long-term defaults included in projected spread[note 13 (a)(viii)]	**0.24**	0.25
Risk discount rate:		
Variable annuity:		
Risk discount rate	**6.8**	6.9
Additional allowance for credit risk included in risk discount rate[note 13 (a)(viii)]	**0.2**	0.2
Non-variable annuity:		
Risk discount rate	**3.9**	3.9
Additional allowance for credit risk included in risk discount rate[note 13 (a)(viii)]	**1.0**	1.0
Weighted average total:		
New business	**6.7**	6.7
In force	**6.2**	6.2
US 10-year treasury bond rate at end of year	**2.3**	2.2
Pre-tax expected long-term nominal rate of return for US equities	**6.3**	6.2
Expected long-term rate of inflation	**2.8**	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

	31 Dec 2015 %	31 Dec 2014 %
Shareholder-backed annuity business:		
Risk discount rate:[note]		
New business	**5.7**	6.5
In force	**7.4**	6.9
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:[note]		
New business	**3.5**	4.1
In force	**3.5**	3.2
Other business:		
Risk discount rate:*		
New business	**5.6**	5.5
In force	**5.7**	5.9
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**6.4**	6.2
Overseas equities	**6.3 to 9.4**	6.2 to 9.0
Property	**5.2**	4.9
15-year gilt rate	**2.4**	2.2
Corporate bonds	**4.1**	3.8
Expected long-term rate of inflation	**3.1**	3.0
Equity risk premium	**4.0**	4.0

* The 2014 risk discount rates exclude the sold PruHealth and PruProtect businesses.

Note
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).

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 13(a)(iv).

(iv) Asia operations
- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Korea, 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, and the standard deviation of interest rates ranges from 2.2 per cent to 2.5 per cent for both years.

(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 bond return plus a mean-reverting spread.
- Property returns are also modelled on a risk-free bond 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), and India (where the business model is being adapted as the industry continues to adjust to regulatory changes), 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 13(a)(x).

The local standard corporate tax rates applicable for the most significant operations are as follows:

Standard corporate tax rates	%
Asia operations:	
Hong Kong	16.5*
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: 18.0

* 16.5 per cent on 5 per cent of premium income
** The impact of the reductions in future UK corporate tax rates on the opening value of in-force business is £55 million as shown in note 4(iv)(b).

15 Effect of Solvency II 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 EEV basis results and profile of free surplus generation for these businesses will continue to be driven by local regulatory and target capital requirements.

For the UK insurance operations Solvency II will impact the EEV results as it changes the local regulatory valuation of net worth and capital requirements, affecting the components of the EEV and the expected profile of free surplus generation. In line with guidance provided by the CFO Forum in October 2015, the impact of Solvency II on the UK EEV has not been included in the results presented in this section. An early estimate on the likely impact of Solvency II on the EEV net worth and value of in-force business is provided in section D of the additional unaudited information.

16 New business premiums and contributions[note (i)]

	Single		Regular		Annual premium and contribution equivalents (APE) note 13(a)(ii)		Present value of new business premiums (PVNBP) note 13(a)(ii)	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Group insurance operations								
Asia	**2,120**	2,272	**2,641**	2,010	**2,853**	2,237	**15,208**	12,331
US	**17,286**	15,555	**-**	-	**1,729**	1,556	**17,286**	15,555
UK[note (iv)]	**8,463**	6,681	**179**	166	**1,025**	834	**9,069**	7,305
Group total[note (iv)]	**27,869**	24,508	**2,820**	2,176	**5,607**	4,627	**41,563**	35,191
Asia insurance operations								
Cambodia	**-**	-	**8**	3	**8**	3	**38**	16
Hong Kong	**546**	419	**1,158**	603	**1,213**	645	**7,007**	3,861
Indonesia	**230**	280	**303**	357	**326**	385	**1,224**	1,619
Malaysia	**100**	117	**201**	189	**211**	201	**1,208**	1,284
Philippines	**146**	121	**44**	39	**59**	51	**287**	248
Singapore	**454**	677	**264**	289	**309**	357	**2,230**	2,683
Thailand	**69**	92	**88**	74	**95**	83	**422**	392
Vietnam	**6**	4	**82**	61	**83**	61	**343**	247
SE Asia operations including Hong Kong	**1,551**	1,710	**2,148**	1,615	**2,304**	1,786	**12,759**	10,350
China[note (ii)]	**308**	239	**111**	81	**142**	105	**739**	550
Korea	**182**	212	**123**	92	**141**	113	**780**	609
Taiwan	**45**	83	**127**	116	**131**	124	**442**	462
India[note (iii)]	**34**	28	**132**	106	**135**	109	**488**	360
Total Asia insurance operations	**2,120**	2,272	**2,641**	2,010	**2,853**	2,237	**15,208**	12,331
US insurance operations								
Variable annuities	**11,977**	10,899	**-**	-	**1,198**	1,090	**11,977**	10,899
Elite Access (variable annuity)	**3,144**	3,108	**-**	-	**314**	311	**3,144**	3,108
Fixed annuities	**477**	527	**-**	-	**48**	53	**477**	527
Fixed index annuities	**458**	370	**-**	-	**46**	37	**458**	370
Wholesale	**1,230**	651	**-**	-	**123**	65	**1,230**	651
Total US insurance operations	**17,286**	15,555	**-**	-	**1,729**	1,556	**17,286**	15,555
UK and Europe insurance operations[note (iv)]								
Individual annuities	**565**	1,065	**-**	-	**57**	106	**565**	1,065
Bonds	**3,327**	2,934	**-**	-	**333**	294	**3,328**	2,937
Corporate pensions	**175**	92	**135**	138	**152**	147	**600**	592
Individual pensions	**1,185**	508	**32**	22	**150**	72	**1,295**	595
Income drawdown	**1,024**	352	**-**	-	**102**	35	**1,024**	352
Other products	**679**	20	**12**	6	**80**	9	**749**	54
Total Retail[note (iv)]	**6,955**	4,971	**179**	166	**874**	663	**7,561**	5,595
Wholesale	**1,508**	1,710	**-**	-	**151**	171	**1,508**	1,710
Total UK and Europe insurance operations[note (iv)]	**8,463**	6,681	**179**	166	**1,025**	834	**9,069**	7,305
Group total[note (iv)]	**27,869**	24,508	**2,820**	2,176	**5,607**	4,627	**41,563**	35,191

Notes

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting year 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.

(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.

(iv) The 2014 UK and Europe insurance operations comparatives have been adjusted to exclude the contribution from the sold PruHealth and PruProtect businesses (APE sales of £23 million and PVNBP of £166 million), following the disposal of our 25 per cent interest in the businesses in November 2014.

Additional Unaudited 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.

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(ix)

(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.

Local currency: £		Full year 2015*	Full year 2014*	Full year 2015 vs Full year 2014 appreciation (depreciation) of local currency against GBP*
China	Average Rate	9.61	10.15	6%
	Closing Rate	9.57	9.67	1%
Hong Kong	Average Rate	11.85	12.78	8%
	Closing Rate	11.42	12.09	6%
India	Average Rate	98.08	100.53	2%
	Closing Rate	97.51	98.42	1%
Indonesia	Average Rate	20,476.93	19,538.56	(5)%
	Closing Rate	20,317.71	19,311.31	(5)%
Malaysia	Average Rate	5.97	5.39	(10)%
	Closing Rate	6.33	5.45	(14)%
Singapore	Average Rate	2.10	2.09	(0)%
	Closing Rate	2.09	2.07	(1)%
Thailand	Average Rate	52.38	53.51	2%
	Closing Rate	53.04	51.30	(3)%
US	Average Rate	1.53	1.65	8%
	Closing Rate	1.47	1.56	6%
Vietnam	Average Rate	33,509.21	34,924.62	4%
	Closing Rate	33,140.64	33,348.46	1%

*Average rate is for the 12 month period to 31 December.

(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 individual quarters represent the difference between the year-to-date reported sterling results at successive quarters and will include foreign exchange movements from earlier periods.
(1b) Insurance new business for overseas operations for 2014 has been calculated using constant exchange rates (CER).
(1c) Constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014 and 2015.
(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.

(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 year exclude year-to-date Eastspring Money Market Funds (MMF) gross inflows of £89,553 million (2014: £67,749 million) and net inflows of £1,066 million (2014: £10 million). Investment flows for the discrete fourth quarter exclude MMF gross inflows of £19,176 million (2014: £17,353 million) and net inflows of £304 million (2014: net outflows of £(48) million).

(9) Excludes Curian Variable Series Trust funds (internal funds under management).

(10) Total Group Investment Operations funds under management exclude MMF funds under management of £6,006 million at 31 December 2015 (31 December 2014: £4,801 million).

(11) The 2014 UK and Europe insurance operations comparatives have been adjusted to exclude PruHealth and PruProtect APE sales of £23 million, new business profit of £11 million and PVNBP of £166 million, following the disposal of our 25 per cent interest in the businesses in November 2014.

Schedule A(i) – New Business Insurance Operations (Actual Exchange Rates)

	Single			Regular			Annual Equivalents[2]			PVNBP[2]		
	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)
Group Insurance Operations												
Asia [1a]	**2,120**	2,272	(7)%	**2,641**	2,010	31%	**2,853**	2,237	28%	**15,208**	12,331	23%
US[1a]	**17,286**	15,555	11%	**-**	-	N/A	**1,729**	1,556	11%	**17,286**	15,555	11%
UK[11]	**8,463**	6,681	27%	**179**	166	8%	**1,025**	834	23%	**9,069**	7,305	24%
Group Total [11]	**27,869**	24,508	14%	**2,820**	2,176	30%-	**5,607**	4,627	21%	**41,563**	35,191	18%
Asia Insurance Operations[1a]												
Cambodia	**-**	-	N/A	**8**	3	167%	**8**	3	167%	**38**	16	138%
Hong Kong	**546**	419	30%	**1,158**	603	92%	**1,213**	645	88%	**7,007**	3,861	81%
Indonesia	**230**	280	(18)%	**303**	357	(15)%	**326**	385	(15)%	**1,224**	1,619	(24)%
Malaysia	**100**	117	(15)%	**201**	189	6%	**211**	201	5%	**1,208**	1,284	(6)%
Philippines	**146**	121	21%	**44**	39	13%	**59**	51	16%	**287**	248	16%
Singapore	**454**	677	(33)%	**264**	289	(9)%	**309**	357	(13)%	**2,230**	2,683	(17)%
Thailand	**69**	92	(25)%	**88**	74	19%	**95**	83	14%	**422**	392	8%
Vietnam	**6**	4	50%	**82**	61	34%	**83**	61	36%	**343**	247	39%
SE Asia Operations inc. Hong Kong	**1,551**	1,710	(9)%	**2,148**	1,615	33%	**2,304**	1,786	29%	**12,759**	10,350	23%
China[6]	**308**	239	29%	**111**	81	37%	**142**	105	35%	**739**	550	34%
Korea	**182**	212	(14)%	**123**	92	34%	**141**	113	25%	**780**	609	28%
Taiwan	**45**	83	(46)%	**127**	116	9%	**131**	124	6%	**442**	462	(4)%
India[4]	**34**	28	21%	**132**	106	25%	**135**	109	24%	**488**	360	36%
Total Asia Insurance Operations	**2,120**	2,272	(7)%	**2,641**	2,010	31%	**2,853**	2,237	28%	**15,208**	12,331	23%
US Insurance Operations[1a]												
Variable annuities	**11,977**	10,899	10%	**-**	-	N/A	**1,198**	1,090	10%	**11,977**	10,899	10%
Elite Access (variable annuity)	**3,144**	3,108	1%	**-**	-	N/A	**314**	311	1%	**3,144**	3,108	1%
Fixed annuities	**477**	527	(9)%	**-**	-	N/A	**48**	53	(9)%	**477**	527	(9)%
Fixed index annuities	**458**	370	24%	**-**	-	N/A	**46**	37	24%	**458**	370	24%
Wholesale	**1,230**	651	89%	**-**	-	N/A	**123**	65	89%	**1,230**	651	89%
Total US Insurance Operations	**17,286**	15,555	11%	**-**	-	N/A	**1,729**	1,556	11%	**17,286**	15,555	11%
UK & Europe Insurance Operations[11]												
Individual annuities	**565**	1,065	(47)%	**-**	-	N/A	**57**	106	(46)%	**565**	1,065	(47)%
Bonds	**3,327**	2,934	13%	**-**	-	N/A	**333**	294	13%	**3,328**	2,937	13%
Corporate pensions	**175**	92	90%	**135**	138	(2%)	**152**	147	3%	**600**	592	1%
Individual pensions	**1,185**	508	133%	**32**	22	45%	**150**	72	108%	**1,295**	595	118%
Income drawdown	**1,024**	352	191%	**-**	-	N/A	**102**	35	191%	**1,024**	352	191%
Other products	**679**	20	3,295%	**12**	6	100%	**80**	9	789%	**749**	54	1,287%
Total Retail	**6,955**	4,971	40%	**179**	166	8%	**874**	663	32%	**7,561**	5,595	35%
Wholesale	**1,508**	1,710	(12)%	**-**	-	N/A	**151**	171	(12)%	**1,508**	1,710	(12)%
Total UK & Europe Insurance Operations	**8,463**	6,681	27%	**179**	166	8%	**1,025**	834	23%	**9,069**	7,305	24%
Group Total [11]	**27,869**	24,508	14%	**2,820**	2,176	30%	**5,607**	4,627	21%	**41,563**	35,191	18%

Schedule A(ii) – New Business Insurance Operations (Constant Exchange Rates)

Note: In schedule A(ii) constant exchange rates have been used to calculate insurance new business for overseas operations for 2014.

	Single			Regular			Annual Equivalents[2]			PVNBP[2]		
	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)	2015 YTD £m	2014 YTD £m	+/- (%)
Group Insurance Operations												
Asia [1a] [1b]	**2,120**	2,300	(8)%	**2,641**	2,037	30%	**2,853**	2,267	26%	**15,208**	12,502	22%
US[1a] [1b]	**17,286**	16,768	3%	**-**	-	N/A	**1,729**	1,677	3%	**17,286**	16,768	3%
UK[11]	**8,463**	6,681	27%	**179**	166	8%	**1,025**	834	23%	**9,069**	7,305	24%
Group Total [11]	**27,869**	25,749	8%	**2,820**	2,203	28%	**5,607**	4,778	17%	**41,563**	36,575	14%
Asia Insurance Operations[1a] [1b]												
Cambodia	**-**	-	N/A	**8**	3	167%	**8**	3	167%	**38**	17	124%
Hong Kong	**546**	452	21%	**1,158**	651	78%	**1,213**	696	74%	**7,007**	4,164	68%
Indonesia	**230**	267	(14)%	**303**	340	(11)%	**326**	367	(11)%	**1,224**	1,545	(21)%
Malaysia	**100**	105	(5)%	**201**	170	18%	**211**	181	17%	**1,208**	1,158	4%
Philippines	**146**	127	15%	**44**	41	7%	**59**	54	9%	**287**	260	10%
Singapore	**454**	673	(33)%	**264**	287	(8)%	**309**	354	(13)%	**2,230**	2,664	(16)%
Thailand	**69**	94	(27)%	**88**	76	16%	**95**	85	12%	**422**	401	5%
Vietnam	**6**	4	50%	**82**	63	30%	**83**	63	32%	**343**	258	33%
SE Asia Operations inc. Hong Kong	**1,551**	1,722	(10)%	**2,148**	1,631	32%	**2,304**	1,803	28%	**12,759**	10,467	22%
China[6]	**308**	252	22%	**111**	86	29%	**142**	111	28%	**739**	581	27%
Korea	**182**	213	(15)%	**123**	92	34%	**141**	113	25%	**780**	610	28%
Taiwan	**45**	85	(47)%	**127**	119	7%	**131**	128	2%	**442**	475	(7)%
India[4]	**34**	28	21%	**132**	109	21%	**135**	112	21%	**488**	369	32%
Total Asia Insurance Operations	**2,120**	2,300	(8)%	**2,641**	2,037	30%	**2,853**	2,267	26%	**15,208**	12,502	22%
US Insurance Operations[1a] [1b]												
Variable annuities	**11,977**	11,749	2%	**-**	-	N/A	**1,198**	1,175	2%	**11,977**	11,749	2%
Elite Access (variable annuity)	**3,144**	3,351	(6)%	**-**	-	N/A	**314**	335	(6)%	**3,144**	3,351	(6)%
Fixed annuities	**477**	568	(16)%	**-**	-	N/A	**48**	57	(16)%	**477**	568	(16)%
Fixed index annuities	**458**	398	15%	**-**	-	N/A	**46**	40	15%	**458**	398	15%
Wholesale	**1,230**	702	75%	**-**	-	N/A	**123**	70	76%	**1,230**	702	75%
Total US Insurance Operations	**17,286**	16,768	3%	**-**	-	N/A	**1,729**	1,677	3%	**17,286**	16,768	3%
UK & Europe Insurance Operations[11]												
Individual annuities	**565**	1,065	(47)%	**-**	-	N/A	**57**	106	(46)%	**565**	1,065	(47)%
Bonds	**3,327**	2,934	13%	**-**	-	N/A	**333**	294	13%	**3,328**	2,937	13%
Corporate pensions	**175**	92	90%	**135**	138	(2)%	**152**	147	3%	**600**	592	1%
Individual pensions	**1,185**	508	133%	**32**	22	45%	**150**	72	108%	**1,295**	595	118%
Income drawdown	**1,024**	352	191%	**-**	-	N/A	**102**	35	191%	**1,024**	352	191%
Other products	**679**	20	3,295%	**12**	6	100%	**80**	9	789%	**749**	54	1,287%
Total Retail	**6,955**	4,971	40%	**179**	166	8%	**874**	663	32%	**7,561**	5,595	35%
Wholesale	**1,508**	1,710	(12)%	**-**	-	N/A	**151**	171	(12)%	**1,508**	1,710	(12)%
Total UK & Europe Insurance Operations	**8,463**	6,681	27%	**179**	166	8%	**1,025**	834	23%	**9,069**	7,305	24%
Group Total [11]	**27,869**	25,749	8%	**2,820**	2,203	28%	**5,607**	4,778	17%	**41,563**	36,575	14%

Schedule A(iii) – Total Insurance New Business APE – By Quarter (Actual Exchange Rates)

	2014				2015			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia [1a]	507	489	548	693	681	685	655	**832**
US[1a]	432	439	364	321	400	457	421	**451**
UK [11]	230	189	209	206	169	341	252	**263**
Group Total [11]	**1,169**	**1,117**	**1,121**	**1,220**	**1,250**	**1,483**	**1,328**	**1,546**
Asia Insurance Operations[1a]								
Cambodia	-	1	1	1	2	1	3	**2**
Hong Kong	128	130	166	221	246	273	283	**411**
Indonesia	86	98	80	121	93	90	64	**79**
Malaysia	43	48	48	62	54	51	47	**59**
Philippines	11	11	13	16	14	15	15	**15**
Singapore	87	85	86	99	72	81	71	**85**
Thailand	25	17	18	23	28	20	21	**26**
Vietnam	11	12	16	22	13	21	21	**28**
SE Asia Operations inc. Hong Kong	**391**	**402**	**428**	**565**	**522**	**552**	**525**	**705**
China[6]	38	19	23	25	56	33	26	**27**
Korea	26	22	32	33	31	43	38	**29**
Taiwan	24	30	34	36	28	33	32	**38**
India[4]	28	16	31	34	44	24	34	**33**
Total Asia Insurance Operations	**507**	**489**	**548**	**693**	**681**	**685**	**655**	**832**
US Insurance Operations[1a]								
Variable annuities	317	297	260	216	272	334	307	**285**
Elite Access (variable annuity)	69	80	80	82	74	92	81	**67**
Fixed annuities	12	15	14	12	11	12	12	**13**
Fixed index annuities	8	10	10	9	10	11	11	**14**
Wholesale	26	37	-	2	33	8	10	**72**
Total US Insurance Operations	**432**	**439**	**364**	**321**	**400**	**457**	**421**	**451**
UK & Europe Insurance Operations[11]								
Individual annuities	36	27	23	20	14	14	15	**14**
Bonds	63	67	77	87	76	80	83	**94**
Corporate pensions	40	39	38	30	33	43	31	**45**
Individual pensions	12	15	21	24	27	35	38	**50**
Income drawdown	5	7	11	12	14	25	32	**31**
Other products	1	3	2	3	5	27	21	**27**
Total Retail	**157**	**158**	**172**	**176**	**169**	**224**	**220**	**261**
Wholesale	73	31	37	30	-	117	32	**2**
Total UK & Europe Insurance Operations	**230**	**189**	**209**	**206**	**169**	**341**	**252**	**263**
Group Total[11]	**1,169**	**1,117**	**1,121**	**1,220**	**1,250**	**1,483**	**1,328**	**1,546**

Schedule A(iv) – Total Insurance New Business APE – By Quarter (2014 at Constant Exchange Rates)

Note: In schedule A(iv) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014. Discrete quarters in 2015 are presented on actual exchange rates.

	2014				2015			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia(1b)	517	500	560	690	681	685	655	**832**
US(1b)	468	483	398	328	400	457	421	**451**
UK (11)	230	189	209	206	169	341	252	**263**
Group Total(11)	**1,215**	**1,172**	**1,167**	**1,224**	**1,250**	**1,483**	**1,328**	**1,546**
Asia Insurance Operations(1b)								
Cambodia	-	1	1	1	2	1	3	**2**
Hong Kong	139	141	184	232	246	273	283	**411**
Indonesia	82	94	76	115	93	90	64	**79**
Malaysia	40	43	42	56	54	51	47	**59**
Philippines	11	13	13	17	14	15	15	**15**
Singapore	87	85	86	96	72	81	71	**85**
Thailand	26	18	18	23	28	20	21	**26**
Vietnam	11	14	16	22	13	21	21	**28**
SE Asia Operations inc. Hong Kong	**396**	**409**	**436**	**562**	**522**	**552**	**525**	**705**
China(6)	40	21	25	25	56	33	26	**27**
Korea	27	22	32	32	31	43	38	**29**
Taiwan	25	31	35	37	28	33	32	**38**
India(4)	29	17	32	34	44	24	34	**33**
Total Asia Insurance Operations	**517**	**500**	**560**	**690**	**681**	**685**	**655**	**832**
US Insurance Operations(1b)								
Variable annuities	343	327	285	220	272	334	307	**285**
Elite Access (variable annuity)	75	88	87	85	74	92	81	**67**
Fixed annuities	13	16	15	13	11	12	12	**13**
Fixed index annuities	9	11	11	9	10	11	11	**14**
Wholesale	28	41	-	1	33	8	10	**72**
Total US Insurance Operations	**468**	**483**	**398**	**328**	**400**	**457**	**421**	**451**
UK & Europe Insurance Operations(11)								
Individual annuities	36	27	23	20	14	14	15	**14**
Bonds	63	67	77	87	76	80	83	**94**
Corporate pensions	40	39	38	30	33	43	31	**45**
Individual pensions	12	15	21	24	27	35	38	**50**
Income drawdown	5	7	11	12	14	25	32	**31**
Other products	1	3	2	3	5	27	21	**27**
Total Retail	**157**	**158**	**172**	**176**	**169**	**224**	**220**	**261**
Wholesale	73	31	37	30	-	117	32	**2**
Total UK & Europe Insurance Operations	**230**	**189**	**209**	**206**	**169**	**341**	**252**	**263**
Group Total(11)	**1,215**	**1,172**	**1,167**	**1,224**	**1,250**	**1,483**	**1,328**	**1,546**

Schedule A(v) – Total Insurance New Business APE – By Quarter (2015 and 2014 at Constant Exchange Rates)

Note: In schedule A(v) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014 and 2015 ie the average exchange rate for the year ended 31 December 2015 is applied to each discrete quarter for 2014 and 2015.

	2014				2015			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia(1c)	517	500	560	690	661	676	675	**841**
US(1c)	468	483	398	328	396	459	427	**447**
UK (11)	230	189	209	206	169	341	252	**263**
Group Total(11)	**1,215**	**1,172**	**1,167**	**1,224**	**1,226**	**1,476**	**1,354**	**1,551**
Asia Insurance Operations(1c)								
Cambodia	-	1	1	1	2	1	3	2
Hong Kong	139	141	184	232	244	273	287	409
Indonesia	82	94	76	115	88	88	68	82
Malaysia	40	43	42	56	50	48	49	64
Philippines	11	13	13	17	13	15	16	15
Singapore	87	85	86	96	70	81	71	87
Thailand	26	18	18	23	26	20	23	26
Vietnam	11	14	16	22	13	20	22	28
SE Asia Operations inc. Hong Kong	**396**	**409**	**436**	**562**	**506**	**546**	**539**	**713**
China(6)	40	21	25	25	56	32	27	27
Korea	27	22	32	32	30	41	41	29
Taiwan	25	31	35	37	27	33	32	39
India(4)	29	17	32	34	42	24	36	33
Total Asia Insurance Operations	**517**	**500**	**560**	**690**	**661**	**676**	**675**	**841**
US Insurance Operations(1c)								
Variable annuities	343	327	285	220	269	336	310	283
Elite Access (variable annuity)	75	88	87	85	73	92	83	66
Fixed annuities	13	16	15	13	11	12	12	13
Fixed index annuities	9	11	11	9	10	11	12	13
Wholesale	28	41	-	1	33	8	10	72
Total US Insurance Operations	**468**	**483**	**398**	**328**	**396**	**459**	**427**	**447**
UK & Europe Insurance Operations(11)								
Individual annuities	36	27	23	20	14	14	15	14
Bonds	63	67	77	87	76	80	83	94
Corporate pensions	40	39	38	30	33	43	31	45
Individual pensions	12	15	21	24	27	35	38	50
Income drawdown	5	7	11	12	14	25	32	31
Other products	1	3	2	3	5	27	21	27
Total Retail	**157**	**158**	**172**	**176**	**169**	**224**	**220**	**261**
Wholesale	73	31	37	30	-	117	32	2
Total UK & Europe Insurance Operations	**230**	**189**	**209**	**206**	**169**	**341**	**252**	**263**
Group Total(11)	**1,215**	**1,172**	**1,167**	**1,224**	**1,226**	**1,476**	**1,354**	**1,551**

Schedule A(vi) – Investment Operations – By Quarter (Actual Exchange Rates)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	£m	£m	£m	£m	£m	£m	£m	£m
Group Investment Operations								
Opening FUM	143,916	147,914	153,849	157,533	162,380	169,345	163,488	**155,365**
Net Flows:[8]	2,571	4,123	2,893	2,930	2,990	(804)	(2,314)	**(909)**
- Gross Inflows	12,146	14,045	12,847	13,670	17,512	14,566	11,839	**10,553**
- Redemptions	(9,575)	(9,922)	(9,954)	(10,740)	(14,522)	(15,370)	(14,153)	**(11,462)**
Other Movements	1,427	1,812	791	1,917	3,975	(5,053)	(5,809)	**2,230**
Total Group Investment Operations[10]	**147,914**	**153,849**	**157,533**	**162,380**	**169,345**	**163,488**	**155,365**	**156,686**
M&G								
Retail								
Opening FUM	67,202	68,981	71,941	73,012	74,289	75,673	69,158	**63,464**
Net Flows:	1,291	2,493	1,531	1,371	558	(3,976)	(3,939)	**(3,501)**
- Gross Inflows	7,305	7,468	6,801	7,414	8,592	5,672	3,760	**3,076**
- Redemptions	(6,014)	(4,975)	(5,270)	(6,043)	(8,034)	(9,648)	(7,699)	**(6,577)**
Other Movements	488	467	(460)	(94)	826	(2,539)	(1,755)	**838**
Closing FUM	**68,981**	**71,941**	**73,012**	**74,289**	**75,673**	**69,158**	**63,464**	**60,801**
Comprising amounts for:								
UK	42,199	42,392	41,756	40,705	41,143	38,701	36,457	**35,738**
Europe (excluding UK)	25,244	27,927	29,622	31,815	32,675	28,726	25,388	**23,524**
South Africa	1,538	1,622	1,634	1,769	1,855	1,731	1,619	**1,539**
	68,981	**71,941**	**73,012**	**74,289**	**75,673**	**69,158**	**63,464**	**60,801**
Institutional[3]								
Opening FUM	58,787	59,736	60,830	61,572	62,758	63,838	64,242	**63,845**
Net Flows:	152	275	138	(164)	122	921	1,243	**1,564**
- Gross Inflows	1,655	2,894	2,295	2,185	3,712	2,449	3,312	**3,053**
- Redemptions	(1,503)	(2,619)	(2,157)	(2,349)	(3,590)	(1,528)	(2,069)	**(1,489)**
Other Movements	797	819	604	1,350	958	(517)	(1,640)	**195**
Closing FUM	**59,736**	**60,830**	**61,572**	**62,758**	**63,838**	**64,242**	**63,845**	**65,604**
Total M&G Investment Operations	**128,717**	**132,771**	**134,584**	**137,047**	**139,511**	**133,400**	**127,309**	**126,405**
PPM South Africa FUM included in Total M&G	**4,720**	**4,815**	**4,905**	**5,203**	**5,456**	**5,108**	**4,628**	**4,365**
Eastspring - excluding MMF[8]								
Third Party Retail[7]								
Opening FUM	16,109	16,753	18,259	19,893	21,893	25,687	26,017	**24,175**
Net Flows:	540	1,063	1,127	1,640	2,133	2,102	225	**391**
- Gross Inflows	2,546	3,285	3,583	3,760	5,007	6,082	4,439	**3,726**
- Redemptions	(2,006)	(2,222)	(2,456)	(2,120)	(2,874)	(3,980)	(4,214)	**(3,335)**
Other Movements	104	443	507	360	1,661	(1,772)	(2,067)	**975**
Closing FUM[5]	**16,753**	**18,259**	**19,893**	**21,893**	**25,687**	**26,017**	**24,175**	**25,541**
Third Party Institutional Mandates								
Opening FUM	1,818	2,444	2,819	3,056	3,440	4,147	4,071	**3,881**
Net Flows:	588	292	97	83	177	149	157	**637**
- Gross Inflows	640	398	168	311	201	363	328	**698**
- Redemptions	(52)	(106)	(71)	(228)	(24)	(214)	(171)	**(61)**
Other Movements	38	83	140	301	530	(225)	(347)	**222**
Closing FUM[5]	**2,444**	**2,819**	**3,056**	**3,440**	**4,147**	**4,071**	**3,881**	**4,740**
Total Eastspring Investment Operations	**19,197**	**21,078**	**22,949**	**25,333**	**29,834**	**30,088**	**28,056**	**30,281**
US								
Curian - FUM[5] [9]	**6,781**	**6,948**	**7,421**	**7,933**	**8,557**	**8,078**	**4,526**	**1,891**

Schedule A(vii) – Total Insurance New Business Profit (Actual Exchange Rates)

	2014				2015			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
New Business Profit(1a)								
Total Asia Insurance Operations	243	494	775	1,162	309	664	976	**1,490**
Total US Insurance Operations	195	376	530	694	153	371	557	**809**
Total UK & Europe Insurance Operations(11)	88	139	200	259	34	155	231	**318**
Group Total (11)	**526**	**1,009**	**1,505**	**2,115**	**496**	**1,190**	**1,764**	**2,617**
Annual Equivalent(1a) (2)								
Total Asia Insurance Operations	507	996	1,544	2,237	681	1,366	2,021	**2,853**
Total US Insurance Operations	432	871	1,235	1,556	400	857	1,278	**1,729**
Total UK & Europe Insurance Operations(11)	230	419	628	834	169	510	762	**1,025**
Group Total(11)	**1,169**	**2,286**	**3,407**	**4,627**	**1,250**	**2,733**	**4,061**	**5,607**
New Business Margin (NBP as % of APE)								
Total Asia Insurance Operations	48%	50%	50%	52%	45%	49%	48%	**52%**
Total US Insurance Operations	45%	43%	43%	45%	38%	43%	44%	**47%**
Total UK & Europe Insurance Operations	38%	33%	32%	31%	20%	30%	30%	**31%**
Group Total	**45%**	**44%**	**44%**	**46%**	**40%**	**44%**	**43%**	**47%**
PVNBP(1a) (2)								
Total Asia Insurance Operations	2,690	5,378	8,408	12,331	3,643	7,340	10,847	**15,208**
Total US Insurance Operations	4,323	8,703	12,352	15,555	3,998	8,574	12,782	**17,286**
Total UK & Europe Insurance Operations(11)	2,024	3,644	5,459	7,305	1,450	4,524	6,815	**9,069**
Group Total(11)	**9,037**	**17,725**	**26,219**	**35,191**	**9,091**	**20,438**	**30,444**	**41,563**
New Business Margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	9.0%	9.2%	9.2%	9.4%	8.5%	9.0%	9.0%	**9.8%**
Total US Insurance Operations	4.5%	4.3%	4.3%	4.5%	3.8%	4.3%	4.4%	**4.7%**
Total UK & Europe Insurance Operations	4.3%	3.8%	3.7%	3.5%	2.3%	3.4%	3.4%	**3.5%**
Group Total	**5.8%**	**5.7%**	**5.7%**	**6.0%**	**5.5%**	**5.8%**	**5.8%**	**6.3%**

Schedule A(viii) – Total Insurance New Business Profit (2014 at Constant Exchange Rates)

Note: In schedule A(viii) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014. The year-to-date amounts for 2015 are presented on actual exchange rates.

	2014				2015			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
New Business Profit(1b)								
Total Asia Insurance Operations	245	499	785	1,168	309	664	976	**1,490**
Total US Insurance Operations	211	411	579	748	153	371	557	**809**
Total UK & Europe Insurance Operations(11)	88	139	200	259	34	155	231	**318**
Group Total(11)	**544**	**1,049**	**1,564**	**2,175**	**496**	**1,190**	**1,764**	**2,617**
Annual Equivalent(1b) (2)								
Total Asia Insurance Operations	517	1,017	1,577	2,267	681	1,366	2,021	**2,853**
Total US Insurance Operations	468	951	1,349	1,677	400	857	1,278	**1,729**
Total UK & Europe Insurance Operations(11)	230	419	628	834	169	510	762	**1,025**
Group Total(11)	**1,215**	**2,387**	**3,554**	**4,778**	**1,250**	**2,733**	**4,061**	**5,607**
New Business Margin (NBP as % of APE)								
Total Asia Insurance Operations	47%	49%	50%	52%	45%	49%	48%	**52%**
Total US Insurance Operations	45%	43%	43%	45%	38%	43%	44%	**47%**
Total UK & Europe Insurance Operations	38%	33%	32%	31%	20%	30%	30%	**31%**
Group Total	**45%**	**44%**	**44%**	**46%**	**40%**	**44%**	**43%**	**47%**
PVNBP(1b) (2)								
Total Asia Insurance Operations	2,740	5,493	8,587	12,502	3,643	7,340	10,847	**15,208**
Total US Insurance Operations	4,682	9,506	13,493	16,768	3,998	8,574	12,782	**17,286**
Total UK & Europe Insurance Operations(11)	2,024	3,644	5,459	7,305	1,450	4,524	6,815	**9,069**
Group Total(11)	**9,446**	**18,643**	**27,539**	**36,575**	**9,091**	**20,438**	**30,444**	**41,563**
New Business Margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.9%	9.1%	9.1%	9.3%	8.5%	9.0%	9.0%	**9.8%**
Total US Insurance Operations	4.5%	4.3%	4.3%	4.5%	3.8%	4.3%	4.4%	**4.7%**
Total UK & Europe Insurance Operations	4.3%	3.8%	3.7%	3.5%	2.3%	3.4%	3.4%	**3.5%**
Group Total	**5.8%**	**5.6%**	**5.7%**	**5.9%**	**5.5%**	**5.8%**	**5.8%**	**6.3%**

Schedule A(ix) – Total Insurance New Business Profit (2015 and 2014 at Constant Exchange Rates)

Note: In schedule A(ix) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014 and 2015, ie the average exchange rates for the year ended 31 December 2015 are applied to each period for 2014 and 2015.

	2014				2015			
	Q1 YTD £m	**Q2 YTD £m**	**Q3 YTD £m**	**Q4 YTD £m**	**Q1 YTD £m**	**Q2 YTD £m**	**Q3 YTD £m**	**Q4 YTD £m**
Post-tax analysis								
New Business Profit(1c)								
Total Asia Insurance Operations	245	499	785	1,168	299	651	972	**1,490**
Total US Insurance Operations	211	411	579	748	152	370	558	**809**
Total UK & Europe Insurance Operations(11)	88	139	200	259	34	155	231	**318**
Group Total(11)	**544**	**1,049**	**1,564**	**2,175**	**485**	**1,176**	**1,761**	**2,617**
Annual Equivalent(1c) (2)								
Total Asia Insurance Operations	517	1,017	1,577	2,267	661	1,337	2,012	**2,853**
Total US Insurance Operations	468	951	1,349	1,677	396	855	1,282	**1,729**
Total UK & Europe Insurance Operations(11)	230	419	628	834	169	510	762	**1,025**
Group Total(11)	**1,215**	**2,387**	**3,554**	**4,778**	**1,226**	**2,702**	**4,056**	**5,607**
New Business Margin (NBP as % of APE)								
Total Asia Insurance Operations	47%	49%	50%	52%	45%	49%	48%	**52%**
Total US Insurance Operations	45%	43%	43%	45%	38%	43%	44%	**47%**
Total UK & Europe Insurance Operations	38%	33%	32%	31%	20%	30%	30%	**31%**
Group Total	**45%**	**44%**	**44%**	**46%**	**40%**	**44%**	**43%**	**47%**
PVNBP(1c) (2)								
Total Asia Insurance Operations	2,740	5,493	8,587	12,502	3,539	7,190	10,799	**15,208**
Total US Insurance Operations	4,682	9,506	13,493	16,768	3,960	8,547	12,815	**17,286**
Total UK & Europe Insurance Operations(11)	2,024	3,644	5,459	7,305	1,450	4,524	6,815	**9,069**
Group Total(11)	**9,446**	**18,643**	**27,539**	**36,575**	**8,949**	**20,261**	**30,429**	**41,563**
New Business Margin (NBP as % of PVNBP)								
Total Asia Insurance Operations	8.9%	9.1%	9.1%	9.3%	8.4%	9.1%	9.0%	**9.8%**
Total US Insurance Operations	4.5%	4.3%	4.3%	4.5%	3.8%	4.3%	4.4%	**4.7%**
Total UK & Europe Insurance Operations	4.3%	3.8%	3.7%	3.5%	2.3%	3.4%	3.4%	**3.5%**
Group Total	**5.8%**	**5.6%**	**5.7%**	**5.9%**	**5.4%**	**5.8%**	**5.8%**	**6.3%**

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 2015 results.

The impact of Solvency II which is effective from 1 January 2016 is not reflected in the analysis below in line with the guidance issued by the CFO Forum. The new regulatory regime will not impact the free surplus generation profile of our operations in Asia and the US as Solvency II does not act as the local constraint on the ability to distribute profits to the Group. For these businesses free surplus generation will continue to be driven by local regulatory and target capital requirements. For the UK insurance operations Solvency II will alter free surplus generation and an early estimate is provided in section D of the additional unaudited information.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2015, the tables also present the expected future free surplus to be generated from the investment made in new business during 2015 over the same 40-year period.

Expected transfer of value of in-force business (VIF) and required capital to free surplus

	2015 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from 2015 long-term new business written*			
Expected period of emergence	**Asia**	**US**	**UK**	**Total**	**Asia**	**US**	**UK**	**Total**
2016	1,015	1,120	486	**2,621**	148	276	28	**452**
2017	962	991	510	**2,463**	140	120	28	**288**
2018	926	951	506	**2,383**	150	131	29	**310**
2019	905	970	503	**2,378**	134	65	29	**228**
2020	871	1,018	499	**2,388**	139	106	33	**278**
2021	889	982	498	**2,369**	123	106	31	**260**
2022	887	921	489	**2,297**	128	88	29	**245**
2023	871	894	491	**2,256**	124	157	28	**309**
2024	844	755	478	**2,077**	118	140	29	**287**
2025	817	680	466	**1,963**	123	129	29	**281**
2026	800	606	454	**1,860**	105	110	26	**241**
2027	789	512	437	**1,738**	109	95	24	**228**
2028	766	447	424	**1,637**	102	85	24	**211**
2029	740	386	411	**1,537**	100	76	23	**199**
2030	724	328	398	**1,450**	108	69	22	**199**
2031	699	276	383	**1,358**	96	55	21	**172**
2032	681	272	373	**1,326**	94	48	20	**162**
2033	661	166	353	**1,180**	91	42	20	**153**
2034	648	130	331	**1,109**	89	35	20	**144**
2035	636	102	313	**1,051**	94	30	18	**142**
2036-2040	3,020	190	1,255	**4,465**	429	48	81	**558**
2041-2045	2,659	-	1,081	**3,740**	396	-	104	**500**
2046-2050	2,342	-	470	**2,812**	368	-	43	**411**
2051-2055	2,056	-	261	**2,317**	350	-	26	**376**
Total free surplus expected to emerge in the next 40 years	26,208	12,697	11,870	**50,775**	3,858	2,011	765	**6,634**

* The analysis excludes amounts incorporated into VIF at 31 December 2015 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 2055.

The above amounts can be reconciled to the new business amounts as follows:

	2015 £m			
	Asia	**US**	**UK**	**Total**
Undiscounted expected free surplus generation for years 2016 to 2055	3,858	2,011	765	**6,634**
Less: discount effect	(2,138)	(725)	(392)	**(3,255)**
Discounted expected free surplus generation for years 2016 to 2055	1,720	1,286	373	**3,379**
Discounted expected free surplus generation for years 2055+	153	-	2	**155**
Less: Free surplus investment in new business[note 8]	(413)	(267)	(65)	**(745)**
Other items**	30	(210)	8	**(172)**
Post-tax EEV new business profit[note 3]	1,490	809	318	**2,617**

** 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 2015 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2014 as follows:

Group	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**Other £m**	**Total £m**
2014 expected free surplus generation for years 2015 - 2054	2,513	2,336	2,228	2,141	2,179	2,079	33,666	**47,142**
Less: Amounts expected to be realised in the current year	(2,513)							**(2,513)**
Add: Expected free surplus to be generated in year 2055*							355	**355**
Foreign exchange differences		29	28	27	31	27	(165)	**(23)**
New business		452	288	310	228	278	5,078	**6,634**
Operating movements		5	35	25	50	29	(392)	**(820)**
Non-operating and other movements		(201)	(116)	(120)	(110)	(25)		
2015 expected free surplus generation for years 2016 - 2055	-	2,621	2,463	2,383	2,378	2,388	38,542	**50,775**

Asia	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**Other £m**	**Total £m**
2014 expected free surplus generation for years 2015 - 2054	953	920	883	846	819	796	19,360	**24,577**
Less: Amounts expected to be realised in the current year	(953)						-	**(953)**
Add: Expected free surplus to be generated in year 2055*							315	**315**
Foreign exchange differences		(23)	(22)	(19)	(19)	(20)	(466)	**(569)**
New business		148	140	150	134	139	3,147	**3,858**
Operating movements		3	-	(20)	6	(15)	(827)	**(1,020)**
Non-operating and other movements		(33)	(39)	(31)	(35)	(29)		
2015 expected free surplus generation for years 2016 - 2055	-	1,015	962	926	905	871	21,529	**26,208**

US	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**Other £m**	**Total £m**
2014 expected free surplus generation for years 2015 - 2054	1,054	902	844	792	866	801	5,271	**10,530**
Less: Amounts expected to be realised in the current year	(1,054)							**(1,054)**
Add: Expected free surplus to be generated in year 2055*								
Foreign exchange differences		52	50	46	50	47	301	**546**
New business		276	120	131	65	106	1,313	**2,011**
Operating movements		4	22	30	35	40	762	**664**
Non-operating and other movements		(114)	(45)	(48)	(46)	24		
2015 expected free surplus generation for years 2016 - 2055	-	1,120	991	951	970	1,018	7,647	**12,697**

UK	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**Other £m**	**Total £m**
2014 expected free surplus generation for years 2015 - 2054	506	514	501	503	494	482	9,035	**12,035**
Less: Amounts expected to be realised in the current year	(506)							**(506)**
Add: Expected free surplus to be generated in year 2055*							40	**40**
New business		28	28	29	29	33	618	**765**
Operating movements		(2)	13	15	9	4	(327)	**(464)**
Non-operating and other movements		(54)	(32)	(41)	(29)	(20)		
2015 expected free surplus generation for years 2016 - 2055	-	486	510	506	503	499	9,366	**11,870**

* Excluding 2015 new business.

At 31 December 2015 the total free surplus expected to be generated over the next five years (2016 to 2020 inclusive), using the same assumptions and methodology as those underpinning our 2015 embedded value reporting was £12.2 billion, an increase of £1.2 billion from the £11.0 billion expected over the same period at the end of 2014.

This increase primarily reflects the new business written in 2015, which is expected to generate £1,556 million of free surplus over the next five years.

At 31 December 2015 the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £50.8 billion, up from the £47.1 billion expected at the end of 2014 reflecting the effect of new business written across all three business operations of £6.6 billion and a positive foreign exchange translation effect of £0.4 billion. These positive effects have been offset by a £(0.8) billion adverse effect reflecting operating, market assumption changes and other items. In Asia, these principally reflect the impact of falls in equity market returns and bond values. In the US these mainly reflect higher future separate account growth due to the increase in interest rates, together with improved persistency. Offsetting these positive impacts is the negative effect of lower than expected separate account growth in the year due to broadly flat equity market returns in 2015. In the UK, these mainly arise from the effect of longevity reinsurance transactions entered into during the year and the effect of a partial hedge to protect future shareholder with-profits transfers from declines in UK equity markets. The longevity reinsurance transactions executed this year had the effect of accelerating the generation of future free surplus into 2015. 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 2015 from life business in-force at the end of 2015 was £3.3 billion including £0.6 billion of changes in operating assumptions and experience variances. This compares with the expected 2015 realisation at the end of 2014 of £2.5 billion. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2015	974	1,064	573	**2,611**
Expected return on free assets	30	42	47	**119**
Changes in operating assumptions and experience variances	(19)	320	258	**559**
Underlying free surplus generated from in-force life business in 2015	**985**	**1,426**	**878**	**3,289**
2015 free surplus expected to be generated at 31 December 2014	953	1,054	506	2,513

The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

	2015 £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**
2016	969	1,081	457	**2,507**	141	267	28	**436**
2017	851	902	452	**2,205**	122	110	25	**257**
2018	766	817	424	**2,007**	122	112	24	**258**
2019	701	785	395	**1,881**	103	52	24	**179**
2020	629	776	369	**1,774**	101	79	25	**205**
2021	597	706	347	**1,650**	84	76	22	**182**
2022	558	625	320	**1,503**	83	58	20	**161**
2023	512	574	302	**1,388**	75	97	18	**190**
2024	464	459	276	**1,199**	68	81	18	**167**
2025	421	388	253	**1,062**	66	71	17	**154**
2026	388	330	232	**950**	52	56	14	**122**
2027	362	261	209	**832**	51	45	13	**109**
2028	333	216	190	**739**	45	38	12	**95**
2029	304	177	174	**655**	42	32	11	**85**
2030	282	145	157	**584**	43	27	10	**80**
2031	258	118	142	**518**	37	20	9	**66**
2032	239	113	129	**481**	34	16	8	**58**
2033	220	62	115	**397**	32	13	7	**52**
2034	206	49	101	**356**	30	11	7	**48**
2035	192	41	89	**322**	31	9	6	**46**
2036-2040	807	115	289	**1,211**	126	16	23	**165**
2041-2045	565	-	183	**748**	97	-	22	**119**
2046-2050	403	-	51	**454**	76	-	7	**83**
2051-2055	280	-	21	**301**	59	-	3	**62**
Total discounted free surplus expected to emerge in the next 40 years	11,307	8,740	5,677	**25,724**	1,720	1,286	373	**3,379**

The above amounts can be reconciled to the Group's financial statements as follows:

	2015 £m
Discounted expected generation from all in-force business for years 2016-2055	**25,724**
Discounted expected generation from all in-force business for years after 2055	**563**
Discounted expected generation from all in-force business at 31 December 2015[note 11]	**26,287**
Add: Free surplus of life operations held at 31 December 2015[notes 8,10]	**5,642**
Less: Time value of guarantees[note 11]	**(1,100)**
Other non-modelled items[note 11]	**1,948**
Total EEV for life operations[note 10]	**32,777**

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 2015 results

	Underlying free surplus generated % note (2)	Pre-tax operating profit % notes (2),(3),(4)	Shareholders' funds % notes (2),(3),(4)
US$ linked[(1)]	**11**	**16**	**14**
Other Asia currencies	**11**	**17**	**19**
Total Asia	**22**	**33**	**33**
UK sterling[(3),(4)]	**40**	**25**	**46**
US$ [(4)]	**38**	**42**	**21**
Total	**100**	**100**	**100**

EEV 2015 results

	Post-tax new business profits %	Post-tax operating profit % notes (2),(3),(4)	Shareholders' funds % notes (2),(3),(4)
US$ linked[(1)]	**44**	**38**	**30**
Other Asia currencies	**13**	**12**	**14**
Total Asia	**57**	**50**	**44**
UK sterling[(3),(4)]	**12**	**13**	**32**
US$[(4)]	**31**	**37**	**24**
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 Effect of Solvency II on EEV basis results on 1 January 2016

(i) Group summary

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 and profile of free surplus generation for these businesses will continue to be driven by local regulatory and target capital requirements. For the UK insurance operations Solvency II will impact the EEV results as it changes the local regulatory valuation of net worth and capital requirements, affecting the components of the EEV and the expected profile of free surplus generation. In line with guidance provided by the CFO Forum in October 2015, the impact of Solvency II on the UK EEV has not been included in the main supplementary reporting. An early estimate on the likely impact of Solvency II on the EEV net worth and value of in-force business, together with the impact on free surplus generation is provided in this section of the additional unaudited information.

The impact of Solvency II on the EEV net worth and value of in-force business reported on 1 January 2016 are shown below:

Adjustment to shareholders' equity at 1 January 2016

Long-term insurance operations	Total EEV £m
As reported at 31 December 2015[note 10]	**32,777**
Opening adjustment at 1 January 2016	
Solvency II impact on net worth	3,108
Solvency II impact on net VIF	(3,412)
Total opening adjustments at 1 January 2016[note]	(304)
Long-term insurance operations as at 1 January 2016	**32,473**

Note
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 £3,108 million following 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 is mirrored by increases in required capital reflecting the higher solvency capital requirements of the new regime.

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 shareholders transfers within Net Worth leads to a corresponding reduction in VIF;
- the run-off of the risk margin, net of transitional measures, is now captured in VIF;
- the cost of capital deducted from gross VIF increases as a result of higher Solvency II capital requirements;

The overall impact of these changes is to reduce the value of in-force by £3,412 million. The overall impact on the Group's EEV of the above changes is a reduction of £304 million.

(ii) Expected transfer of value of in-force business and required capital to free surplus

The tables below show how the UK value of in-force business and the associated required capital is expected to emerge into free surplus over the next 40 years. A comparison is shown between the current Solvency I and Solvency II regimes. A small amount (less than 3 per cent) of the Group's embedded value emerges after this date. The modelled cashflows use the methodology underpinning the Group's embedded value reporting, updated under Solvency II.

(a) Undiscounted expected generation from all in-force business at 31 December 2015 is as follows:

Expected period of emergence	Undiscounted expected generation 2015 £m					
	UK insurance operations			Group Total		
	As reported	**Solvency II basis**	Difference	As reported	**Solvency II basis**	Difference
2016	486	**527**	41	2,621	**2,662**	41
2017	510	**560**	50	2,463	**2,513**	50
2018	506	**549**	43	2,383	**2,426**	43
2019	503	**542**	39	2,378	**2,417**	39
2020	499	**535**	36	2,388	**2,424**	36
2021	498	**539**	41	2,369	**2,410**	41
2022	489	**531**	42	2,297	**2,339**	42
2023	491	**526**	35	2,256	**2,291**	35
2024	478	**513**	35	2,077	**2,112**	35
2025	466	**504**	38	1,963	**2,001**	38
2026	454	**493**	39	1,860	**1,899**	39
2027	437	**475**	38	1,738	**1,776**	38
2028	424	**462**	38	1,637	**1,675**	38
2029	411	**447**	36	1,537	**1,573**	36
2030	398	**429**	31	1,450	**1,481**	31
2031	383	**410**	27	1,358	**1,385**	27
2032	373	**505**	132	1,326	**1,458**	132
2033	353	**479**	126	1,180	**1,306**	126
2034	331	**446**	115	1,109	**1,224**	115
2035	313	**416**	103	1,051	**1,154**	103
2036-2040	1,255	**1,614**	359	4,465	**4,824**	359
2041-2045	1,081	**1,228**	147	3,740	**3,887**	147
2046-2050	470	**539**	69	2,812	**2,881**	69
2051-2055	261	**292**	31	2,317	**2,348**	31
Total free surplus expected to emerge in the next 40 years	11,870	**13,561**	1,691	50,775	**52,466**	1,691

(b) The equivalent discounted amounts of the undiscounted totals shown above are as follows:

Expected period of emergence	Discounted expected generation 2015 £m					
	UK insurance operations			Group Total		
	As reported	**Solvency II basis**	Difference	As reported	**Solvency II basis**	Difference
2016	457	**513**	56	2,507	**2,563**	56
2017	452	**524**	72	2,205	**2,277**	72
2018	424	**491**	67	2,007	**2,074**	67
2019	395	**462**	67	1,881	**1,948**	67
2020	369	**433**	64	1,774	**1,838**	64
2021	347	**412**	65	1,650	**1,715**	65
2022	320	**384**	64	1,503	**1,567**	64
2023	302	**359**	57	1,388	**1,445**	57
2024	276	**331**	55	1,199	**1,254**	55
2025	253	**306**	53	1,062	**1,115**	53
2026	232	**282**	50	950	**1,000**	50
2027	209	**257**	48	832	**880**	48
2028	190	**235**	45	739	**784**	45
2029	174	**215**	41	655	**696**	41
2030	157	**195**	38	584	**622**	38
2031	142	**176**	34	518	**552**	34
2032	129	**208**	79	481	**560**	79
2033	115	**186**	71	397	**468**	71
2034	101	**166**	65	356	**421**	65
2035	89	**146**	57	322	**379**	57
2036-2040	289	**501**	212	1,211	**1,423**	212
2041-2045	183	**279**	96	748	**844**	96
2046-2050	51	**116**	65	454	**519**	65
2051-2055	21	**52**	31	301	**332**	31
Total free surplus expected to emerge in the next 40 years	5,677	**7,229**	1,552	25,724	**27,276**	1,552

(c) The above amounts can be reconciled to the Group's financial statements as follows:

Reconciliation of discounted expected free surplus generation to EEV

	As reported £m	Solvency II basis £m	Impact £m
Discounted expected generation from all in-force business for years 2016-2055	25,724	**27,276**	1,552
Discounted expected generation from all in-force business for years after 2055	563	**578**	15
Discounted expected generation from all in-force business at 31 December 2015	26,287	**27,854**	1,567
Add: Free surplus of life operations held at 31 December 2015	5,642	**3,958**	(1,684)
Less: Time value of guarantees	(1,100)	**(1,100)**	-
Other non-modelled items	1,948	**1,761**	(187)
Total EEV for insurance operations	32,777	**32,473**	(304)
Representing:			
Asia	13,643	**13,643**	-
US	9,487	**9,487**	-
UK	9,647	**9,343**	(304)
Total EEV for insurance operations	32,777	**32,473**	(304)

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

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. Since 2008 Prudential has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates (which in some jurisdictions have become negative) and liquidity, and 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 have, at times during this period, had 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 (e.g. 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.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over the energy and commodity sectors, sovereign debt, general slowing in world growth, the monetary policies in the US, the UK and other jurisdictions and potentially negative socio-political events. In addition, a possible withdrawal of the UK from the EU would have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced on the UK.

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 surrender 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 surrender 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

Prudential is subject to the risk of potential sovereign debt credit deterioration on 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 counter party 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, 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 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 will review elements of the Solvency II legislation from 2016 onwards including a review of the Long Term Guarantee measures by 1 January 2021.

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).

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 is not currently clear, 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. 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 3 November 2015. 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 large and complex 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 would 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. Further consultations on the ICS are expected over the coming years, and a version of the ICS is expected to be adopted as part of ComFrame 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. The timing of the final proposals taking effect is uncertain but not expected to be before 2020.

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 pension 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.

Regulators' interest may 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 which would subject the person or entity to certain regulatory requirements. 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 current 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 by Moody's, AA by Standard & Poor's and AA by Fitch. These ratings are all on a stable outlook.

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 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. 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 and processes incorporate controls designed to manage and mitigate the operational 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 incidents do happen periodically and no system or process can entirely prevent them although there have not been any material such 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 business partners and customers. 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 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. 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 to date. However, it has been, and likely will continue to be, subject to 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 with 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 traditional and variable annuities. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. 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 (including in China and India), 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 (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its joint venture partners fails to meet its obligations under the joint venture, 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 Company Secretary

9 March 2016, 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, Michael George Alexander McLintock, Barry Lee Stowe and Tony Paul Wilkey

Non-executive Director
David John Alexander Law ACA

Independent Non-executive Directors
Sir Howard John Davies, Ann Frances Godbehere FCPA FCGA, Alexander Dewar Kerr Johnston CMG FCA, Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP, The Hon. Philip John Remnant CBE ACA, Alice Davey Schroeder and Lord Jonathan Adair Turner

** For identification purposes*