Adding more to life

Prudential plc Annual Report 2016

HK Stock Code: 2378

By helping to take the financial risk out of life's big decisions, Prudential creates long-term value for our customers, our shareholders and the communities we serve.

Adding more to life.

Full-year ordinary dividend

43.5
pence
+12%
(2015: 38.78 pence[9])

Employees volunteered

83,284
hours

Contents

The Directors' Report of Prudential plc for the year ended 31 December 2016 is set out on pages 2 to 7, 76 to 108 and 364 to 406, and includes the sections of the Annual Report referred to in these pages.

Our year in numbers

	2016 £m	**2015** £m	**Change on actual exchange rate basis**[10]	**Change on constant exchange rate basis**[10]
IFRS operating profit based on longer-term investment returns[1]	4,256	3,969	7%	(2)%
Underlying free surplus generated[1,2,3]	3,588	3,043	18%	10%
Life new business profit[1,3,4]	3,088	2,492	24%	11%
IFRS profit after tax[5]	1,921	2,579	(26)%	(32)%
Net cash remittances from business units	1,718	1,625	6%	n/a

	2016 £bn	**2015** £bn	**Change on actual exchange rate basis**[10]
IFRS shareholders' funds	14.7	13.0	13%
EEV shareholders' funds[6]	39.0	31.9	22%
Group Solvency II capital surplus[7,8]	12.5	9.7	29%

1 Following its reclassification to held for sale during 2016, operating results exclude the contribution of the Korea life business. The 2015 comparative results have been similarly adjusted.
2 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 9 of the EEV basis results.
3 The 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflect the Solvency II regime, effective from 1 January 2016. The 2015 comparative results for UK insurance operations reflect the Solvency I basis.
4 Excluding UK bulk annuities from 2015 comparative results as Prudential has withdrawn from this market.
5 IFRS profit after tax reflects the combined effects of operating results, negative short-term investment variances, (loss)/profit on the sale of Korea life business and the total tax charge for the year.
6 Includes adjustment for opening EEV shareholders' funds of negative £0.5 billion for the impact of Solvency II as at 1 January 2016.
7 Estimated. Before allowing for second interim ordinary dividend.
8 The Group Solvency II surplus represents the shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes the impact of recalculated transitionals at the valuation date, which has reduced the Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.
9 Excluding 2015 special dividend of 10.00 pence per share.
10 Further information on actual and constant exchange rates basis is set out in note A1 of the IFRS financial statements.

Chairman's statement – Paul Manduca

A well balanced business creating value for customers and shareholders

I am pleased to introduce Prudential's 2016 Annual Report. The Company has once again produced a strong set of results over a year of great change and challenge. Mike Wells has made substantial progress in his first full year as Group Chief Executive and, while economic and political events across the globe bring uncertainty to our operating environment, we will continue to focus on building a sustainable business by providing our customers around the world with quality products and services.

Global context

2016 was a year that saw volatile markets in China, the UK's decision to leave the European Union and a change of administration in the US.

Against that backdrop, Prudential has demonstrated that we have the right strategy, management team, geographic mix and business diversity to succeed. Our robust governance and decision-making processes have enabled us to react swiftly to the unexpected and unpredictable. With strong customer propositions in the UK, Asia and the US, our business is well balanced and well placed to thrive.

Most importantly, it is during times of great uncertainty that Prudential adds most value for our customers. We look to provide financial peace of mind to customers, whatever the external environment. Our expertise in reducing risk allows customers to plan for the future with confidence; whether by protecting them against ill health in Asia, helping them save for retirement in the UK or managing their retirement income in the United States. The capital we generate from these activities then allows us to invest in companies across the globe, driving economic activity and growth. All of this is possible because the Board is focused on building a sustainable business. This focus ensures we are able to keep the vital promises that we have made to our customers.

Customers have been at the heart of Prudential for 168 years. It is by serving all our customers well that we are able to generate strong returns for our shareholders, provide rewarding roles for our people and invest in our local communities. Alongside acknowledging these benefits, the Board also ensures it engages with our regulators and wider civil society to promote the interests of our customers more broadly.

Performance and dividend

Despite the challenging global environment, Prudential has delivered another strong operating and financial performance, driven in particular by our Asian operations.

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

Governance

In order to keep the promises we make to our customers Prudential needs to be well run, which means it must display robust governance in supporting an outstanding executive team. While this has long been the focus of our Board, policymakers have continued to highlight the importance of effective governance. We welcomed Anne Richards as Chief Executive of M&G in June 2016. The Chair of our Audit Committee, Ann Godbehere, is in her ninth year of service, and hence will not stand for re-election at this year's AGM. Ann has been a valuable asset to the Board and we are most grateful for her contribution and wise counsel. We are delighted that David Law will be taking over as Audit Committee Chair from the next AGM.

The stability we have created at Board level has enabled us to continue to strengthen our governance framework – for example, by building closer relationships between our material subsidiary boards and the plc Board, with regular communication established between the newly appointed material subsidiary board, Risk and Audit Committee Chairs and their Group counterparts.

Our shareholders and stakeholders

A well governed company engages regularly and effectively with its shareholders. At Prudential, we have an active programme of engagement. It is important to us that we hear the views of our investors and have an open and constructive dialogue with them. As Chairman, I have found this regular engagement particularly helpful and receiving shareholders' input has ensured high-quality and well informed Board discussions.

Regulators and policymakers remain important stakeholders for Prudential, and have a legitimate interest in how we treat our customers and run our business. Prudential engages regularly with our regulators around the world and we place great importance on having an effective relationship with those who supervise us and our markets. Our customers' interests are best served when we work constructively with our regulators.

Chairman's Challenge
Prudential Malaysia

The **PRU**kasih programme offers financial aid to the urban poor, covering the basic needs of food and shelter and providing social protection for families. Prudential volunteers are actively involved in manning information booths, undertaking door-to-door visits and assisting with financial literacy sessions. Over 8,000 children have benefited from the education sessions, and over 20,600 families from 12 communities have had access to **PRU**kasih's unique protection plan. By 2018, the programme aims to equip 50,000 children with money management skills.

Gan Leong Hin, CEO of Prudential Assurance Malaysia Berhad, says, 'Financial protection and education are very close to our hearts. We have first-hand experience of seeing how devastating the impact can be on the lives of families living without financial security when something unfortunate happens to the main breadwinners. That is what led us to create **PRU**kasih. We are also committed to promoting financial literacy and inculcating the right values to raise our next generation in becoming financially literate. This is in line with our mission of providing financial freedom and peace of mind to all Malaysians.'

Our people

In each of our markets we have teams focused on delivering for our customers. It is the diligence, creativity and hard work of these teams that enable Prudential to succeed. Their contribution is vital and it is the responsibility of the Board to consider their interests in every decision we make. Our people ensure we can continue to respond to the changing external environment and in 2016, their resilience and enthusiasm were critical to our achieving the excellent set of results we have reported. Their commitment to our customers provides me with great confidence for the future.

Our communities

The most obvious benefits that result from Prudential's activities are the peace of mind we bring to our customers and the long-term capital we provide to companies and governments. It is, however, also in our customers' and shareholders' interests for Prudential to be a responsible business which invests in and gives back to our local communities, alongside the jobs, growth and tax revenue we provide.

We are proud of our work in financial education, disaster preparedness and social inclusion. The Cha-Ching programme that we launched in Asia in 2011 is now the first truly global financial education programme. Cha-Ching has now been launched in Poland, the UK and Africa and will shortly launch in the US. The Prudence Foundation's Safe Steps is a first-of-its-kind pan-Asian public service initiative to enhance disaster preparedness and awareness through the dissemination of educational survival tips for natural disasters – with a potential reach of 200 million people. In the UK, over the past four years, Prudential RideLondon has raised £41 million for charity and become one of the largest fundraising events in the country. In 2016 alone, more than 740 charities benefited from riders' fundraising.

I am particularly proud of the direct contribution made by our people to the communities in which they live and participate. In 2016, Prudential colleagues volunteered over 80,000 hours of their time. I support this personally via our flagship international volunteering programme, the Chairman's Challenge. The programme continues to appeal to colleagues, with the number of volunteers signing up increasing year-on-year. From its launch in 2006, when 2,603 employees signed up, volunteer numbers have increased by 208 per cent to 8,011 in 2016, benefiting 92,720 individuals across the world.

In conclusion, while the events of 2016 caused some uncertainty in our operating environment around the world, Prudential's performance has been strong. It is a testament to the commitment and calibre of our people and the quality of the products and services we provide to customers that we were able to achieve these results. As I look to the future, I am confident that our people, our customer proposition and our culture will enable us to continue to grow.

Paul Manduca
Chairman

Strong performance based on long-term opportunities

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

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

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

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

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

Group performance

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

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

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

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

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

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

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

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

In Asia, we are developing our operations, through the quality of our business and

Thanh Tam and Thi Tam's story

Prudential Vietnam

Thanh Tam and Thi Tam have held policies with Prudential Vietnam since 2004, protecting their son, Thanh Tai, and his education, their parents and their home. The premiums are low, but the policies hold very special value for the family, both financially and emotionally.

Prudential supports the family in achieving their goals, and creates investment opportunities through various loans and bonds. Prudential has been able to help the family prepare for a peaceful future, and receive protection from terminal illnesses once they reach retirement age.

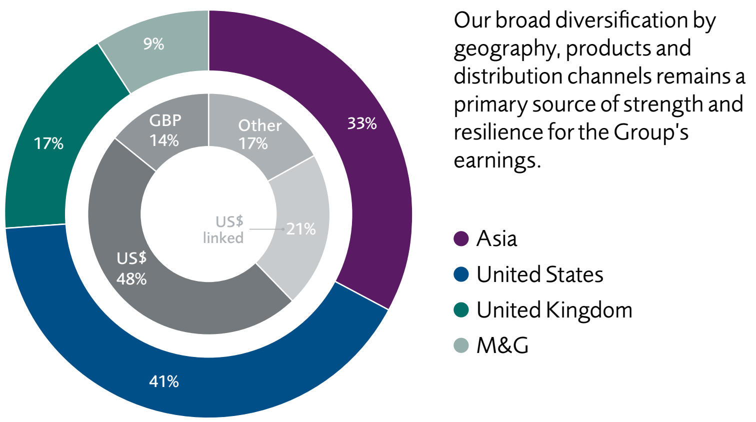
Understanding that Prudential will take care of the family and protect them from the unexpected risks in life, they can live safely and peacefully.

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

In the US we are well positioned to navigate a period of significant regulatory change, including the currently scheduled introduction of the Department of Labor's fiduciary duty rule. The product innovation that is in train to address the new regulatory requirements, coupled with our sector-leading IT and servicing capabilities, enables us to access sizeable retirement asset pools that were previously not open

Diversification advantage

IFRS operating profit*[6] by business and currency, full year 2016



Our broad diversification by geography, products and distribution channels remains a primary source of strength and resilience for the Group's earnings.

* Segmental earnings of key businesses and excludes Prudential Capital and other income and expenditure.

to Jackson. The demographic shift occurring in the US is a significant long-term driver of demand for the types of products that we offer. In 2016, through this period of disruption, Jackson's separate account assets relating to its variable annuity business, and the main driver of earnings, increased by 11 per cent to US$148.8 billion.

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

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

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

Our strategy

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

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

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

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

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

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

Our capabilities

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

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

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

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

In the UK, the number of our adviser firms has grown by 37 per cent since 2013, and

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

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

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

Prudential's Group Executive Committee

Mike Wells is advised and assisted by the Group Executive Committee, which comprises the heads of our four business units and a team of functional specialists. The members of the Group Executive Committee and their roles are set out on page 405.

Standing, left to right: Tim Rolfe, Julian Adams, Al-Noor Ramji, John Foley, Anne Richards, Jonathan Oliver, Raghu Hariharan, Alan Porter. **Seated, left to right:** Barry Stowe, Penny James, Mike Wells, Nic Nicandrou, Tony Wilkey.

Our outlook

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

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

Mike Wells
Group Chief Executive

Notes

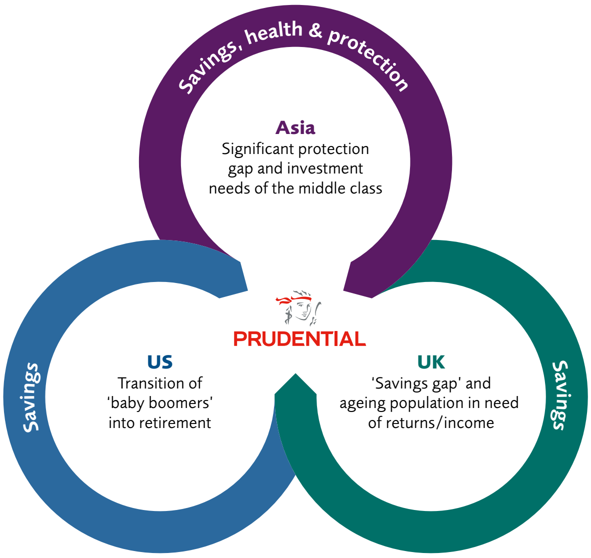
1 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in note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

02

Strategic report

Our strategy

We meet the long-term savings and protection needs of an increasingly self-reliant population. We focus on three markets – Asia, the US and the UK – where the need for our products is strong and growing and we use our capabilities, footprint and scale to meet that need.



We aim to capture three long-term opportunities across our key geographical markets:

- serving the protection and investment needs of the growing middle class in Asia;
- providing asset accumulation and retirement income products to US baby boomers; and
- meeting the savings and retirement needs of an ageing British population.

Together with capturing the scale and diversification benefits of our global presence, we aim to generate attractive returns, enabling us to provide financial security to our customers, invest in growth opportunities and meet our customers' high expectations.

What we offer

We focus on long-term opportunities in each of our geographical markets, understanding the needs of local customers and offering innovative products to meet those needs.

Life insurance

24m+

life customers worldwide

We provide our customers with savings products and financial protection against ill-health, loss of income and other adverse events, helping them to de-risk their lives.

Asset management

£383bn

total funds under management

We provide a range of opportunities across asset classes, generating valuable returns for our customers through a long-term approach to investment.

Where we operate

We identify markets where the needs we meet are underserved. Our business is organised into four geographic regions, with a focus on Asia, the US and the UK, where we see structural demand for our products. In recent years we have expanded into Africa, taking advantage of the emerging demand for our products in the region.

Asia

Prudential Corporation Asia

Prudential Corporation Asia has leading insurance and asset management operations across 14 markets and serves the families of the region's high-potential economies. We have been operating in Asia for over 90 years and have built high-performing businesses with multichannel distribution, a product portfolio centred on regular savings and protection, award-winning customer services and a widely recognised brand.

Eastspring Investments is a leading asset manager in Asia and provides investment solutions across a broad range of asset classes.

Leading pan-regional franchise

93%
of APE sales are regular premium

£118bn
total funds under management

US

Jackson

Jackson provides retirement savings and income strategies aimed at the large number of people approaching retirement in the United States. Jackson's pursuit of excellence in product innovation and distinctive distribution capabilities have helped us forge a solid reputation for meeting the needs of customers. Jackson's variable annuities offer a distinctive retirement solution designed to provide a variety of investment choices to help customers pursue their financial goals.

Premier retirement income player

8x
premium growth since 1995

£120bn
of separate account assets, grown 3x since 2010

UK

Prudential UK & Europe

Prudential is a leading provider of savings and retirement income products in the UK. Our particular strength lies in investments that help customers meet their long-term goals, while also protecting them against short-term market fluctuations. We provide long-term savings solutions for UK customers, meeting people's needs through our core strengths in with-profits and retirement, underpinned by our expertise in areas such as longevity, risk management and multi-asset investment.

Well recognised brand with strong track record

£118bn
invested assets in with-profits funds[2]

+75%
PruFund investment performance growth since 2006 (vs +39% in ABI sector comparative)[1]

M&G

M&G Investments is an international asset manager with more than 85 years' experience of investing on behalf of individuals and institutions. Our goal is to help our customers prosper by securing long-term returns from their savings. For individual investors, we offer funds across diverse geographies, asset classes and investment strategies, aimed at growing their long-term savings or producing regular income. For institutional investors, we offer investment strategies to meet their clients' long-term needs for capital growth or income.

Long-term and conviction-led approach

15
locations across Europe and Asia

£137bn
external funds under management

Africa

We entered Africa in 2014 to offer products to new customers in one of the fastest-growing regions in the world. We aim to provide products that meet their needs towards saving for future expenses, such as education for their children, and to de-risk their financial lives.

Notes

1 ABI mixed investment 20 per cent to 60 per cent shares, total return; performance from 29 December 2006 to 30 December 2016.
2 Represents financial assets and investment properties in with-profits funds.

Creating shared value

Our trusted brands and strong distribution channels enable us to understand the growing needs of our customers for long-term savings and financial security, and to design innovative products that meet those needs. By helping to build better lives and stronger communities and to fuel the growth cycle, we create long-term value for both our customers and our shareholders.

Understanding our markets

Asia

- Low life insurance and mutual fund penetration
- Significant health and protection gap
- Growing working age population
- Increasing consumer affluence

Our businesses and their performance page 18

United States

- Retiring 'baby boomer' generation
- Large and growing retirement asset pools
- Growing demand for guaranteed income

Our businesses and their performance page 24

United Kingdom

- Ageing population
- Large and growing retirement asset pools
- Growing demand for savings and income

Our businesses and their performance page 28

Driving our business

Customers

Customers are at the heart of our strategy. We proactively listen to both new and existing customers to understand and respond to their changing needs. This allows us to propose financial solutions customised for different groups, whether that is young and middle-aged people or those in retirement.

Products

We offer solutions for customers as they face the biggest financial challenges of their lives. We consistently develop our product portfolio, designing it around our customers' needs and providing them with peace of mind, whether that be in relation to saving for retirement or insuring against risks of illness, death or critical life events.

Distribution

Distribution plays a key role in our ability to reach, attract and retain customers in different parts of the world. Building out and diversifying our distribution capabilities helps ensure that we fully capitalise on the opportunities available to us in each of our markets.

Investment for growth

We focus on strategic investment in long-term opportunities and capabilities to drive future growth and value for our stakeholders. We invest to improve relationships with our customers and distributors, to create innovative products, to improve our operating platforms, and to capture new opportunities and build new relationships.

Risk management

We generate value by selectively taking exposures to risks that are adequately rewarded and that can be appropriately quantified and managed. Balance sheet strength and proactive risk management enable us to make good our promises to our customers and create long-term value for our stakeholders.

Group Chief Risk Officer's report page 50

Creating value…

Growth

New business profit

£3,088m

+11%[1] on 2015 (CER)
+24% on 2015 (AER)

IFRS operating profit

£4,256m

–2%[1] on 2015 (CER)
+7% on 2015 (AER)

EEV value per share[2]

1,510p

+22% on 2015

Cash

Free surplus generation

£3,588m

+10%[3] on 2015 (CER)
+18% on 2015 (AER)

Remittances

£1,718m

+6% on 2015

Capital

Solvency II surplus[3,4]

£12.5bn

+29% on 2015

The Group has a number of key performance indicators internally to measure financial performance. Read more on page 16

…for our stakeholders

We create financial benefits for our investors and deliver economic and social benefits for our customers, our employees and the societies in which we operate.

Customers

Providing financial security and wealth creation.

Read more on pages 62 to 64

Investors

Growing dividends and share price performance enhance shareholder value.

Read more on pages 16 to 72

Employees

Providing an environment with equal opportunities, career potential and rewards enables us to attract and retain high-quality individuals to deliver our strategy.

Read more on pages 68 and 69

Societies

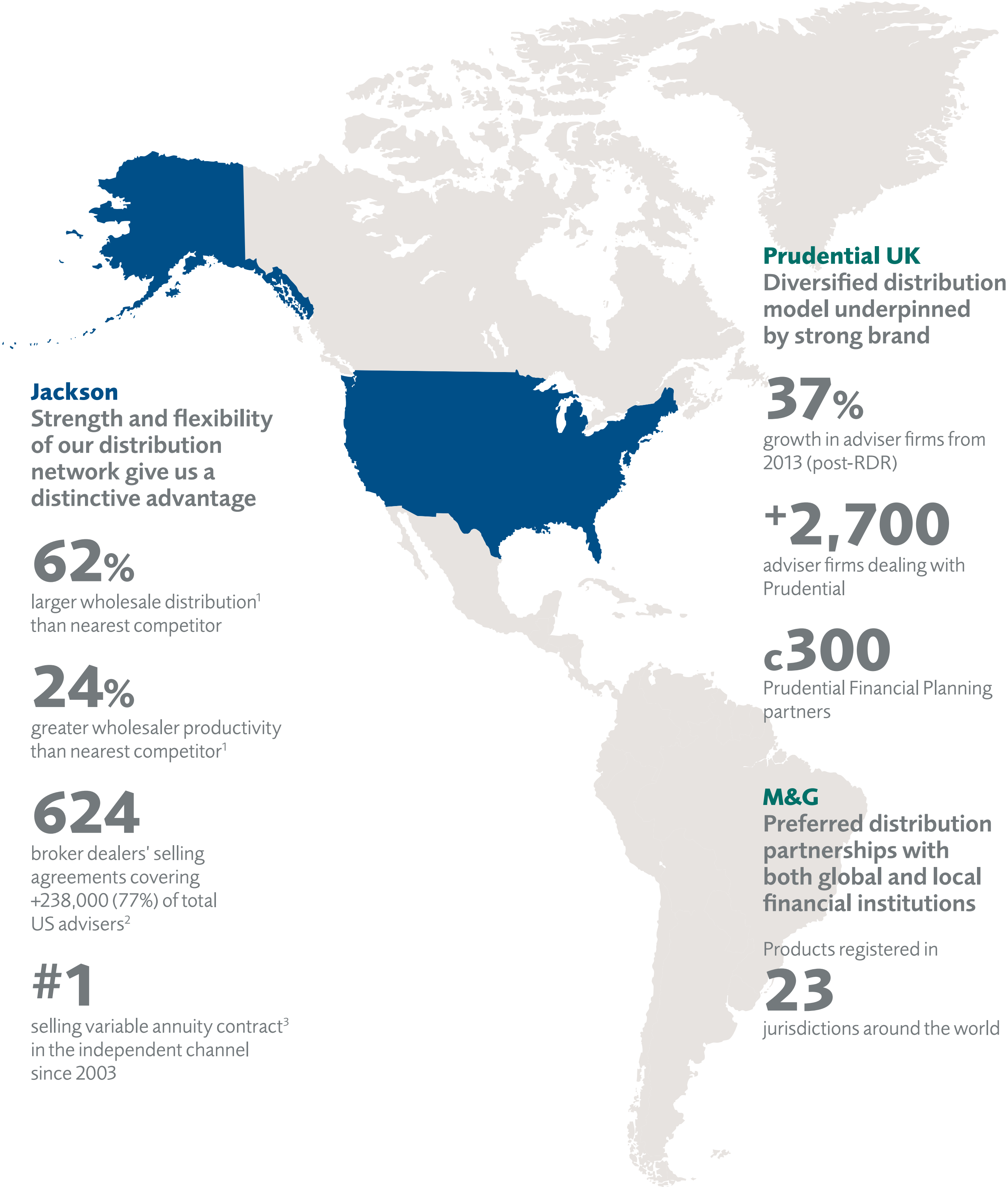
Supporting societies where we operate, through investment in business and infrastructure, tax revenues and community support activities.

Read more on pages 64 to 68

Notes
1 Excluding UK bulk annuities as Prudential has withdrawn from this market.
2 Includes adjustment for opening EEV shareholders' funds of negative £0.5 billion for the impact of Solvency II as at 1 January 2016.
3 Estimated. Before allowing for second interim ordinary dividend.
4 The Group Solvency II surplus represents the shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes the impact of recalculated transitionals at the valuation date, which has reduced the Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.

Our global distribution strength

Our trusted brands and strong distribution channels enable us to understand the diverse needs of our customers, and respond to those needs.



Jackson

Strength and flexibility of our distribution network give us a distinctive advantage

62%
larger wholesale distribution[1] than nearest competitor

24%
greater wholesaler productivity than nearest competitor[1]

624
broker dealers' selling agreements covering +238,000 (77%) of total US advisers[2]

#1
selling variable annuity contract[3] in the independent channel since 2003

Prudential UK

Diversified distribution model underpinned by strong brand

37%
growth in adviser firms from 2013 (post-RDR)

+2,700
adviser firms dealing with Prudential

c300
Prudential Financial Planning partners

M&G

Preferred distribution partnerships with both global and local financial institutions

Products registered in
23
jurisdictions around the world

Prudential Corporation Asia
Pan-regional multi-channel network

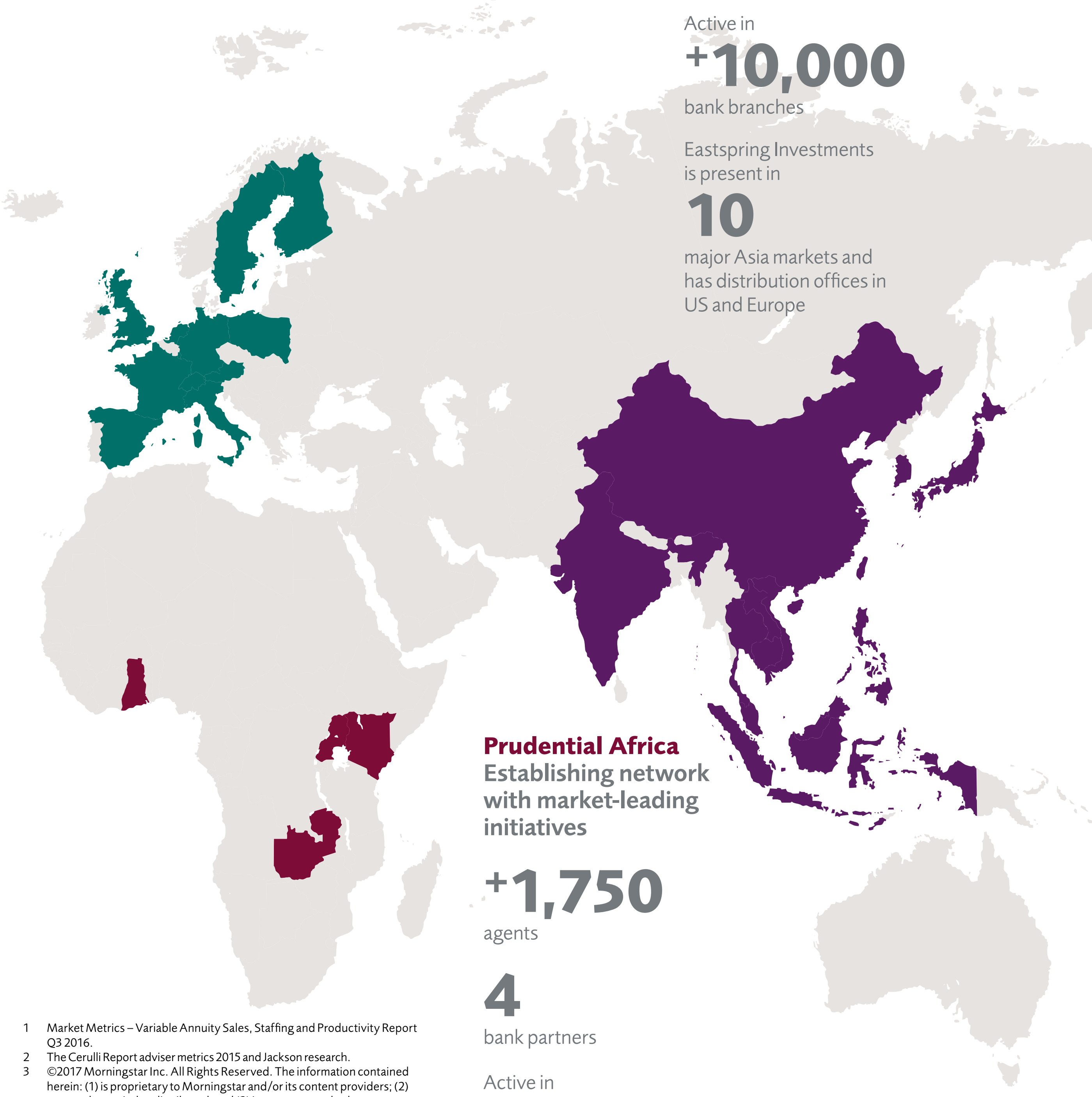
+500,000
agents

3 regional **5** strategic

and a variety of local bank partnerships

Active in
+10,000
bank branches

Eastspring Investments is present in
10
major Asia markets and has distribution offices in US and Europe



Prudential Africa
Establishing network with market-leading initiatives

+1,750
agents

4
bank partners

Active in
181
bank branches

1 Market Metrics – Variable Annuity Sales, Staffing and Productivity Report Q3 2016.
2 The Cerulli Report adviser metrics 2015 and Jackson research.
3 ©2017 Morningstar Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com Sales by Contract and by Distribution Channel full year 2003-2015.

Our performance

Measuring our performance

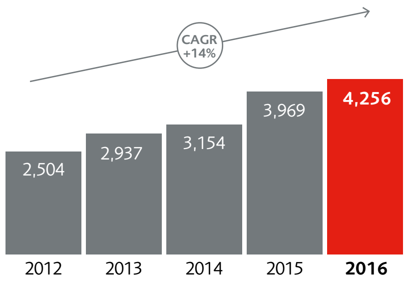
To create sustainable economic value for our shareholders we focus on delivering growth and cash while maintaining appropriate capital. We aim to demonstrate how we generate profits under different accounting bases, reflecting the returns we generate on capital invested, and highlight the cash generation of our business.

What we measure and why

Performance[1]

IFRS operating profit based on longer-term investment returns[2,3] £m

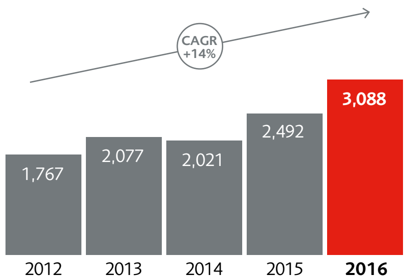
The Group's business involves entering into long-term contracts with customers, and hence the Group manages its associated assets and liabilities over a longer-term time horizon. This enables the Group to manage a degree of short-term market volatility. Therefore IFRS operating profit based on longer-term investment returns gives a more relevant measure of the performance of the business. Other items are excluded from IFRS operating profit to allow more relevant period-on-period comparisons of the trading operations of the Group, for example the effects of material corporate transactions are excluded.



— Group IFRS operating profit in 2016 is 2 per cent lower on a constant exchange rate basis (+7 per cent on an actual exchange rate basis), compared with 2015, reflecting resilient performance in our life businesses, with Asia up 15 per cent (28 per cent on an actual exchange rate basis), and the US up 8 per cent (21 per cent on an actual exchange rate basis), mitigating the lower profit from the UK, down 32 per cent.

EEV new business profit[3,4,5,6] £m

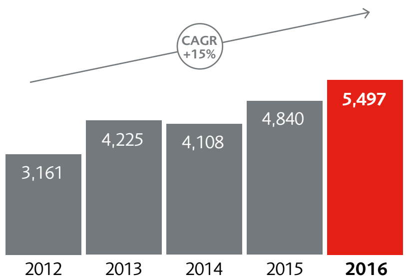
Life insurance products are, by their nature, long-term and generate profit over a number of years. Embedded value reporting provides investors with a measure of the future profit streams of the Group. EEV new business profit reflects the value of future profit streams which are not fully captured in the year of sale under IFRS reporting.



— EEV new business profit in 2016 increased by 11 per cent on a constant exchange rate basis (24 per cent on an actual exchange rate basis), compared with 2015, driven by higher, new business sale volumes and pricing and product actions to increase profitably.

EEV operating profit[3,4,5] £m

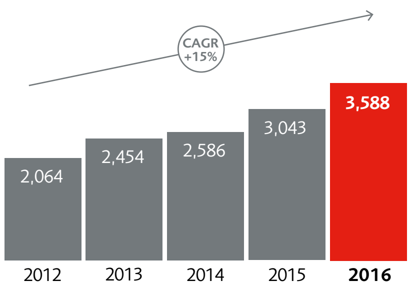
EEV operating profit is provided as an additional measure of profitability. This measure includes EEV new business profit, the change in the value of Group's long-term in-force business, and profit from our asset management and other businesses. As with IFRS, EEV operating profit reflects the underlying results based on longer-term investment returns.



— Group EEV operating profit in 2016 increased by 3 per cent on a constant exchange rate basis (14 per cent on an actual exchange rate basis), compared with 2015, driven by higher new business profits and higher contributions from the in-force business.

Group free surplus generation[3,5,7] £m

Free surplus generation is used to measure the internal cash generation of our business units. For insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit for the year.



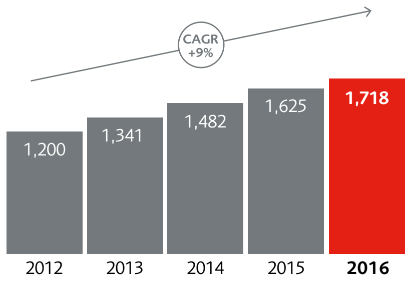
— Underlying free surplus in 2016 increased by 10 per cent, on a constant exchange rate basis (18 per cent on an actual exchange rate basis), compared with 2015, driven by growth of the in-force portfolio, and continued disciplined allocation of free surplus to new business opportunities.

What we measure and why

Performance[1]

Business unit remittances[8] £m

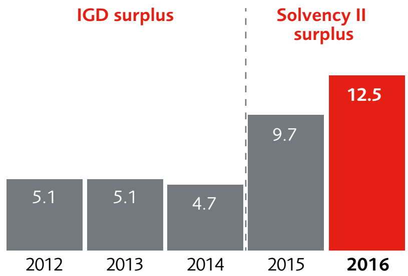
Remittances measure the cash transferred from business units to the Group. Cash flows across the Group reflect our aim of achieving a balance between ensuring sufficient net remittances from business units to cover the dividend (after corporate costs) and the use of cash for reinvestment in profitable opportunities available to the Group.



— Business unit remittances increased by 6 per cent in 2016, compared with 2015, with significant contributions from each of our four major business units.

Group Solvency II capital surplus[9,10,13] £bn

Replacing the IGD capital regime, from 1 January 2016, Prudential is subject to the risk sensitive solvency framework required under European Solvency II Directives (Solvency II) as implemented by the Prudential Regulation Authority in the UK. The Solvency II surplus represents the aggregated capital (own funds) held by the Group less solvency capital requirements.



— The high quality and recurring nature of our operating capital generation, beneficial effects of debt issued and disciplined approach to managing balance sheet risks is reflected in the solvency capital surplus, which increased to 12.5 billion at 31 December 2016.

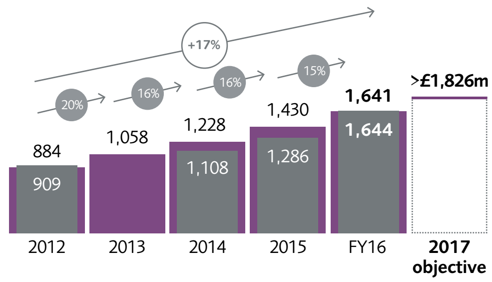
2017 objectives[11]

We are making good progress towards the objectives we announced in December 2013:

Asia objectives[12]

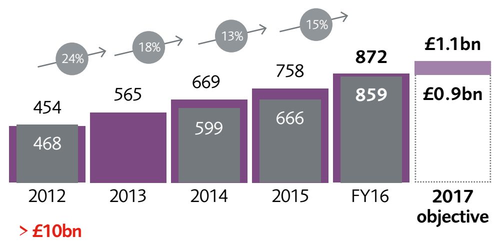
Asia IFRS operating profit, £m

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 to 2017.



Asia underlying free surplus, £m

Asia underlying free surplus generation[7] of £0.9 billion to £1.1 billion in 2017.

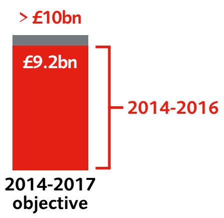


Key
- Expressed at Dec 2013 FX rates
- Comparative stated at reported currency basis

Group objective

Group cumulative underlying free surplus, £m

Cumulative Group underlying free surplus generation of at least £10 billion over the four year period from 2014 to end-2017.



Notes:

1 The comparative results shown above have been prepared using actual exchange rates (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Chief Financial Officers' report on our 2016 financial performance. CAGR is Compound Annual Growth Rate.

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

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

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

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

6 Excluding UK bulk annuities as Prudential has withdrawn from this market.

7 Free surplus generation represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the period and excludes market movement, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs. Further information is set out in note 11 of the EEV basis results.

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

9 Estimated before allowing for second interim ordinary dividend.

10 Excludes surplus in ring-fenced policyholder funds. The methodology and assumptions used in calculating the Group Solvency II capital results are set out in note II (c) of the additional financial information.

11 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.

12 Following the announcement of the proposed sale of the Korea life business in November 2016, amounts for all years exclude the results of the Korea life business, as this sale is expected to complete in 2017. The 2017 Asia objectives have been adjusted accordingly.

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

Our businesses and their performance

Asia

Supporting Asia's rapidly growing middle classes with solutions for their financial protection, savings and investment needs

2016 performance highlights

— Continued delivery across key value creation metrics: new business profit up 22 per cent*, IFRS operating profit up 15 per cent* and free surplus generation up 15 per cent*

— Solid improvement in agency productivity, up 31 per cent[10]

— Strong bancassurance new business profit growth of 15 per cent*

— Record funds under management at £117.9 billion, up 13 per cent

— Now operating in 67 cities in mainland China, where APE sales are up 31 per cent*

— On track to deliver 2017 financial objectives

— Eastspring Investments was named largest retail manager in Asia in 2016[7]

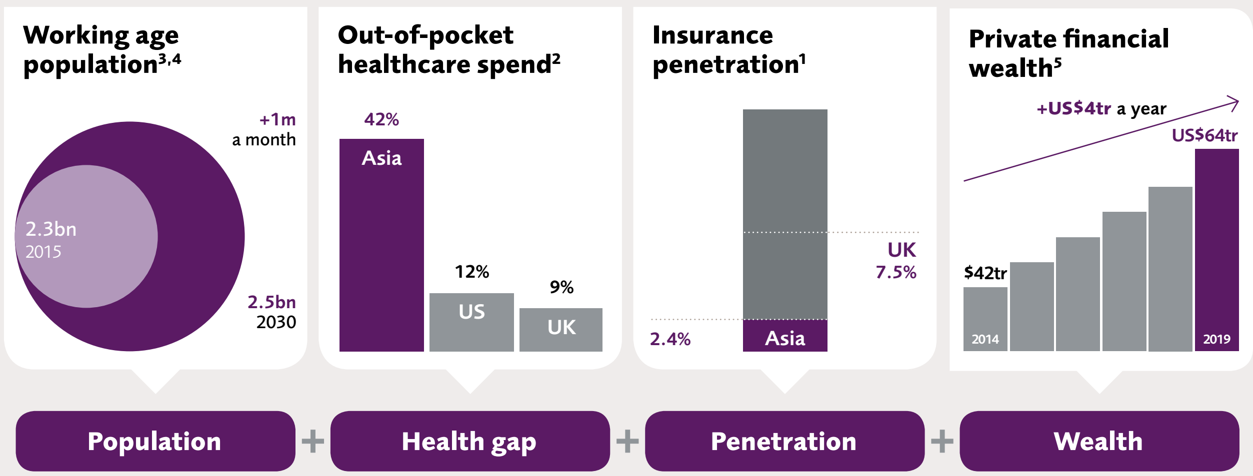
*On a constant exchange rate basis.

Asia's economic transformation started in the 1980s and the momentum remains strong. Although growth rates on a period-by-period basis can fluctuate due to the influence of macroeconomic and geopolitical factors, the unprecedented increases in personal wealth enjoyed by the growing number of Asian families will continue into the foreseeable future. Between 2010 and 2020 it is estimated that there will be over 700 million people who will have risen from rural subsistence to more affluent lifestyles. Family profiles are changing too. Being able to finance children's education is a realistic goal, life expectancies are lengthening dramatically, the incidence of chronic diseases is increasing significantly and traditional family and community support networks are breaking down. All these factors can place significant stress on a family's finances.

The provision of personal financial security is one of the hallmarks of a successful society. Governments in the region appreciate this but typically only have appetites to provide rudimentary levels of state-sponsored healthcare and other social services. Consequently they are keen for individuals to take responsibility for their own financial well-being, address the health and protection gaps and establish savings plans towards their financial security.

While basic medical services may be provided by the state, there can be a high level of out-of-pocket expenses. Around 42 per cent of healthcare spend in the region is out-of-pocket, with this figure as high as 56 per cent in some markets, compared with 12 per cent in the US and 9 per cent in the UK. This creates strong demand for financial solutions to protect

Understanding our markets



Paul's story

PruLife UK, the Philippines

'Cooking has always been my happy place – through the years, I strove to make my own fantastic food, from lamb racks to cured hams. However, this was a hobby, not a career path.

'At 33, I was an IT practitioner with no background in what I dreamed of being: a chef. I knew leaving my profession could leave us financially unstable. But because of my PRUlink exact 10 policy, I finally mustered the courage and took the big leap of following my dreams. Now, at 35, I am a graduate of the prestigious Le Cordon Bleu in Tokyo, with both arms wide open for the exciting times ahead.'

The opportunities for growth in our sector are well understood and remain compelling, but delivering value for customers and shareholders over the long term requires focus and discipline. Prudential Corporation Asia has a number of advantages, including scale and diversification in geography, distribution and products, together with a well respected brand.

Tony Wilkey
Chief Executive
Prudential Corporation Asia

against the potentially devastating impact of health-related incidents on a family's finances. Critical illness and medical riders are popular additions to life insurance policies in the region.

Insurance penetration remains low and prospects for protection-oriented insurance products remain high. Penetration rates vary by market in the region, which includes under-served markets such as Indonesia, the Philippines, Vietnam and Thailand, and better-served ones like Singapore and Malaysia. While customer needs vary in each market, our product solutions are manufactured to serve the bespoke needs of each market and are distributed by our multi-channel distribution network.

As an individual's personal wealth increases, demand is created for savings and investment solutions that enable the individual to increase that wealth and plan towards financial security. Around 60 per cent of Asians' savings are held in unproductive cash, and the loss of compounded investment income that could be earned from putting these savings to work in the capital markets is material.

Prudential has been successful in identifying these opportunities and executing strategies in Asia that enable us to grow the business materially, meet customers' needs and consistently deliver value to shareholders.

Prudential has been operating in Asia for over 90 years and since 1994 has built high-performing businesses with a product portfolio centred on regular savings and protection, multi-channel distribution, award-winning customer services and a widely recognised brand. Eastspring Investments is a leading asset manager in Asia and provides our clients with access to investment management expertise across a broad range of asset classes.

Although there are common elements such as our focus on regular premium, protection and capital-efficient products, each market in our portfolio has unique characteristics and we adapt our participation strategies accordingly. For example, in Vietnam and Indonesia, life insurance awareness and penetration rates are very low and our priority is building nationwide distribution scale that reaches potential customers and provides them with their first, relatively simple life insurance cover.

Serving a diverse continent

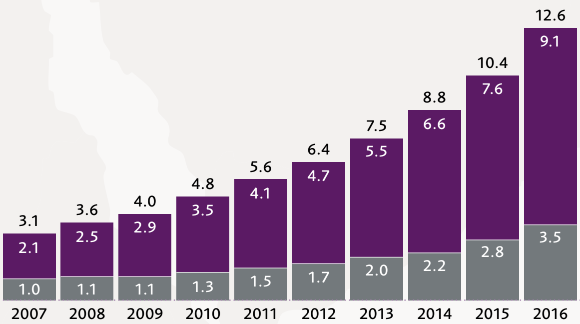
Prudential Corporation Asia is a powerful franchise with a wide footprint in the right markets, established go-to-market capabilities and superior brand strength in protection and long-term savings.

Compounding growth, delivering diversified earnings

The compound effect of growth in our customer base and case size over time increases our sales for the life insurance business, while satisfied customers become advocates of our asset management products, growing our funds under management. This, combined with a relentless focus on regular-premium business, produces diversified earnings growth in Asia.

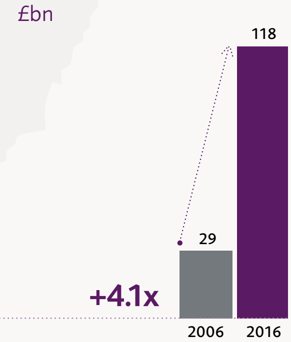
Life

Life weighted premium income[1,2] £bn CER



Asset management

Funds under management[4] £bn



India

Life insurance

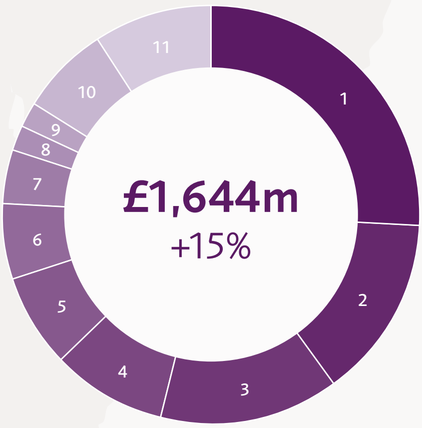
Market ranking[6] 1st
Population 1.3bn
Penetration[8].................................... 2.7%

Eastspring

Funds under management[9]............ £13.3bn

Diversification (%)

IFRS operating profit by region, full year 2016, %



			Growth rate vs 2015 constant exchange rates
1	Indonesia	26%	↑6%
2	Singapore	14%	↑3%
3	Hong Kong	14%	↑40%
4	Malaysia	9%	↑15%
5	Vietnam	7%	↑21%
6	Thailand	6%	↑21%
7	China	4%	↑83%
8	Philippines	2%	↑9%
9	Taiwan	2%	↑25%
10	Others	7%	↑8%
11	Eastspring	9%	↑10%

China

Life insurance

Market ranking[6] 5th
Population 1.4bn
Penetration[8] 2.0%

Eastspring

Funds under management[9] £5.1bn

Korea

Eastspring

Funds under management[9] £8.8bn

Laos

Life insurance

Market ranking[6] 3rd
Population 7m
Penetration[8] 0.0%

Hong Kong

Life insurance

Market ranking[6] 2nd
Population 7m
Penetration[8] 13.3%

Eastspring

Funds under management[9] £3.1bn

Japan

Eastspring

Funds under management[9] £7.0bn

Thailand

Life insurance

Market ranking[6] 9th
Population 69m
Penetration[8] 3.7%

Taiwan

Life insurance

Market ranking[6] 13th
Population 24m
Penetration[8] 15.7%

Eastspring

Funds under management[9] £5.3bn

Vietnam

Life insurance

Market ranking[6] 2nd
Population 93m
Penetration[8] 0.8%

Eastspring

Funds under management[9] £1.8bn

Philippines

Life insurance

Market ranking[6] 3rd
Population 104m
Penetration[8] 1.4%

Cambodia

Life insurance

Market ranking[6] 1st
Population 16m
Penetration[8] 0.0%

Malaysia

Life insurance

Market ranking[6] 1st
Population 32m
Penetration[8] 3.4%

Eastspring

Funds under management[9] £6.6bn

Indonesia

Life insurance

Market ranking[6] 1st
Population 259m
Penetration[8] 1.3%

Eastspring

Funds under management[9] £3.5bn

Singapore

Life insurance

Market ranking[6] 2nd
Population 6m
Penetration[8] 5.6%

Eastspring

Funds under management[9] £62.2bn

Our businesses and their performance
Continued

In Singapore, by contrast, we have more sophisticated financial planners providing advice to customers on a more complex variety of protection, savings and investment options, either directly or via our bank partners.

One of Prudential's core strengths is the diversity of our portfolio – by geography, by distribution channel and by product – and the flexibility this gives us in responding to particular opportunities and managing our participation in areas where markets have become more challenging. Consequently, while the headline performance of Prudential Corporation Asia remains relatively stable and predictable over time – we are on track to deliver the five-year performance objectives announced in 2013 – the individual components are likely to flex period by period. For example, we have recently seen strong demand from customers in mainland China for our participating and critical illness products in Hong Kong, while in Indonesia the emerging middle class is under pressure from systemic challenges in the economy and so demand for our regular-premium, protection-orientated life insurance has been temporarily depressed in that market. We always seek the appropriate balance between value and volume.

Customers

With more than 14.6 million life customers in Asia, Prudential has one of the largest pan-regional insurance customer bases, with a retention rate of over 90 per cent. To illustrate the scale of our growth and effectiveness of our execution, during 2016 renewal premium collected from our existing customers increased by 20 per cent to £9.1 billion and we paid claims of nearly £5 billion to our customers.

Driving our business

Customers

In Asia, we focus our efforts on helping new and existing customers build better futures for themselves and their families, by helping to fill the savings and protection gap that exists in many countries in the region.

14.6m
life customers

Products

With all-season product solutions, we always listen to and understand our customers to tailor products and services to meet their changing needs. For example: PRUhealth cancer multi-care was launched to address the impact of multiple cancer strikes in Hong Kong and the region.

93%
of APE sales in regular premium

80%
brand awareness
(average 93% in top four markets)

Distribution

We are well positioned in terms of the scale and diversity of our distribution to reach and serve our customers' needs. At the core of our distribution model is face-to-face interaction with customers that delivers high-quality, needs-based advice.

>500,000
tied agents

10,000
bank branches

Investment for growth

Building on our strong track record, we are incubating for future growth by investing in new opportunities and capabilities.

67 cities in China

400+ agency offices in Indonesia

£117.9bn total funds under management with Eastspring Investments

Yona's story
Prudential Indonesia

'I realised how crucial it is to be insured when I was diagnosed with a cerebral abscess last year. I needed to have surgery and spent one-and-a-half months in intensive care at the hospital, so I'm thankful that I was covered by my Prudential hospitalisation rider. Today, I'm grateful to have my health back again and feel blessed that I'll soon be able to welcome into the world my own little bundle of joy.'

Products

Our life product suite has three main categories: participating, linked and protection.

Although the protection component remains relatively consistent in the mix, reflecting our focus on this core customer need, the products within this category continue to evolve. For example, in Hong Kong we recently added a new feature that covers customers in the event of multiple diagnoses of cancer.

For the savings component of our insurance policies, we have seen softer demand for unit-linked products, given the recent volatility in capital markets, and correspondingly increased demand for participating products and their smoothed returns. The markets do have strong demand for products with high levels of guaranteed return but, although these can generate significant APE sales volumes, we only participate in this sector in a very controlled way. We maintain our balance sheet discipline and are unconcerned by any temporary erosion in market share.

Distribution

Prudential Corporation Asia is well positioned in terms of our scale and diversity of distribution. Each market is unique and our overarching regional distribution strategy reflects our comprehensive approach to building pan-regional distribution capabilities, underpinned by effective platforms, comprehensive product solutions and the highest level of customer experience.

The scale, reach and quality of our life insurance distribution are evidenced by our productivity, persistency and customer satisfaction across the region. At the core of our distribution model is face-to-face interaction with customers, which delivers high-quality, needs-based advice. Supporting this approach is our continuous investment in enhancing customer experiences, such as the PRUcustomer friend customer servicing model in Indonesia and the PRU for you online community in Hong Kong.

Tied agency remains the most popular distribution channel in the region. For Prudential Corporation Asia, this produced 65 per cent of APE sales in 2016. At 31 December we had more than 500,000 agents, up 10 per cent on the previous year. Excluding India, the productivity of our active agents increased by 31 per cent.

Bancassurance is our other main distribution channel, generating 25 per cent of APE sales for Prudential Corporation Asia in 2016. Prudential Corporation Asia works with a number of partner banks, including international groups such as Standard Chartered Bank, regionals such as UOB, domestic banks such as Thailand's Thanachart Bank and the retail banks of our partners CITIC in China and ICICI in India.

Eastspring Investments

Our regional asset management division, Eastspring Investments, is one of the region's largest asset managers[7], with a presence in 10 major Asian markets as well as distribution offices in the US and Europe. It has £117.9 billion in assets under management, managing funds across a range of asset classes, including equities and fixed income, distributed through bank partners, brokers and online platforms.

Eastspring has a stable and steadily growing core of funds under management from Prudential Corporation Asia's life businesses, including the majority of its unit-linked funds. Its Asian focus and performance track record have also enabled it to secure sizeable institutional mandates, both in Asia and more broadly. The retail arm includes the attractive Japanese, Korean and Taiwanese markets. In Japan, our Asia Oceania High Dividend Equity Fund, with funds under management of £3.2 billion, is one of the largest in its sector.

Investing for growth

Prudential's platform is well established and we continue to invest in growing the business through expansion into new markets such as Laos and opening up in new cities in existing markets such as China, Indonesia and the Philippines. We are also investing in expanding our agency network in the region and we are enhancing our operating capabilities, particularly leveraging new technologies.

At Eastspring we are investing in the brand, in the operating model and in talent development, in order to ensure that we expand our regional capabilities to capture the opportunities available from the growth of the retail mutual funds markets in Asia.

Tony Wilkey
Chief Executive
Prudential Corporation Asia

Notes

1 Insurance penetration source Swiss Re Sigma 2015. Insurance penetration calculated as premiums in per cent of GDP. Asia penetration calculated on a weighted population basis.
2 World Health Organisation – Global Health Observatory data repository (2013). Out of pocket as a percentage of Total Health Expenditure Asia calculated as average out of pocket.
3 United Nations, Department of Economic and Social Affairs. Population Division (2015) World Population Prospects The 2015 Revision, DVD Edition 15.
4 Working age population 15-64 years.
5 Source: BCG Global Wealth 2015 Winning the growth game.
6 Based on FY16 or the latest information available. Source includes formal (eg Competitors results release, local regulators and insurance association) and informal (industry exchange) market share data. Ranking based on new business (APE sales on weighted full-year premium depending on availability of data). The ranking for China is among foreign players and India is among private life insurers.
7 Source: Asia asset management September 2016 (ranked according to participating regional players only). Based on assets sourced from the region, excluding Japan, Australia and New Zealand as at June 2016.
8 Based on latest market data available. Laos penetration is based on Swiss Re 2016 Sigma Report – Insuring the Frontier Markets.
9 FUM reported based on the country where the funds are managed.
10 Excluding India.

United States

Providing an ageing American population with financial strategies for stable retirements

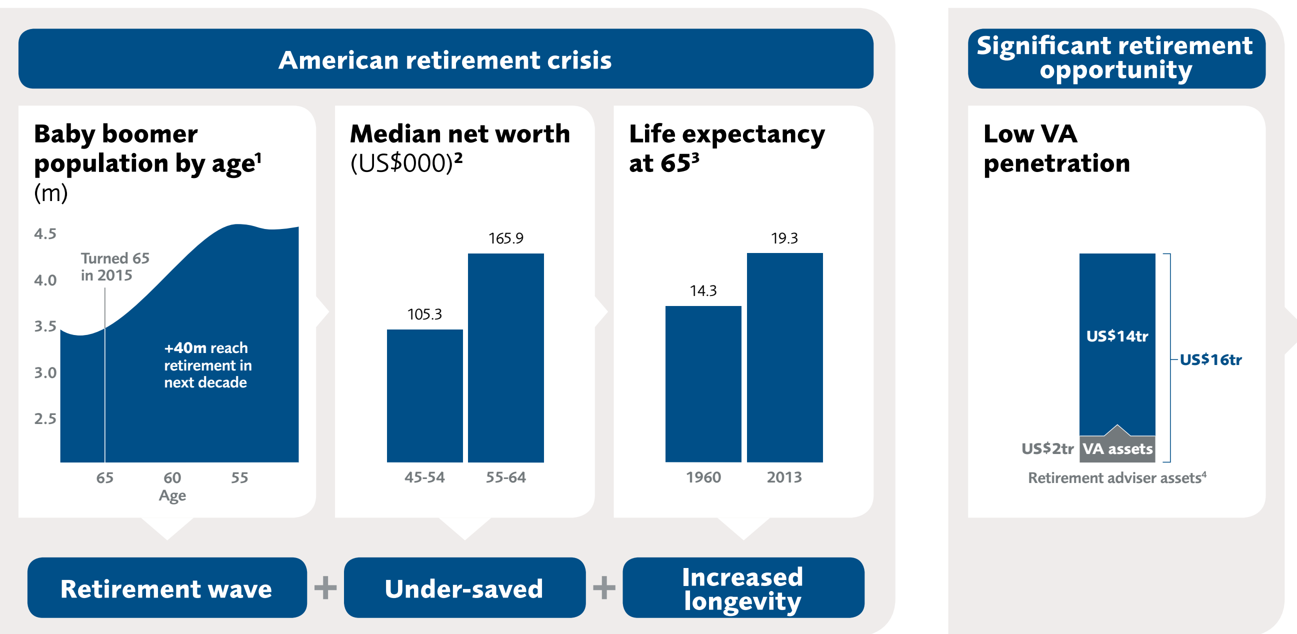
2016 performance highlights

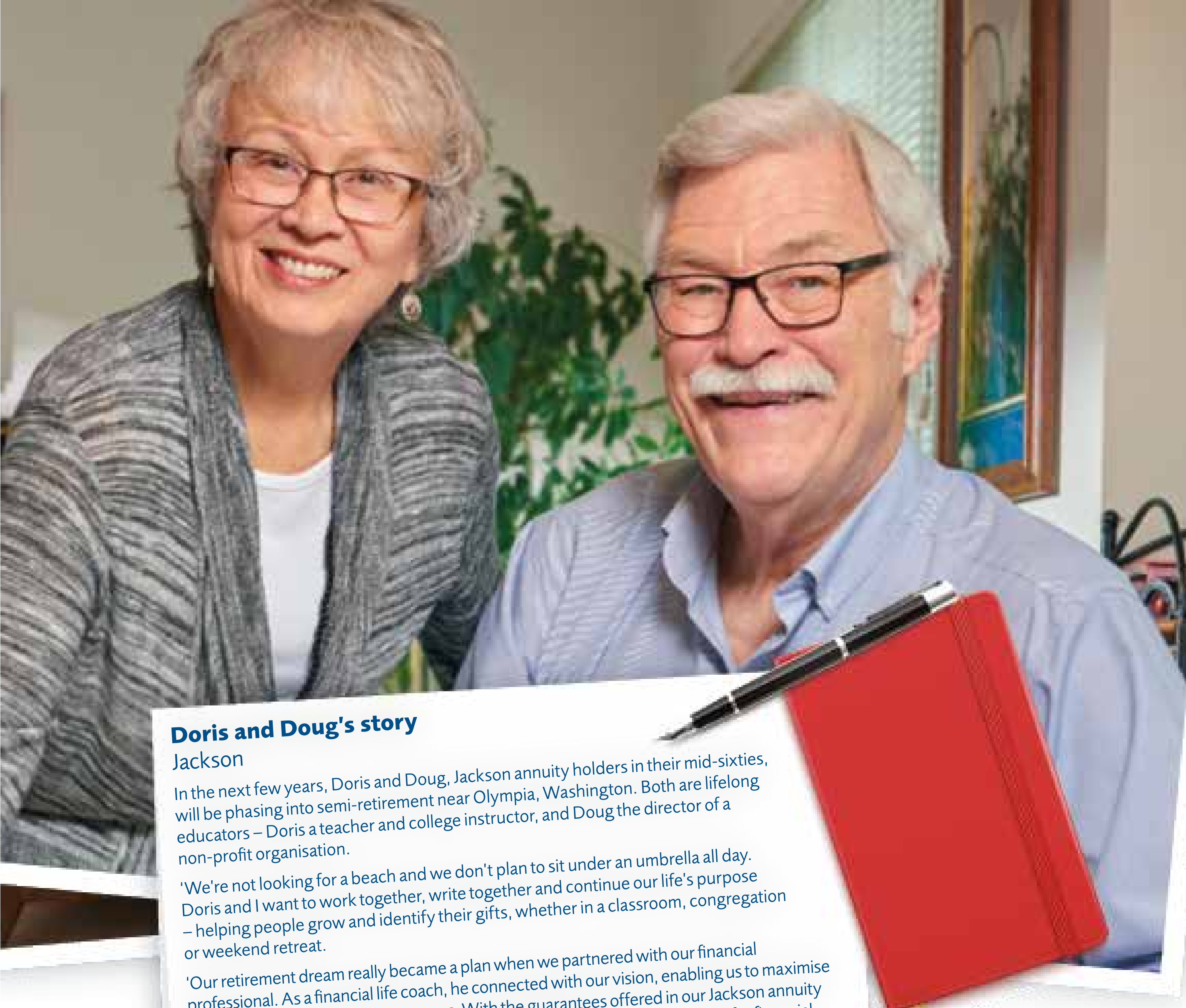
- Cash remittance of £420 million
- Total IFRS operating profits of £2 billion – up 7 per cent (20 per cent on an actual exchange rate basis)
- Variable annuity total net flows of £4.9 billion
- Strong separate account asset growth – up 11 per cent at US$148.8 billion (£120.4 billion)
- Awarded 'Contact Center World Class FCR Certification' and 'Highest Customer Service for the Financial Industry' awards by The Service Quality Measurement Group, Inc. – the 10th consecutive year of recognition for customer service performance in both categories

The US is the world's largest retirement savings market, currently worth a total of US$16 trillion[4], and approximately 40 million Americans will reach retirement age over the next decade alone. This transition will trigger the need for an unprecedented shift of trillions of dollars from savings accumulation to retirement income generation.

However, these Americans face unique challenges in planning for life after work. For many members of this generation, a financially secure retirement is at risk due to insufficient accumulation of savings during their working years and the current combination of low yields and market volatility. Employer-based pensions are disappearing and government plans are underfunded. Social security was never intended to be a primary retirement solution and today its long-term funding status is in question. Additionally, the life expectancy of an average retiree has significantly increased, lengthening the number of years for which retirement funding is required.

Understanding our markets





Doris and Doug's story

Jackson

In the next few years, Doris and Doug, Jackson annuity holders in their mid-sixties, will be phasing into semi-retirement near Olympia, Washington. Both are lifelong educators – Doris a teacher and college instructor, and Doug the director of a non-profit organisation.

'We're not looking for a beach and we don't plan to sit under an umbrella all day. Doris and I want to work together, write together and continue our life's purpose – helping people grow and identify their gifts, whether in a classroom, congregation or weekend retreat.

'Our retirement dream really became a plan when we partnered with our financial professional. As a financial life coach, he connected with our vision, enabling us to maximise our savings and investment resources. With the guarantees offered in our Jackson annuity product, we feel more secure, and ready to focus on people, rather than fight for financial survival.'[11]

Jackson continues its long-term disciplined approach to our business, with a sharp focus on delivering products and services that meet the needs of our stakeholders. This discipline has historically enabled us to navigate market disruption, producing positive outcomes amid adversity. The looming retirement crisis for an under-saved generation of retirees, combined with significant regulatory change and political uncertainty, presents an opportunity to redefine the retirement marketplace. Jackson is well positioned to articulate the issues and provide leadership in addressing them, with a focus on creating value for consumers and shareholders.

Barry Stowe
Chairman and Chief Executive Officer, North American Business Unit

To overcome these challenges, Americans need retirement strategies that offer them the opportunity to grow and protect the value of their existing assets, as well as the ability to provide guaranteed income that will last throughout their extended lifetimes. Annuities can do just that.

Through its distribution partners, Jackson provides products, including variable, fixed and fixed index annuities, which offer Americans the strategies they need. A variable annuity with investment freedom represents an attractive option for retirees, providing both access to equity market appreciation in a tax-deferred wrapper and guaranteed lifetime income. However, penetration of variable annuity sales into the retirement market remains low, accounting for less than 15 per cent of total US retirement assets.

Our businesses and their performance
Continued

Customers and products

Jackson has a proven track record in this market with its market-leading flagship variable annuity product, Perspective. Jackson's success has been built on its quick-to-market product innovation, as demonstrated by the development and launch of Elite Access, our first investment-only variable annuity, in 2012. By the first quarter of 2013, sales of Elite Access ranked in the top 10[8] of all variable annuity contract sales in the US, a position it still holds[8]. Further demonstrating Jackson's flexibility and manufacturing capabilities, in the past six months, Jackson has launched Perspective Advisory and Elite Access Advisory to serve distributors with a preference for fee-based products.

Distribution

Jackson's distribution strength also sets us apart from our competitors. Our wholesaling force is the largest[9] in the variable annuity industry and is instrumental in supporting the independent advisers who help the growing pool of American retirees develop effective retirement strategies. Our wholesalers provide extensive training to thousands of advisers about the range of our products and the investment strategies that are available to support their clients. Based on the latest available data, Jackson's wholesalers achieved gross variable annuity sales that on average were 24 per cent higher than the nearest competitor[9].

National Planning Holdings (NPH), an affiliate of Jackson, is a top-10 broker-dealer[9] network in the US. NPH serves the three key distribution channels of independent

Driving our business

Customers

Many retirees, or soon to be retirees, face a reality of under-saving, having no guaranteed income source and the prospect of living longer than any prior generation. Jackson's focus is to provide solutions to help address these concerns for the millions of baby boomers currently transitioning to and through retirement.

10,000
baby boomers retire per day on average[5]

Assisting **4 million**
customers with their financial needs

Products

Jackson's products provide needed access to equity market growth, protection of principal, and a way of converting retirees' savings into retirement income with a degree of certainty. With a long history of disciplined product design and prudent risk management, Jackson has earned, and continues to earn, trust from its key stakeholders.

2 of the **top 10**
variable annuity contracts by premium[6]

Perspective II is the
#1
selling variable annuity contract[6]

Distribution

Jackson's distribution teams set us apart from our competitors. Jackson's wholesaling force is the largest, most productive in the industry, supporting thousands of advisers across multiple channels and distribution outlets.

Top 10
broker dealer network[7]

Largest and most productive VA wholesaling force in the industry

Investment for growth

Jackson continues to invest in technology and innovative products to efficiently and effectively adapt to what our customers and environment require. Jackson has recently launched a fee-based version of our flagship product Perspective and our innovative Elite Access product to allow for penetration into untapped distribution channels.

Corporate Insight Annuity Monitor Awards for excellence in the online and offline experience offered to prospects, clients and advisers

Quickly and efficiently launched fee-based version of Perspective and Elite Access variable annuity products representatives, financial institutions and tax and accounting professionals, through access to industry-leading mutual fund/asset management companies, insurance carriers and thousands of brokerage products. The strength of this network and the market insight it offers, combined with Jackson's proven manufacturing capabilities, provide a distinct advantage as we continue to navigate the ever-changing regulatory landscape.

Regulatory landscape

Since the financial crisis in 2008, the industry has continued to manage through an ever-changing regulatory landscape. In April 2016, the US Department of Labor (DoL) released a final version of its Fiduciary Duty Rule (Rules), with initial application starting in April 2017 and full implementation required by January 2018. The Rules would, as currently written, subject many advisers who work with qualified retirement plans and Individual Retirement Accounts to the fiduciary requirements of the Employee Retirement Income Security Act, including obligations to avoid conflicts of interest. Those conflict of interest rules are incompatible with many compensation structures that have historically been permissible. However, with the change in the US administration and the release of various Executive Orders, the final form of the Rules remains unclear.

As a result of the DoL regulatory initiative and the uncertainties regarding the application and implementation of the Rules, the annuity industry saw material impacts on sales in 2016. Sales in the variable annuity industry as of the third quarter of 2016 at US$79 billion[10] were down 22 per cent compared with the same period last year. Conversely, sales of fixed index (US$47 billion)[10] and fixed annuity (US$45 billion)[10] products were higher as of the third quarter of 2016 at 22 per cent and 28 per cent respectively, compared with the same period last year. In recent years, some competitors have begun to offer fixed index annuities with benefits that resemble those of variable annuities, leading to a shift in sales away from variable annuities to fixed index annuities. However, this trend has an uncertain future due to the unexpected inclusion of fixed index annuities within the current rules on par with the treatment of variable annuities. Total annuity industry sales were down approximately 2 per cent[10] as of the third quarter of 2016.

Regardless of the outcome of the Rules, the regulatory disruption has challenged the industry to review the ways in which investment advice is provided to American investors. Manufacturers will need to have the ability to provide product and system adaptations in order to support the success of various distribution partners in their delivery of invaluable retirement strategies that investors need.

Investment for growth

From disruption, opportunities can appear. With the tens of trillions of dollars of adviser-distributed assets across distribution platforms that have not historically been a focus, such as the hybrid registered investment adviser channel, there is significant opportunity to reach even more American retirees and serve their needs with annuity products going forward. The industry will need to remain flexible and cost-effective in making changes to products, systems and processes. We continue to ensure that we understand and make the necessary adjustments to support the needs and demands of American retirees into the future.

Jackson and NPH have begun to implement changes necessary to meet the requirements of the Rules. Jackson will continue to evaluate its product offerings in order to meet the long-term needs of investors in search of effective retirement strategies. Additionally, Jackson remains committed to supporting its distribution partners throughout this industry transition.

Jackson's competitive strengths are even more critical during periods of disruption. Our best-in-class distribution team, our agility and success in launching well designed products, the continued success through many economic cycles of our risk management and hedging programmes and our effective technology platforms and award-winning customer service will provide Americans with the retirement strategies they so desperately need, and will enable us to be positioned to capture additional growth during times of transition and into the future.

Barry Stowe
Chairman and Chief Executive Officer North American Business Unit

Notes

1 US Census Bureau Population division 2014 estimate of population.
2 2013 Federal Reserve Board's triennial Survey of Consumer Finances.
3 US Department of Health and Human Services, 'Health, United States 2015', May 2016.
4 Cerulli Associates – Advisor Metrics 2016.
5 Social Security Administration, Annual Performance Plan for FY 2012 and Revised Final Performance Plan for FY 2011.
6 © 2017 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com. Total Sales by Contract 3Q YTD 2016. Jackson's Perspective II for base states ranks #1 and Elite Access for base states ranks #9 for Total VA Sales out of 864 VA contracts with reported sales to Morningstar's quarterly sales survey as of 3Q YTD 2016.
7 Investment News – April 2016.
8 © 2017 Morningstar Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com. Elite Access for base states ranked #10 and #9 for Total VA Sales by Contract at 1Q 2013 and 3Q 2016 respectively.
9 Market Metrics – Variable Annuity Sales, Staffing and Productivity Report: Q3 2016.
10 LIMRA/Secure Retirement Institute, US Individual Annuity Participants Report 3Q YTD 2016.
11 Guarantees are backed by the claims-paying ability of Jackson National Life Insurance Company.

Our businesses and their performance

United Kingdom and Europe

Insurance and investments

Serving the savings and retirement needs of the ageing population in the UK

2016 performance highlights

- Retail new business sales and new business profit both up 33 per cent
- Significant sales momentum securing record business volumes
- Market-leading distribution capability focused on intermediary advisers, an in-house direct advice service – Prudential Financial Planning – and a direct-to-customer telephone franchise
- Significant investment to develop digital distribution capabilities
- Launch of the Prudential Retirement Account – an online account-based pension saving and retirement plan
- Two Five Star ratings for excellent service[2], achieved for the sixth consecutive year
- Biggest winner at the Investment Life & Pensions MoneyFacts Awards in 2016, with top awards for the Best Investment Service, Best Investment Bond Provider and Best Online Service

The fundamentals underpinning the UK's retirement market are changing. Risk and responsibility for retirement provision continue to transfer away from the state and corporates to individuals. As customers adjust to the reforms introduced by pensions freedom in 2015, the new flexible arrangements to control their own pensions have been accompanied by significant complexity, which is adding to the burden of personal responsibility to secure an income in retirement. Investment risk, longevity risk and inflation risk are the risks to be mitigated by today's retirement saver.

Over 70 per cent of liquid assets in the UK are owned and controlled by the over 50s and this demographic is expected to grow by 2.1 million between 2016 and 2030. More people, with more savings, will live longer. This provides significant new opportunities for Prudential as the demand for risk-managed investments to fund retirement is predicted to rise accordingly.

To meet these opportunities, our product and distribution profile has evolved by increasing the range of product options to mirror the flexibilities of the pensions

Understanding our markets

'Pensions freedom' era – growing demand for risk-managed investments to fund retirement

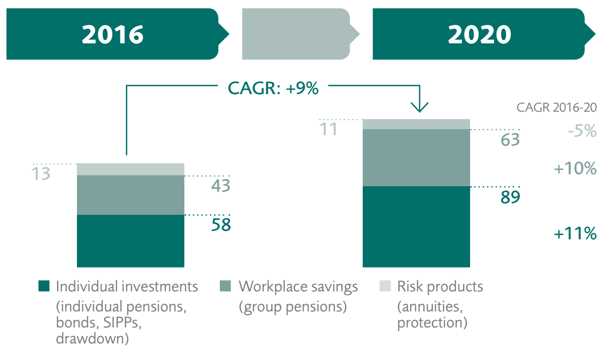
Structural growth underpinned by:

risk transfer from corporates and state to individuals

demographics – growing number of retirees and increased life expectancy means more saving

Retirement market growth

Flows into retail investment products (£bn, annual)



2016 to 2030

1.3% pa
growth in population aged 50+

>70%
of liquid assets held by those aged 50+

2/3rds
fall in defined benefits scheme membership

Helen's story

Prudential UK & Europe

'Thanks to my adviser, I can sleep easy at night knowing that I should be able to achieve my future plans because of the financial security my investments with Prudential should provide. Our annual review meeting is really important because it lets me know if my investments are on track, takes account of any changes in my financial circumstances and gives me a chance to check if there is anything else I can do to get the best from my savings. I chose the PruFund because I don't really like the fluctuations of shares, but getting better returns compared with a bank savings account is very important to me and the with-profits fund has given me that steady secure growth.

'I know Prudential will help secure my financial future because I have known them all my life.'

The Prudential brand resonates strongly with customers and advisers navigating through recent retirement market reforms. When combined with an enviable product and distribution capability, the emerging retirement savings marketplace presents an opportunity that few others are capable of serving better than Prudential.

John Foley
Chief Executive Officer, Prudential UK & Europe

freedom era. There has been a shift away from a reliance on capital-intensive annuity business to a focus on bond, ISA, pension and income drawdown products across a range of tax-efficient solutions.

Customers and products

The Prudential brand benefits from a heritage that stretches back 168 years and a franchise that is based on long-term thinking, longevity experience, market-leading multi-asset investment capability and financial strength – the core attributes that customers continue to seek in the pension freedoms era.

Customer expectations are higher than ever. Increased life expectancy in retirement has put increased demands on long-term product performance, and technology is revolutionising the ways in

Our businesses and their performance
Continued

which company and customer interact. In this changing environment, our brand franchise is strong, resonating with retirement savers.

We continue to focus on meeting these customers' needs through:

- Extending our product range and servicing capability to help customers take full advantage of the flexibility introduced to the retirement saving marketplace through pension freedoms;
- Extending availability of our investment and retirement solutions by maintaining strong relationships with financial adviser intermediaries, accelerating the growth of our Prudential Financial Planning advisory business and through investing in our direct-to-consumer channels, including telephone and online services;
- Enhancing access to our market-leading PruFund proposition across a range of investment and tax wrappers; and
- Continually investing in customer service improvement, acknowledged by two Five Star ratings received for the sixth consecutive year in the Life & Pensions and Investment categories of the Financial Adviser Service Awards.

Most notably in 2016, we responded to changes in the market following the introduction of pension freedoms by launching the Prudential Retirement Account – an online account-based plan

Driving our business

Customers

Strong brand franchise with clear focus on providing retirement saving and income solutions that meet customers' needs in the pensions freedom era.

168
years of providing financial security

Long track record of managing longevity

74 of **99**
public sector authorities' schemes

Products

Product range enhanced, including extended access to our market-leading range of PruFund investments.

75%
PruFund growth since 2006

5*
ratings for excellent service

Distribution

Multi-channel distribution model based on strong relationships with intermediaries and customers. 11 per cent (CAGR) increase in advisers recommending Prudential since 2013. Prudential Financial Planning is now advising over 50,000 customers.

2,700+
adviser firms dealing with Prudential UK

c300
Prudential Financial Planning partners

Investment for growth

Significant investment in product, service and technology to maintain the growth momentum created by recent structural changes in the retirement market.

20%
increase in 2016 sales generated through Prudential Financial Planning

PruFund

PruFund Growth | PruFund Cautious | PruFund 0%-30%
PruFund 10%-40% | PruFund 20%-55% | PruFund 40%-80%

Range of six funds with risk-rating

+

Global diversification: over 25 asset classes in one investment

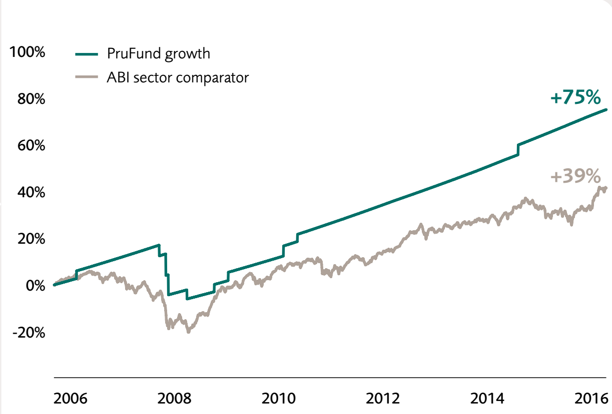
+

Award-winning **asset allocation**

+

Smoothing of investment returns

A unique customer proposition



PruFund investment performance[1]

that provides customers with the flexibility to save for their retirement, provide an income in retirement and facilitate access to their fund as they save. At its core is PruFund, our unique customer proposition managed by the Prudential Portfolio Management Group, our award-winning and market-leading multi-asset management team. From a single fund when launched in 2004, PruFund today comprises six risk-rated funds, offers global investment diversification across 25 different asset classes and delivers smoothing through the strength of the Prudential with-profits fund.

The success of PruFund and its popularity among financial advisers and customers is evidenced in investments worth £24.7 billion in funds under management at the end of 2016.

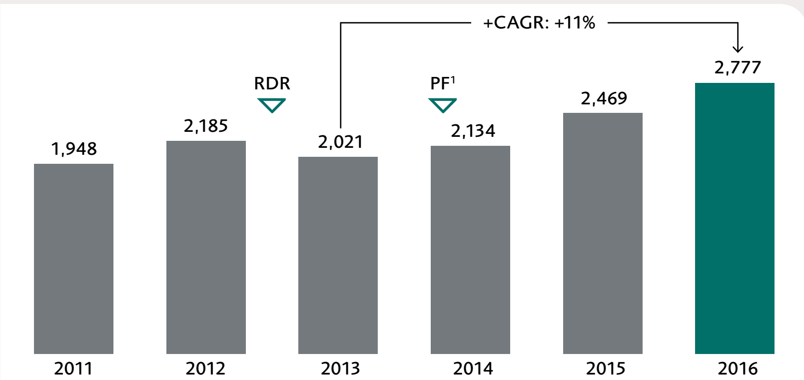
In corporate pensions, we continue to focus on securing new scheme members and supporting existing members to meet their retirement goals. In the public sector, where Prudential is the market leader, providing schemes for 74 of the 99 local authorities in the UK, our focus is on additional voluntary contribution plans.

Having identified a number of alternative capital deployment opportunities within the Group and following the introduction of Solvency II we did not write any bulk annuity business in 2016. We have now withdrawn from this market. Our appetite for individual annuity business has also diminished and we took steps to curtail retail sales by establishing an annuity panel arrangement with a number of firms to provide annuities to our retiring customers. This new service will be phased in over the course of 2017.

Distribution

The foundations of every strong brand are trust and confidence, common denominators in Prudential's multi-channel distribution capability. The model is centred on the core intermediary channel and direct-to-consumer channels, including Prudential Financial Planning.

Number of adviser firms dealing with Prudential



1. PF = 2014 budget announcement of pensions freedom.

Monthly averages

At the heart of the intermediary model is 'the power of three', a combination of regional account manager, telephone account manager and sales support, all working together as a regional sales unit team. There are 65 regional sales units across the UK, giving 100 per cent nationwide coverage, and each having account managers qualified to at least the same standards as the professional advisers they deal with. This model gives third-party financial advisers the support they need, how and when they need it, through dedicated points of contact either in the field or by phone. This approach delivered an 11 per cent compound increase since 2013 in advisory firms recommending Prudential products to their clients. Sales through our intermediary business have also doubled since 2013.

Prudential Financial Planning reinforces Prudential's industry reputation as an innovator and has been central to the continued sales growth achieved by the business in 2016. From its inception in 2012, and against a background of industry-wide retrenchment, Prudential Financial Planning is now a top-10 UK advisory business, with close to 300 partners advising more than 50,000 clients.

Our direct-to-consumer customer telephony team is central to our ambitions to grow our direct-to-customers business and in 2016 we strengthened its capability ahead of a range of forthcoming proposition and service developments.

The roll-out of our business in Poland continued in 2016, with sales increasing by 86 per cent in local currency terms. Significant milestones during the year included increasing the number of financial planning consultants to 721, entering the multi-agency market and securing three affinity distribution deals with Polish telecommunications companies.

Our businesses and their performance
Continued

Investment for growth

We are focused on maintaining the growth momentum created by the structural changes to retirement provision in the UK and on delivering a growth strategy underpinned by investment in product, service and distribution capabilities to meet the evolving needs of customers.

In addition to enhancing access to our market-leading PruFund proposition, we continue to innovate by bringing new and exciting products to the market, such as the Prudential Retirement Account, for our customers who want to use the pensions freedom provisions to their fullest.

Investment in technology is also enabling customers to engage more flexibly with us digitally and online. Easier access to product information for customers is provided by the My Pru app, while our Retirement Ready Guide App was created to provide clear and easy-to-understand information for those coming up to retirement. Technology has also helped us improve online services for advisers and enhance our tele-underwriting service for the Prudential Investment Plan, reducing the amount of time advisers spend on administration and freeing up time to spend with their clients.

We have also focused on deepening our already-strong relationships with independent financial advisers. An important part of our service offering is the ongoing hands-on support for intermediary advisers from our regional sales units, technical helpline and business development and consultancy team. Our adviser webinars attracted more than 10,000 attendees in 2016 while we also hosted 58 adviser seminars across the UK, covering a range of topical and technical subjects, to help these advisers deal with a changing regulatory landscape.

We will also accelerate the growth of Prudential Financial Planning, which currently has close to 300 advisers delivering face-to-face advice in customers' homes and has introduced a telephone advice service to reflect the additional ways in which customers want to receive financial advice.

The evolving nature of how we interact with customers is also driving our ambitions to grow our direct-to-consumer business, where we have strengthened our capability ahead of a range of forthcoming developments, including launch of a direct-to-consumer ISA.

John Foley
Chief Executive Officer
Prudential UK & Europe

Notes
1 ABI mixed investment 20 per cent to 60 per cent shares, total return; performance from 29 December 2006 to 30 December 2016.
2 Ratings in the Life and pensions and Investment categories of the Financial Advisers Service Awards.

Sandra and Colin's story
Prudential UK & Europe

'On both occasions when our Prudential Financial Planning Partner visited us, we found the meetings to be very informative, helpful and most importantly honest. He carefully advised and helped us to select the products that best suited our individual needs.

'We know for a fact that we would never have received the customer care and attention from most other organisations, as we are so remote here in the Western Isles, so it was truly a breath of fresh air to do business with Prudential.'

United Kingdom and Europe

Asset management

Serving retail and institutional investors through a conviction-led and long-term approach

2016 performance highlights

- External funds under management up 8 per cent to £137 billion
- 2016 IFRS operating profit of £425 million
- Institutional external funds under management growth of 11 per cent
- New SICAV platform to offer Luxembourg-domiciled funds
- Implementation of new global risk and portfolio management platform underway

The world's population is ageing: by 2020, there will be more people aged 65 and above than children under five, according to the US Census Bureau. The United Nations estimates that this trend will continue, with over 15 per cent of the global population being aged over 65 by 2050. This demographic shift coincides with changes in retirement planning as governments and employers shift more responsibility to individuals, resulting in growing demand for asset management services.

The European asset management market is already the second-largest in the world, with net assets of £8.2 trillion, while the UK – M&G's core market – is the second-largest national market, with £1.2 trillion, and is a global centre of excellence for investment management.

As the appetite for long-term savings products grows, demand for alternative investment strategies and solutions, such as direct lending and long-term investment in infrastructure equity, is expected to grow. M&G is well placed to benefit from this trend, given its expertise across a diverse range of assets, a record of innovation and strong distribution relationships.

Market backdrop in 2016[1]

Economic pessimism, political risk and central bank quantitative easing saw many government bonds offering negative real yields in the first half of 2016. There was a significant shift mid-year in investor sentiment, as assets flowed away from bonds and bond proxies back towards equities, particularly financial, energy and materials stocks. This trend accelerated following the US election, and the possibility of looser US fiscal policy boosting economic growth in 2017: over €22 billion was withdrawn from fixed income funds by European investors in November alone. An exception was the inflation-linked bond sector, which attracted net flows of over €10 billion in 2016 as investors sought protection from the inflationary impact of higher growth expectations in 2017.

Funds, excluding money market funds, in the UK ended 2016 strongly, with net inflows double those of the next-largest European market during the last two months of 2016. Total net sales of Investment Association-registered UK mutual funds were £13 billion during 2016, down from £22 billion in the previous year. In Europe, net sales were €213 billion, down from €498 billion in the previous year.

Customers

Throughout our 85-year history, M&G has maintained its purpose: to help our customers prosper by putting their long-term savings to work. Our customers have always been at the heart of what we do.

Today we manage the savings of millions of people in the UK, Europe and the rest of the world. These include direct or intermediated investors in our open-ended investment funds, members of pension schemes or other long-term savings schemes who invest through financial institutions, and Jackson and Prudential policyholders, including the Prudential UK with-profits fund.

All our customers benefit from our conviction-led, long-term approach to asset management, applied across the full range of asset types: cash, equities, bonds, property and alternatives. We are constantly developing our capabilities to offer our customers strategies that meet their needs, whatever the market conditions.

Products

M&G has a range of 59 open-ended funds domiciled in the UK and is developing a similar range of funds domiciled in Luxembourg. We aim to offer customers attractive long-term investment returns from a broad choice of products across diverse geographies, asset classes and strategies. Some of our products offer solutions to very specific investor needs. The M&G Episode Income Fund, for example, aims to deliver high and rising levels of income from a diverse range of different assets, which is important to

Patrick's story

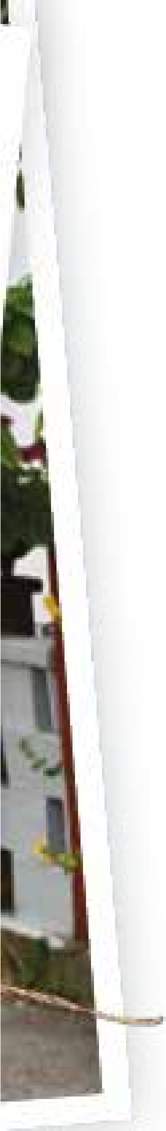
M&G

'I've enjoyed a long and very varied working life, adapting my skills to several industries including the Civil Service, banking and even managing funeral homes in my later career, all while working for 40 years as a minister with my local Congregational church.

'My savings and investments have given me the security to manage life's ups and downs, pressures and expenditures. You never know what challenges life may bring you. The job you have today may not be there tomorrow and, even in retirement, you don't always know how long you'll have to support yourself and your family. Saving for the future is part of my DNA, which is why investing with a company like M&G is important to me. I know that looking after customers' money is part of their DNA too.'

2016 was a year of political and economic turmoil which prompted many of our customers to reassess their investment portfolios. As performance of our open-ended funds recovered in the second half of the year, we saw a much improved trend in flows in the fourth quarter, while appetite remained strong from institutional customers for our alternative investment strategies. Overall, the diversity of our asset classes, strategies and client base has allowed us once more to deliver value for money for our customers and a sizeable cash contribution to the Group.

Anne Richards
Chief Executive Officer, M&G



many investors at a time of historically low interest rates and negative bond yields. We also manage segregated mandates on behalf of pension schemes, wealth funds and other institutional investors, as well as a number of alternative investment strategies.

Equities: throughout our long history, we have favoured a stock selection approach, building portfolios from the bottom up. We are known for our long-term investment views, which give us credibility and influence when representing the views and interests of our end investors to company management.

Fixed income: M&G is one of Europe's largest fixed income investors, with one of the biggest, most experienced in-house credit research teams. Our end investors benefit from our expertise in the full range of fixed income investments, ranging from sovereign debt to private loans. Among our best-known and most successful strategies are the M&G Optimal Income Fund, which celebrated the 10th anniversary of its UK launch in 2016, and the M&G Alpha Opportunities Fund.

Multi-asset: M&G's range of multi-asset funds, designed for investors seeking to spread risk across a mix of assets, has again proven popular with customers in 2016. The M&G Prudent Allocation Fund, launched in 2015 to cater specifically for European investors with a lower appetite for risk, was one of our bestselling funds in 2016. In December, we launched the M&G Global Target Return Fund, a new multi-asset fund aimed at investors seeking reasonable returns with managed volatility.

Real estate: M&G invests in, and manages, property around the globe. Our £26 billion portfolio covers the three commercial sectors of retail, office and industrial. We have a growing franchise in UK Residential Property. M&G Real Estate's core Asia property fund celebrated its 10th anniversary in 2016 and is one of the largest and most diversified Asia property portfolios. There are now investments of more than US$1.7 billion in the Asia Property Fund.

Alternative assets: M&G is a leading investor in a diverse range of private and illiquid assets such as commercial real estate debt, infrastructure debt and equity and direct lending, collectively known as alternatives. These are attractive options for institutional investors looking to match long-term liabilities with long-term returns, either at fixed or floating rates. They are also a key source of funding for public and private infrastructure projects and businesses that might otherwise struggle to access competitive financing.

Driving our business

Customers

We believe our active approach to investment – selecting investments on a conviction basis rather than following a market index – produces superior returns for our customers over the longer term. We offer our customers the ability to invest in a diverse range of assets: not only equities and fixed income but also unlisted investments such as property and private equity.

£64.2 billion
retail funds under management

£264.9 billion
total funds under management

Products

M&G operates a range of UK-domiciled retail funds, which are now distributed in 23 jurisdictions across Europe and Asia. In the institutional market, M&G provides a range of strategies that help pension funds, sovereign wealth funds and other large institutional investors match liabilities and achieve growth targets.

One of Europe's largest fixed-income investors

Range of **59** open-ended funds across diverse geographies, asset classes and investment strategies

14 funds have assets under management of **>£1 billion**

Distribution

M&G provides market insights to clients, intermediaries and others through a number of channels, including a programme of roadshows and events. The M&G Client Council offers customers who invest directly with M&G an opportunity to help shape our products and services, in line with their needs.

58 billion
held in equity investments

138 roadshows in 2016 from our retail fund managers reaching 42,000 clients in 16 countries

Investment for growth

M&G is making significant investment in technology, operating model and portfolio management platforms to advance our operational efficiencies and data capabilities.

Implementation of new portfolio management platform (Aladdin)

New SICAV platform in Luxembourg

Distribution

With offices in 16 countries[2], M&G is able to stay close to our customers and the intermediaries who distribute our products. Our open-ended retail funds are registered for distribution in 23 jurisdictions[3] in Europe and Asia, while our institutional investment strategies are available to investors in many markets around the world, including North America.

We are also investing in online distribution in the UK, building on the insights we gain from the Client Council, a group of 500 customers who invest directly with us and who help us develop our products, services and investor communications.

Investment for growth

M&G is investing in technology and operational infrastructure so we can take full advantage of the opportunities in the fast-evolving distribution and regulatory landscape in which we operate. In 2016, we began implementation of Aladdin, a new global risk and portfolio management platform, which is being adopted across the Prudential Group's asset management businesses. This will significantly advance our data capabilities and operational efficiency.

We also opened a new investment platform in Luxembourg, which gives us new capacity to distribute our funds to European customers based outside the UK.

Anne Richards
Chief Executive Officer
M&G

Notes

1 Source: Broadridge FundFile as at 31 December 2016 in GBP and EUR. Where referenced, the European asset management market refers to both cross border and domestic markets and net sales data is based on estimated net sales data, All UK data is sourced from the Investment Association as at 31 December 2016 and based on the UK onshore and offshore data.
2 Includes the UK head office and PPM South Africa.
3 Europe includes the UK. Restricted distribution in Singapore.

Graham and Gemma's story

M&G and Prudential UK

Alder Hey in the Park Children's Hospital in Liverpool, officially opened by HM The Queen in June 2016, was built using finance arranged by the M&G infrastructure debt team, working in partnership with Prudential as lead debt investor.

Consultant paediatric surgeon Graham Lamont says the new building is transforming both patient experience and the way his team works. 'Building the new Alder Hey from scratch has allowed us to redesign the way our day-patients flow through the building. Now we have no complaints about waiting times, and we'll be able to increase the number of patients we're able to treat from about 7,000 day-cases a year to about 8,000.'

Gemma, mother of one-year-old Harry, who has been treated for craniosynostosis at Alder Hey, agrees: 'There's so much clever design and technology at the hospital to make patients feel comfortable, from barcode scanners that check you in for appointments, to special lighting in the children's rooms – it really is a hospital of the future!'

Chief Financial Officer's report on the 2016 financial performance – Nic Nicandrou

Showcasing the resilience of our earnings, cash and capital

The Group's performance has once again been led by Asia, with double digit growth across new business profit, IFRS operating profit and free surplus generation for the seventh year in a row.

Nic Nicandrou
Chief Financial Officer

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

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

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

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

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

The key financial highlights in 2016 were as follows:

— **New business profit**[1] was 11 per cent[2,3] higher at £3,088 million (up 24 per cent on an actual exchange rate basis), primarily as a result of higher volumes with APE sales up 8 per cent[2,3]. Growth was strongest in Asia, where new business profit increased 22 per cent on a 19 per cent uplift in APE sales and improvements in country and channel mix. The contribution to new business profit from Jackson declined by 13 per cent, reflecting lower variable annuity sales volumes. UK life retail new business profit grew by 33 per cent, driven by strong consumer demand for products offering access to our PruFund investment option, which resulted in a 33 per cent increase in retail APE sales. There was no bulk annuity new business profit as we withdrew from this market in 2016.

— **IFRS operating profit based on longer-term investment returns** (IFRS operating profit) was 2 per cent[3] lower at £4,256 million (up 7 per cent on an actual exchange rate basis). IFRS operating profit from our Asia life insurance and asset management businesses grew by 15 per cent[3] to £1,644 million, reflecting continued business momentum. In the US, Jackson's total IFRS operating profit increased by 7 per cent, mainly due to growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings. In the UK, total IFRS operating profit was 31 per cent lower than the prior year, as a result of significantly reduced profits from annuity new business following our withdrawal from the bulk annuity market, the lower contribution from actions to support solvency and a provision for the cost of undertaking a review of past non-advised annuity sales practices and related potential redress. M&G's operating profit was 4 per cent lower, reflecting the earnings impact of the recent period of net fund outflows.

— **Underlying free surplus generation**[1,4], our preferred measure of cash generation from our life and asset management businesses, increased by 10 per cent[3] to £3,588 million (up 18 per cent on an actual exchange rate basis), after financing new business growth. The increase reflects a higher contribution from our growing in-force book of business, as we continue to focus on high-return new business with fast payback periods and includes the benefit from capital actions in the UK and the US.

— **Group shareholders' Solvency II capital surplus**[7] was estimated at £12.5 billion at 31 December 2016, equivalent to a cover ratio of 201 per cent[6] (1 January 2016: £9.7 billion, 193 per cent). The improvement in the period primarily reflects the continuing strength of the Group's operating capital generation in excess of growing dividend payments to shareholders, and also includes the benefit of debt issued in the year.

Chief Financial Officer's report on the 2016 financial performance – Nic Nicandrou
Continued

- **Full year ordinary dividend** increased by 12 per cent to 43.5 pence per share, reflecting our strong 2016 performance and our confidence in the future prospects of our Group.

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

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

IFRS profit

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

IFRS earnings per share

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

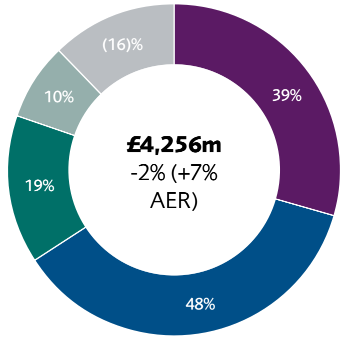
IFRS operating profit based on longer-term investment returns

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

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

IFRS operating profit by business

£m (% vs 2015)



- Asia £1,644m, +15% (+28% AER)
- US £2,048m, +7% (+20% AER)
- UK £828m, -31%
- M&G £425m, -4%
- Others £(689)m, -6%

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

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

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

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

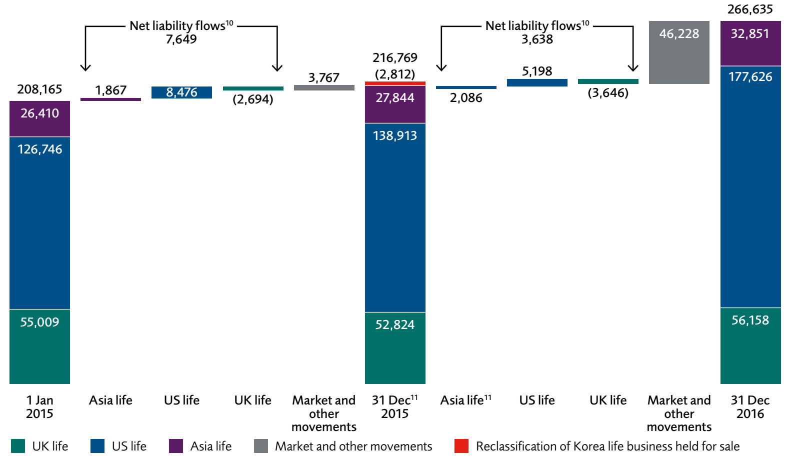
UK life IFRS operating profit declined by 32 per cent to £799 million (2015: £1,167 million). Within this total, the contribution from our core in-force with-profits and annuity business was £601 million (2015: £644 million), including an unchanged transfer to shareholders from the with-profits funds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

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

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

Chief Financial Officer's report on the 2016 financial performance – Nic Nicandrou
Continued

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



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

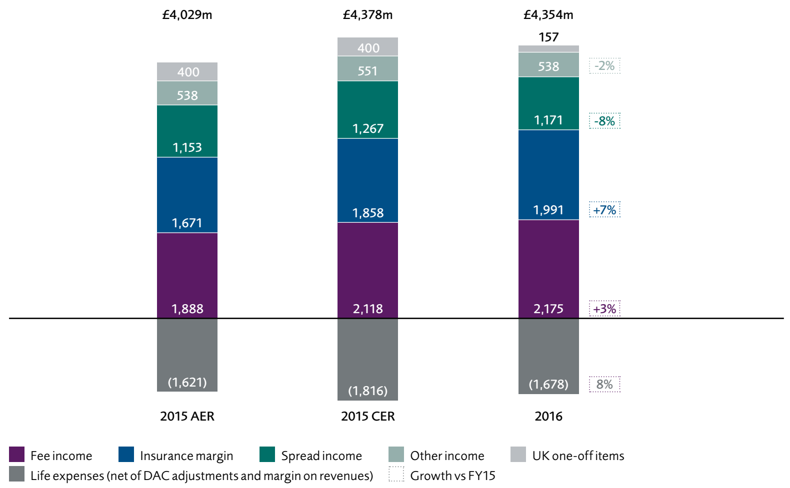
Policyholder liabilities and net liability flows in with-profits business[9,25]

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

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

Alongside growing our overall level of life operating profit, we continue to maintain our bias for higher-quality sources of income such as insurance margin and fee income. We favour insurance margin because it is relatively insensitive to the equity and interest rate cycle and prefer fee

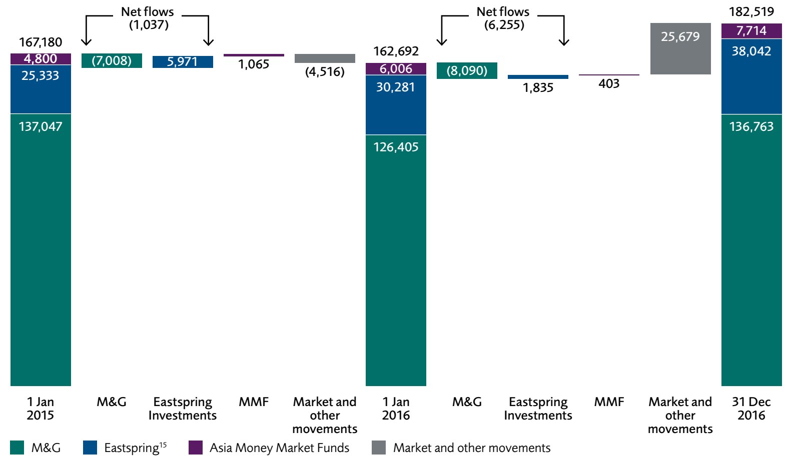
Analysis of long-term insurance business IFRS operating profit by driver[3,10] £m (% vs 2015)



income to spread income because it is more capital-efficient. In line with this approach, on a constant exchange rate basis, insurance margin has increased by 7 per cent (up 19 per cent on an actual exchange rate basis) and fee income by 3 per cent (up 15 per cent on an actual exchange rate basis), while spread income decreased by 8 per cent (up 2 per cent on an actual exchange rate basis).

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

Asset management external net flows and external funds under management[13,14] £m



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

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

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

IFRS non-operating items[8]

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

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

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

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

IFRS short-term investment fluctuations

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

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

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

Chief Financial Officer's report on the 2016 financial performance – Nic Nicandrou
Continued

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

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

IFRS effective tax rates

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

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

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

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

Total tax contribution

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

Publication of tax strategy

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

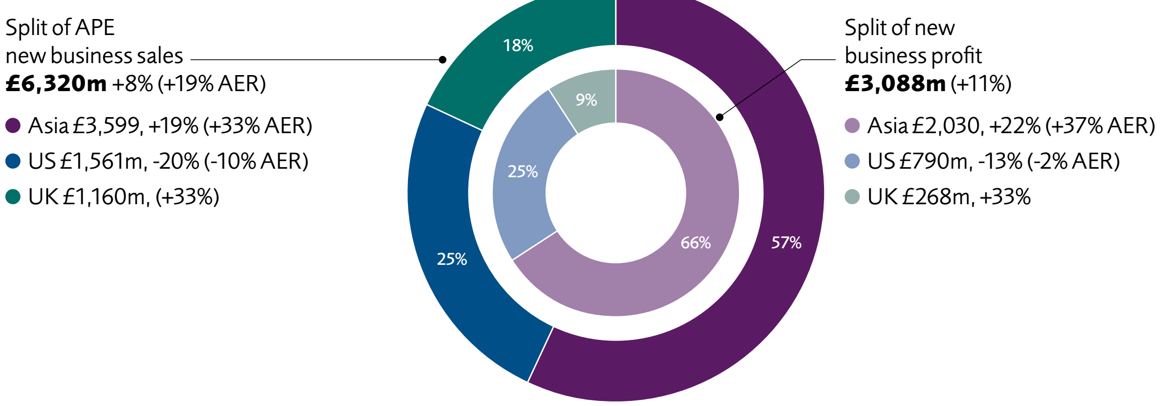
New business performance

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

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

New business performance

£m (% vs 2015)



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

Life insurance new business APE sales increased by 8 per cent[2,3] (19 per cent on an actual exchange rate basis) to £6,320 million led by Asia and the UK.

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

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

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

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

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

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

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

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

Chief Financial Officer's report on the 2016 financial performance – Nic Nicandrou
Continued

Free surplus generation

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

This metric is based on the capital regimes which apply locally in the various jurisdictions in which our life businesses operate. The introduction of Solvency II with effect from 1 January 2016 has altered the regime locally applied to our UK life business, so the 2016 UK life free surplus figures reflect this change. The 2015 UK life comparatives are unchanged as they reflect the regime that applied at that time.

Solvency II does not directly impact the way capital is generated locally in the US and in our Asian life operations, so there is no change in the way free surplus is calculated for these businesses.

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

Free surplus generation

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

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

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

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

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

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

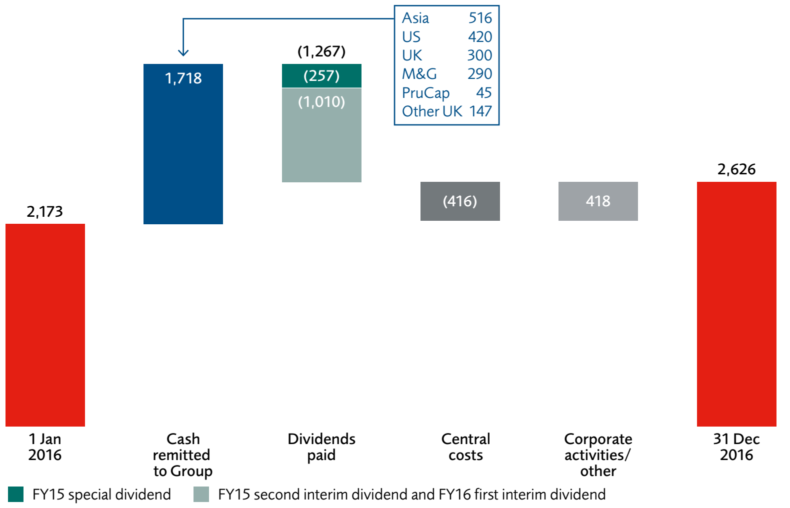
The new business investment[1] in the **UK** was £129 million (2015: £65 million), although comparisons are distorted by the application of different capital regimes in the two periods, with investment in 2016 including a significantly higher strain for new non-profit annuities under the new Solvency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

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

Business unit remittance[18]

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

Movement in central cash
£m



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

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

Chief Financial Officer's report on the 2016 financial performance – Nic Nicandrou
Continued

EEV profit[1]

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

Earnings per share[1]

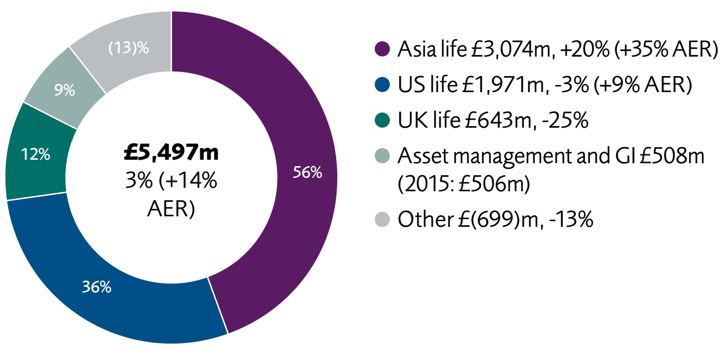
	Actual exchange rate			Constant exchange rate	
	2016 pence	**2015** pence	**Change** %	**2015** pence	**Change** %
Basic earnings per share based on post-tax operating profit[3]	214.7	189.6	13	209.9	2
Basic earnings per share based on post-tax total profit	176.4	154.8	14	170.2	4

EEV operating profit

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

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

EEV operating profit by business
£m (% vs FY15)



Capital position, financing and liquidity

Capital position

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

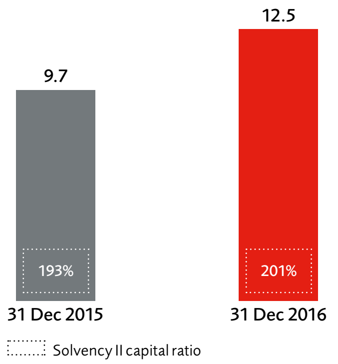
While Solvency II does not fully recognise the economic capital strength of the Group, we implemented it in 2016 having received internal model approval from the Prudential Regulation Authority in December 2015.

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

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

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

Solvency II surplus
£bn



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

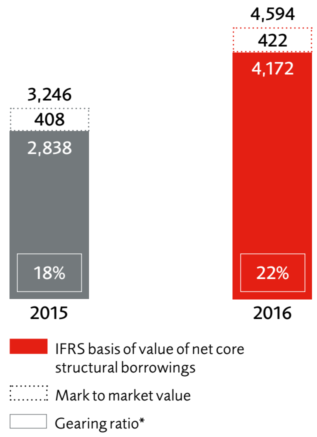
Local statutory capital

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

Debt portfolio

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

Net core structural borrowings
£bn (EEV basis)



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

Financing and liquidity

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

In addition to its net core structural borrowings of shareholder-financed

Chief Financial Officer's report on the 2016 financial performance – Nic Nicandrou
Continued

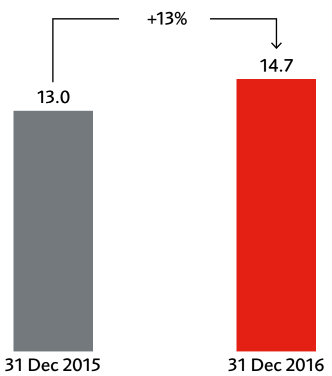
operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 31 December 2016, we had issued commercial paper under this programme totalling £70 million and US$1,213 million, to finance non-core borrowings.

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

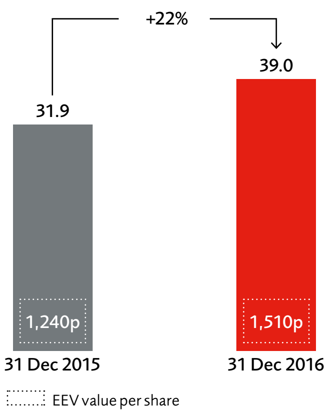
Shareholders' funds

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

IFRS shareholders' funds
£bn



EEV shareholders' funds
£bn



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

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

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

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

Corporate transactions

Sale of Korea life insurance business

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

Entrance into Zambia

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

Dividend

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

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

Nic Nicandrou
Chief Financial Officer

Notes

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

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James

Generating value through selective exposure to risk

Our Risk Management Framework is designed to ensure the business remains strong through stress events so we can continue to deliver on our long-term commitments to our customers and shareholders. 2016 has been a year of extraordinary global uncertainty and the financial strength of our Group has remained robust throughout.

Penny James
Group Chief Risk Officer

Introduction

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

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

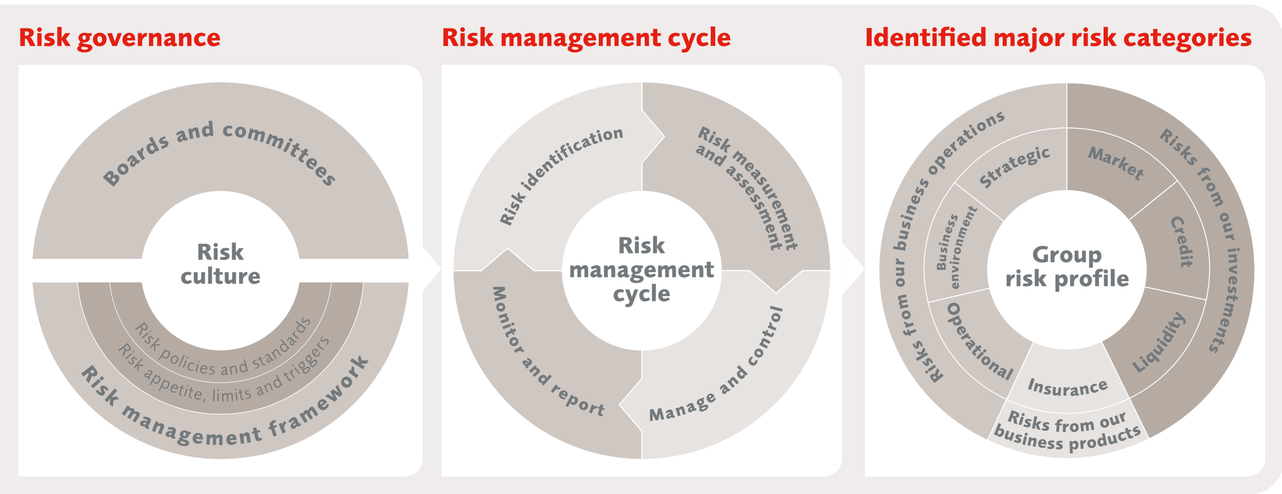
For our shareholders, we generate value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain risks within a clearly defined risk appetite, where we believe doing so contributes to value creation and the Group is able to withstand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

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

Risk governance, culture and our risk management cycle

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

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



Risk governance

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

Risk committees and governance structure

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

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

Risk Management Framework

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

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

Risk appetite, limits and triggers

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

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

Earnings volatility

The objectives of the aggregate risk limits seek to ensure that:

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

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

Liquidity

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

Capital requirements

The limits aim to ensure that:

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

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

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

Risk policies

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

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

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

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

Our risk culture

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

An evaluation of risk culture is part of the Risk Management Framework and in particular seeks to identify evidence that:

- Senior management in business units articulate the need for good risk management as a way to realise long-term value and continuously support this through their actions.
- Employees understand and care about their role in managing risk – they are aware of and openly discuss risk as part of the way they perform their role; and
- Employees invite open discussion on the approach to the management of risk.

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

The risk management cycle

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

Risk identification
Group-wide risk identification takes place throughout the year, and includes processes such as our Own Risk and Solvency Assessment (ORSA) and the horizon-scanning performed as part of our emerging risk management process.

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

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

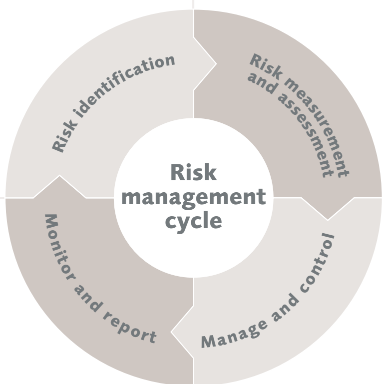
In accordance with provision C.2.1 of the UK Code, the Directors have performed a robust assessment of the principal risks facing the Company, through the Group ORSA report and the risk assessments done as part of the business planning review, including how they are managed and mitigated.

Risk identification covers Group-wide:
- Top down risk identification
- Bottom up risk identification
- Emerging risk identification

Risks are assessed in terms of materiality.

Material risks which are modelled are included in capital models, including E-Cap.

Risks which cannot be quantified are assessed qualitatively.



Risk reports provide monthly updates to the Group Executive Risk Committee, Group Risk Committee and Board on exposure against Board-approved risk appetite statements and limits.

Risk reports also provide updates on the Group top risks.

Risk processes that support the management and controlling of risk exposures include:
- Risk appetite and limits
- Financial incidents procedures
- Large risk approval process
- Global counterparty limit framework
- Own risk and solvency assessment
- Reverse stress testing

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

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

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

Risk measurement and assessment

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

Risk management and control

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

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

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

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

Risk monitoring and reporting

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

Summary risks

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

'Macro' risks

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

Global economic conditions

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

Geopolitical risk

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

Digital disruption

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

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

Risks from our investments

Global economic conditions – see above – have a large impact on those risks from our investments.

Our fund investment performance is a fundamental part of our business in providing appropriate returns for our customers and shareholders, and so is an important area of focus.

Credit risk

Is the potential for reduced value of our investments due to the uncertainty around investment returns arising from the potential for defaults of our investment counterparties.

Invested credit risk arises from our asset portfolio. We increase sector focus where necessary.

The assets backing the UK and Jackson's annuity business mean credit risk is a significant focus for the Group.

Market risk

Is the potential for reduced value of our investments resulting from the volatility of asset prices as driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices. In our Asia business, our main market risks arise from the value of fees from our fee-earning products.

In the US, Jackson's fixed and variable annuity books are exposed to a variety of market risks due to the assets backing these policies.

In the UK, exposure relates to the valuation of the proportion of the with-profits fund's future profits which is transferred to the shareholders (future transfers), which is dependent on equity, property and bond values.

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

Liquidity risk

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

Risks from our products

Insurance risks

The nature of the products offered by the Group exposes it to insurance risks, which are a significant part of our overall risk profile.

The insurance risks that we are exposed to by virtue of our products include longevity risk (policyholders living longer than expected); mortality risk (policyholders with life protection dying); morbidity risk (policyholders with health protection becoming ill) and persistency risk (customers lapsing their policies).

From our health protection products, increases in the costs of claims (including the level of medical expenses) increasing over and above price inflation (claim inflation) is another risk.

The processes that determine the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. Where experience deviates from these assumptions our profitability may be impacted.

Across our business units, persistency and morbidity risks are among the largest insurance risks for our Asia business given our strong focus on health protection products in the region.

For the UK and Jackson, the most significant insurance risk is longevity risk driven by their annuity businesses.

Risks from our business operations

Operational risks

As a Group, we are dependent on the appropriate and secure processing of a large number of transactions by our people, IT infrastructure and outsourcing partners, which exposes us to operational risks and reputational risks.

Information security risk is a significant consideration within operational risk, including both the risk of malicious attack on our systems as well as risks relating to data security and integrity and network disruption. The size of Prudential's IT infrastructure and network, our move toward digitisation and the increasing number of high-profile cyber security incidents across industries means that this will continue to be an area of high focus.

Regulatory risk

We also operate under the ever-evolving requirements set out by diverse regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations; all of which add to the complexity of the operating model if not properly managed.

The number of regulatory changes under way across Asia, in particular those focusing on consumer protection means that regulatory change in the region is also considered a key risk.

Both Jackson and the UK operate in highly regulated markets. Regulatory reforms could materially impact our businesses, and regulatory focus continues to be high.

Further risk information

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

Risks from our investments

Market risk

The main drivers of market risk in the Group are:

- Investment risk (including equity and property risk);
- Interest rate risk; and
- Given the geographical diversity of our business, foreign exchange risk.

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

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

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

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

Our interest rate risk is driven in the UK by our need to match our assets and liabilities; from the guarantees of some non unit-linked investment products in Asia; and the cost of guarantees in Jackson's fixed, fixed index and variable annuity business. The methods that we use to manage and mitigate our market risks include the following:

- Our market risk policy;
- Risk appetite statements, limits and triggers that we have in place;
- The monitoring and oversight of market risks through the regular reporting of management information;
- Our asset and liability management programmes;
- Use of derivative programmes, including, for example, interest rate swaps, options and hybrid options for interest rate risk;
- Regular deep dive assessments; and
- Use of currency hedging.

Investment risk
(Audited)

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

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

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

Interest rate risk
(Audited)

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

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

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

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

Foreign exchange risk
(Audited)

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

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

Credit risk

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

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

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

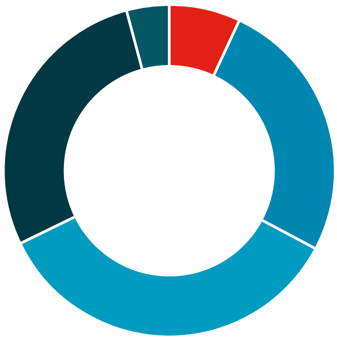
- Our credit risk policy;
- Risk appetite statements and limits that we have defined on issuers, counterparties and the average credit quality of the portfolio;
- Collateral arrangements we have in place for derivative transactions;
- The Group Credit Risk Committee's oversight of credit and counterparty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

Debt and loan portfolio
(Audited)

Our UK business is mainly exposed to credit risk on fixed income assets in the shareholder-backed portfolio. At 31 December 2016, this portfolio contained fixed income assets worth £38.6 billion. Credit risk arising from a further £55.2 billion of fixed income assets is largely borne by the with-profits fund, to which the shareholder is not directly exposed although under extreme circumstances shareholder support may be required if the fund is unable to meet payments as they fall due.

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

Shareholder exposure by rating



AAA	7%
AA	26%
A	35%
BBB	28%
BB or below or non-rated assets	4%

Shareholder exposure by sector

Financial	19.63%
Government	18.71%
Real estate	8.52%
Utilities	8.34%
Consumer, non-cyclical	8.23%
Mortgage securities	3.85%
Industrial	4.69%
Energy	4.41%
Communications	3.61%
Consumer, cyclical	2.56%
Asset-backed securities	3.32%
Other	14.13%

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

The shareholder-owned debt and loan portfolio of the Group's asset management business of £2.3 billion as at 31 December 2016 mostly belongs to our Prudential Capital (PruCap) operations.

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

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

Group sovereign debt
(Audited)

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

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

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

Bank debt exposure and counterparty credit risk
(Audited)

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

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

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

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

At December 2016, shareholder exposures by rating and sector are shown below:

- 96 per cent of the shareholder portfolio is investment grade rated. In particular, 53 per cent of the portfolio is rated A- and above; and
- The Group's shareholder portfolio is well diversified: no individual sector makes up more than 10 per cent of the total portfolio (excluding the financial and sovereign sectors).

Liquidity risk

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

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

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

Our risk management and mitigation of liquidity risk include:

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

Risks from our products

Insurance risk

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

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

We manage and mitigate our insurance risk using the following:

- Our insurance and underwriting risk policies;
- The risk appetite statements, limits and triggers we have in place;
- Using longevity, morbidity and persistency assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- We use reinsurance to mitigate longevity and morbidity risks;
- Morbidity risk is also mitigated by appropriate underwriting when policies are issued and claims are received;

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

— Persistency risk is mitigated through the quality of sales processes and with initiatives to increase customer retention;

— Medical expense inflation risk mitigated through product re-pricing; and

— Regular deep dive assessments.

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

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

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

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

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

Risks from our business operations

Operational risk

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

We manage and mitigate our operational risk using the following:

— Operational risk and outsourcing and third-party supply policies;

— Corporate insurance programmes to limit the impact of operational risks;

— Scenario analysis for operational risk capital requirements, which focus on extreme, yet plausible, events;

— Internal and external review of cyber security capability; and

— Regular testing of elements of the disaster-recovery plan.

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

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

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

— The risk of a significant failure of a third-party outsourcing partner impacting critical services;

— The risk of trading or transaction errors having a material cost across Group;

— The risk that errors within models and user-developed applications used by the Group result in incorrect or inappropriate transactions being instructed;

— Departure of key persons or teams resulting in disruption to current and planned business activities;

— The risk that key people, processes and systems are unable to operate (thus impacting on the on-going operation of the business) due to a significant unexpected external event; for example pandemic, terrorist attack, natural disaster, or political unrest;

— The risk that a significant project fails or partially fails to meet its objectives, leading to financial loss; and

— The risk of inadequate or inappropriate controls, governance structures or communication channels in place to support the desired culture and ensure that the business is managed in line with the core business values, within the established risk appetite and in alignment with external stakeholder expectations.

Global regulatory and political risk

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

— A Risk and Capital Plan that includes considerations of current strategies;

— Close monitoring and assessment of our business environment and strategic risks;

— Board strategy sessions that consider risk themes;

— A Systemic Risk Management Plan that details the Group's strategy and Risk Management Framework; and

— A Recovery Plan covering corporate and risk governance for managing risks in a distressed environment, a range of recovery options, and scenarios to assess the effectiveness of these recovery options

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

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

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

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

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

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

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

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

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

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

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

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

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

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

Cyber risk

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

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

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

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

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

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

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

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

Viability statement

In accordance with provision C.2.2 of the UK code, the Directors have assessed the prospects of the Company and the Group for a period longer than the 12 months required by the going concern statement.

Period of assessment

The Directors performed the assessment by reference to the three-year period to December 2019. Three years is considered an appropriate period as it represents the period covered by the detailed business plan that is prepared annually on a rolling three-year basis. In approving the business plan the Director's review the Group's projected performance with regards to profitability, cash generation and capital position, together with the parent company's liquidity over this three-year period. As well as implementing the Group's strategic objectives, this projection involves setting a number of economic and other assumptions that are inherently volatile over a much longer reporting period. Such assumptions include foreign exchange rates, interest rates, economic growth rates and the impact on the business environment for events such as the exit of the United Kingdom from the European Union.

Although three years is regarded as an appropriate period for the assessment of the Group's viability, the Directors regularly consider strategic matters that may affect the longer-term prospects of the Group. Further, the Group as a whole and each of its life assurance operations are subject to extensive regulation and supervision, which are designed primarily to reinforce the company's management of its long-term solvency, liquidity and viability to ensure that it can continue to meet obligations to policyholders.

In particular, the Group and UK insurance subsidiaries are subject to the capital adequacy requirements of the European Union Solvency II regulatory basis as implemented by the Prudential Regulation Authority in the UK. Capital requirements for the Group's other subsidiaries are also monitored on their local regulatory bases. In addition to these external capital metrics, the Group uses an internal economic capital assessment to monitor its capital requirements across the Group. Further details on the capital strength of the Group are provided on pages 47 and 48.

Assessment of risks over the period

Assessment of the risks to achieving the projected performance remains an integral part of the planning process. The Group's risk teams identify key risks to the delivery of the plan and set out mitigating actions where applicable. The Group's business activities and the factors likely to affect its future development, successful performance and position in the current economic climate are set out on pages 4 to 36. The risks facing the Group's capital and liquidity positions and their sensitivities are referred to on pages 50 to 60.

For the purposes of assessing the Group's viability, the Directors further considered those risks where the impact of possible adverse external developments could be of such speed and severity to present a shock to the Group's financial position. The risks further considered, from those detailed on page 54, are: market risk, credit risk, liquidity risk and regulatory risk.

To evaluate the Group's resilience to significant deteriorations in market and credit conditions and other shock events, these risks are grouped together into severe but plausible scenarios which are then applied to the assumptions underlying the business plan. For example, the impacts of scenarios assuming a disorderly transition to a more normalised interest rate environment and an international recession were considered in the preparation of the most recent business plan, together with the impact on Group liquidity of a scenario assuming the closure of short-term debt markets for three months. In addition, the Group conducts an annual reverse stress test which gives the Directors an understanding of the maximum resilience of the Group to extremely severe adverse scenarios.

In considering these scenarios the impacts of mitigating management actions designed to maintain or restore key capital, liquidity and solvency metrics to the Group's approved risk appetite are considered. In the scenarios tested, sufficient actions were available to management to maintain the viability of the Group over the three year period under assessment.

The impact on the business of known areas of regulatory change whose financial implications can be reasonably quantified is also considered as part of the plan. As well as known areas of regulatory change the Group is exposed to the risk of sudden and unexpected changes in regulatory requirements at the Group and local level. The risk of regulatory change is mitigated by capital held by the Group and its subsidiaries in excess of Group and local regulatory requirements, the Group's ability to generate significant capital annually through its operational delivery and the availability of compensating actions designed to restore key capital and solvency metrics.

Conclusion on viability

Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due over the three-year plan period to December 2019.

Penny James
Group Chief Risk Officer

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

Building stronger and more sustainable communities

Through our Group-wide corporate responsibility programmes around the world, we help to build stronger and more sustainable communities, supporting our customers, our colleagues and the environment. This review gives an overview of our activities and progress in 2016. More detailed information is available online at www.prudential.co.uk/corporate-responsibility and in our first environment, social and governance (ESG) report to be published later in 2017.

Performance highlights

— £20 million total community investment

— 83,284 hours volunteered by employees across the Prudential Group

— £460,167 donated by employees through payroll giving across the Group

It is in our customers' and shareholders' interests for Prudential to be a responsible business which invests in and gives back to our local communities, alongside the jobs, growth and tax revenue we provide.

Paul Manduca
Chairman

Serving our customers

Prudential has been meeting people's needs for 168 years and today provides long-term savings and protection products to around 24 million customers in markets on four continents, enabling them to look to the future with confidence.

Asia

In Asia, the demand for savings and protection products continues to grow as people seek greater financial security and peace of mind. We continue to broaden our offering to help meet the distinct individual needs of our customers.

Prudential Hong Kong's new Customer, Digital and Innovation Centre enables the business to embed customer insights into multiple business initiatives, including product, service and technology. The Centre is equipped with state-of-the-art focus group facilities, fully networked to allow for real-time user testing of our digital platforms. These include the myPrudential online portal where customers can manage their insurance policies, the PRUmobile app for on-the-go information and policy access, and the PRUone integrated sales and advisory platform.

There is increasing customer awareness of the impact of lifestyle choices on their well-being in many markets across Asia and 2016 marked Prudential Hong Kong's first time to offer customers access to an innovative DNA-based nutrigenomic test. The health and protection promotion campaign included access to a nutrigenomic test, 'myDNA', offering individual DNA-based insights into how genetics affects an individual's nutrition needs, dietary sensitivity and well-being. The offer also provided online access to nutrition experts through a mobile app for personalised recommendations. Our customers can personalise their approach to diet and nutrition according to their unique genome in order to achieve their health goals.

Prudential Singapore became the first insurer in Singapore to launch an online community portal for customers to share ideas and to provide direct feedback on products and services. Through Pru-for-you, regular dialogue with customers allows the business to better understand their needs and in turn, create an offering that is tailored to their financial and lifestyle requirements.

US

Prudential's US operation, Jackson, provides retirement income strategies aimed at the 75 million baby boomers in the US. Jackson offers a diverse range of variable, fixed and fixed-index annuity products, designed with a variety of custom options to fit different financial goals.

In 2016, Jackson launched Perspective Advisory, the company's first fee-based variable annuity. Perspective Advisory offers the same investments and optional benefits, for an additional charge, as Perspective II®, Jackson's flagship commission-based variable annuity. The introduction of the new product was designed to meet increased market demand for products compatible with fee-based accounts and platforms as a result of the 2016 US Department of Labor Fiduciary Rules. The addition of Perspective Advisory to Jackson's suite of products also allows the business to expand into advisory distribution channels where insurance products historically have not been widely utilised.

Rob's story

Chairman's Challenge, Jakarta

The first week of the 2016 Chairman's Challenge saw more than 200 employees from Prudential Indonesia head to Taman Mataram in south Jakarta. Every Saturday for four weeks, the volunteers worked with Prestasi Junior Indonesia and the local community to regenerate an under-utilised park into a green community space incorporating fun activities and a financial education theme.

Rob Gardiner, Management Advisor Prestasi Junior Indonesia said, 'The 2016 Chairman's Challenge was just what the name suggests – a very challenging undertaking. The initiative required both Prestasi Junior Indonesia and Prudential Indonesia to move outside of their "comfort zones" and combine financial literacy resources with the rejuvenation of the Taman Mataram city park. The end result was, however, beyond our expectations. The corporation has set exceptionally high standards in its efforts to improve the welfare of those within the communities in which it operates.'

Jackson is committed to providing education, service support and digital tools to increase the ease of doing business. The Center for Financial Insight is a resource designed to help investors and employees gain a better understanding of important financial and investing topics. The mission of the Center is to raise the overall level of financial education and confidence in the US by providing useful content framed in a way that is relevant, consumable and engaging for the modern customer.

Since the re-launch of the site in July 2016, more than 70,000 unique visitors have visited the content on the Center, 55,000 of whom are new visitors to Jackson.com. In addition, the most viewed articles on the site are seeing average viewing times of up to five minutes, showing a sustained level of interest.

UK and Europe

Following reform of the UK's pension and retirement income system in 2015 Prudential has continued to develop both products and processes to meet an evolving set of customer expectations and requirements that increasingly include having to manage and take responsibility for their own savings and the associated risks of longevity, inflation and investment.

Most notably in 2016, we responded to changes in the market following the introduction of pension freedoms by launching the Prudential Retirement Account – an online account based plan that provides customers with the flexibility to save for their retirement, provide an income in retirement and facilitate access to their fund as they save.

Our PruFund franchise provides a unique range of investment fund options for advisers and savers, across the risk spectrum. From ISA and bond, to pension and income drawdown, the range of six different funds continues to flourish, with assets under management reaching £24.7 billion in 2016.

An important part of our service offering is the ongoing hands-on support for intermediary advisers from our regional sales units, technical helpline and business development and consultancy teams.

In 2016, Prudential hosted a series of national seminars covering over 20 locations nationwide, and a structured WebEx programme covered a range of topical and technical subjects, to help these advisers deal with the changing regulatory landscape. Our financial planning business, Prudential Financial Planning, also grew significantly in 2016, increasing its number of advisers to 288.

A number of technology improvements were delivered in 2016, including the introduction of a fully flexible online application process for the popular Prudential ISA product. Additionally, improvements were made to the tele-underwriting service for the Prudential Investment Plan, reducing the amount of time advisers spend on administration and giving them more time with their clients.

Prudential UK & Europe's success in the Financial Adviser Service Awards continued in 2016, with the retention of the coveted Five Star ratings in the Life and Pensions and Investments categories for the sixth consecutive year. Prudential was the biggest winner at the Investment Life & Pensions MoneyFacts Awards in 2016, scooping the top awards for the Best Investment Service, Best Investment Bond Provider and Best Online Service, once again achieving incredible success at one of the most sought-after awards in our industry.

Asset management

M&G, Prudential's UK and European asset management business, is a long-term investor that takes seriously its responsibilities as a steward of clients' assets, often working closely with the management of the companies in which we invest. M&G's investment teams incorporate environmental, social and governance (ESG) factors into investment analysis and decision-making processes, wherever they have a meaningful impact on risk or return: www.mandg.com/en/corporate/about-mg/responsible-investment/

Active voting is an integral part of the investment approach, both adding value and protecting our interests as shareholders. The M&G website provides an overview of voting history: www.mandg.com/en/corporate/about-mg/investment-philosophy/voting-history/

Reflecting this approach, M&G is a signatory to the UN Principles for Responsible Investment (UNPRI), an international network of investors working together to promote responsible investment practices.

M&G provides market insights to clients, intermediaries and direct investors through a number of channels, including a programme of roadshows and events and multiple digital platforms. To better reflect the diversity of our customer base, during 2016 we significantly increased the size of our M&G Client Council, the panel of our direct investors that helps us design products, services and communications to better meet their needs. Members of our Client Council played a key role in the early stage of product concept testing for our two newest retail funds: the M&G Absolute Return Bond Fund and the M&G Global Target Return Fund, which we launched just before the end of the year.

Supporting local communities

The inherent long-term social value of our business is complemented by investments in communities in each of the markets in which we operate. We provide support to charitable organisations through both funding and the experience and expertise of our employees.

Our investments in communities are designed to support the communities in which we operate and deepen engagement with colleagues. As such, our community investment programme is linked to our strategy and is focused around four principal areas:

- Social inclusion;
- Education and life skills;
- Disaster preparedness; and
- Employee engagement.

We establish long-term relationships with our charity partners to ensure that the projects we support are sustainable, and we work closely with them to ensure that our programmes continuously improve.

Education and life skills

Cha-Ching – the first global financial education programme

We have a long-standing commitment to financial literacy and Cha-Ching is our flagship financial education programme. Launched in Asia in partnership with the Cartoon Network in 2011, it is a multi-media programme built around three-minute animated music videos aimed at children aged seven to 12. Developed with Cartoon Network and Dr Alice Wilder, an award-winning children's education specialist, the programme helps children learn the fundamental money management concepts of earn, save, spend and donate. The programme has gained international recognition for promoting financial literacy and has won several industry awards. Over the past few years it has grown to become one of the top-rated children's television programmes in Asia. Cha-Ching is now available in 10 languages and reaches 54.3 million households a day across Asia through the Cartoon Network. The Cha-Ching School Contact Programme brings Cha-Ching directly to schoolchildren across Asia and has reached more than 200,000 schoolchildren in nine Asian countries to date.

Now a Group-wide programme, Cha-Ching has been launched in Poland, the US, the UK and Africa. In the US, Jackson plans to distribute Cha-Ching with national educational partners and via social media to increase financial literacy with youth. In addition, partnering with Junior Achievement USA, Jackson plans to distribute a five-week teaching curriculum using the Cha-Ching topics and characters to help students engage with personal finance topics.

In the UK work will continue to roll out the Cha-Ching education website, which provides teachers with financial education resources built around the animated music videos, with supporting lesson plans and teacher's guidance designed to improve the financial capability of Key Stage 2 pupils. The online educational resource will also support expansion across our African markets.

First Read – developing children's skills

The Prudence Foundation has funded and supported the First Read programme since 2013, partnering with Save the Children to focus on investing in early childhood care and development in Cambodia and the Philippines. First Read is a unique programme that helps parents to develop their children's numeracy and literacy skills by providing books in the local language or dialect, and encouraging them to read, sing and count together. It also helps parents understand the importance of healthy and nutritious food for children's development.

Over the last three years of the partnership, over 220,000 children and adults have benefited directly and over 483,000 community members indirectly. In 2017, the partnership will continue with Save the Children, with a particular aim to conduct long-term research and use evidence of First Read's impact to advocate for replication and greater scale at the national level.

Teen Zone at the Boys & Girls Club

In September 2016, the Boys & Girls Club of Lansing opened the Jackson Teen Zone. This renovation and 4,680-square-foot expansion was funded by support from the business and individual employees. The new Jackson Teen Zone allowed the Boys & Girls Club to repurpose the previous Teen Rooms into innovative tutoring and educational spaces, providing much-needed quiet space for homework, college prep and financial literacy support. The Boys & Girls Club of Lansing annually serves more than 5,200 at-risk youths, aged seven to 18.

Supporting young people with employability and financial skills in London

In the UK, one of the core areas of focus is ensuring that young people have the employability and financial skills they need to get on in life. Prudential UK & Europe has been directly involved in building the knowledge and skills of young people through three secondary school partnerships in Paddington, Reading and Stirling. Delivered as part of Business in the Community's Business Class and the Scottish Government's Developing the Young Workforce programmes, the partnerships have supported over 3,550 young people since 2013, with 336 employees giving their time and sharing their knowledge and skills. Prudential's partnership with MyBnk, which delivers financial literacy programmes in secondary schools in London, helps develop money skills for 5,000 young people every year in deprived areas of the capital.

Learning with Magic Bus in India

In India, Prudential UK & Europe's employees work in partnership with Magic Bus, which provides children from marginalised communities with opportunities for learning, leading and earning through a sport-focused activity curriculum, mentorship and employability programmes. This year the business in Mumbai helped 1,826 students in rural areas take more interest and gain more by introducing a mechanism for learning by seeing and doing rather than just learning from books.

Secondary school scholarships across Africa

In our new markets in Africa we have committed to provide support for academically able but financially disadvantaged high school students, and to help build capacity for training in actuarial sciences at local universities.

Prudential has worked with a number of charities operating in Ghana, Kenya, Uganda and Zambia by funding educational programmes and projects since 2014. These programmes have focused on allowing vulnerable children in these countries to access quality education, through the provision of scholarship awards.

Disaster readiness and relief

Regional commitment to disaster preparedness with Safe Steps

As a life insurance and asset management company, our core business is the provision of protection, security and risk mitigation to individuals and families. We focus on disaster relief and preparedness in our Asia markets, as Asia Pacific is the world's most disaster-prone region. Prudence Foundation is working with NGOs and governments to help communities better prepare for such disasters before they strike, as well as providing support at times of emergency response and recovery.

Safe Steps National Disasters was launched in 2014, and is a first-of-its-kind pan-Asian public service initiative to enhance disaster preparedness and awareness through the dissemination of educational survival tips for natural disasters. It is a multi-platform programme including on-air video messages, an informative website and educational collateral that can be shared among communities. Core to the programme is a series of 60-second educational videos that advise individuals and households on what they should do

Amy's story

Prudential Skills for Life programme

In partnership with the Transformation Trust, a national education charity, staff volunteers for the Prudential Skills for Life programme provided mentoring support to disadvantaged young people aged 16 to 17 as they prepared to move into further education or the world of work. The volunteers shared their skills and expertise on topics including CV writing, body language, communication and preparing for an interview.

Amy Brocklehurst, Director of Group Strategy and Corporate Development at Prudential said 'The Transformation Trust is a fantastic charity giving real opportunities to disadvantaged young people as demonstrated by the Prudential Skills for Life programme. The students were a real inspiration and it was fantastic to see them grow in confidence'.

Students described how the support has helped them prepare for further education and the workplace, and according to the Transformation Trust, 86 per cent of students felt the programme helped prepare them better for life after sixth form.

when disasters strike. In 2015, Prudence Foundation launched its second Safe Steps programme, Safe Steps Road Safety, in partnership with National Geographic Channel and the Fédération Internationale de L'Automobile and endorsed by the International Federation of the Red Cross.

The programme has been well received and a number of partnerships across Asia have spread the campaign, including free-to-air channels, radio stations and cinema. Through these partnerships, Safe Steps currently has a potential reach of 200 million people a day in Asia.

Safe Schools programme

Prudence Foundation continues its support of the Safe Schools programme, partnering with Plan International and Save the Children in Cambodia, Indonesia, the Philippines, Thailand and Vietnam. The programme focuses on capacity-building for students, teachers and local community members on disaster preparedness, placing schools at the heart of building a culture of disaster preparedness within communities. The programme trains students and their teachers in key disaster management skills and supporting the organisation of disaster simulations and evacuation drills for students and their community. Since 2013, more than 70,000 students and 18,000 teachers have participated. In 2017, the Prudence Foundation will continue to support this programme and explore further partnerships to increase its scale.

Volunteering to build disaster-resilient homes

Prudence Foundation continues to provide support to major emergency relief efforts across the region. In 2016, support was provided in Cambodia to emergency drought response efforts. The long-term commitment of the business to the Typhoon Haiyan recovery efforts in Bantayan Island was demonstrated by sending a team of volunteers to continue the building of new houses for the community. The first 64 houses have been completed and families have now moved in. Around 80 volunteers in June supported the construction of the final 62 houses, which were due to be completed by the end of the first quarter in 2017. In September, over 50 regional volunteers spent time in Vietnam to support the construction of a new school in Quang Binh province. This formed part of Prudential Vietnam's partnership with Plan International and the Vietnamese government, which are collaborating together to build new disaster-resilient schools in poor regions throughout the country.

Emergency fund relief

Prudential has also been a Group-level supporter of Save the Children since 2010 and is one of the Children's Emergency Fund's major supporters. This allows us to act swiftly when disasters occur in any of our markets and provides an instant, effective fundraising mechanism for employees when needed. In 2016 more than 98 allocations from the Fund were made to more than 46 countries and we will continue to support this partnership in 2017.

Social inclusion

Prudential RideLondon – social inclusion in the UK

In the past four years Prudential RideLondon has raised £41 million for charity and become one of the UK's largest fundraising events. In 2016 alone, more than 740 charities benefited from riders' fundraising. We have renewed our sponsorship for a further three years to 2018.

As title sponsor, in 2016 we partnered with three charities – Teach First, Greenhouse Sports and the Invictus Games Foundation – to provide aspirational challenges for 62 young people and injured service personnel tackling Prudential RideLondon for the first time. We provided support including bikes, equipment and training as well as employability and coaching workshops. Over £500,000 was raised as a result of fundraising from Prudential rider places by our charity partners and our employees.

Prudential RideLondon has inspired many to take control of their health and well-being. A BBC2 documentary called *Fixing Dad* featured Geoff Whitington, who was encouraged and supported by his sons to regain his health and reverse his Type 2 diabetes through significant changes to his diet and lifestyle, including taking on the challenge of riding the Prudential RideLondon-Surrey 100. The Fixing Challenge will continue in 2017.

We are developing a new Prudential RideLondon programme for 2017 in partnership with Teach First, which will use the event as a focal point to promote inclusion and help eradicate educational inequality. The new PruGOals programme will have national reach, working with more than 15 schools with an increased focus on well-being and mental health.

Employee fundraising

Jackson employees are actively engaged in our commitment to communities by taking part in programmes such as the Jackson National Community Fund Advisory Committee and the employee-nominated matching programme. The Jackson National Community Fund supports charities that help the elderly and children through quarterly grants in communities where Jackson's four largest offices are located. Jackson's matching programme offers a two-to-one match on all employee donations made to approved charities. This programme ensures that causes important to employees are given charitable consideration and that Jackson's support is received by responsible organisations where funding will create a significant impact.

The elderly in the community

Prudential UK is a long-standing partner of Age UK, working to make a difference to the lives of the elderly. Building on the successful Planning for Later Life programme the business has launched a new programme – Later Life Links. This is focused on supporting older people in six communities across the UK to become more involved in their communities, through the provision of long-term companionship, advice and practical support.

Apprenticeships in the UK

Youth unemployment is a huge social challenge. As one of the most respected brands in the UK, Prudential is taking a major role in helping to shape future job prospects for young people. Over the past three years we have recruited 178 young people to our apprenticeship programme, providing them with important work and

Jackline's story

Prudential Scholarship programme, Kenya

Jackline is the sixth of eight siblings. She lives in rural Oloitokitok, and is the first child in her family to go to school, which is something she is very proud of. She was fortunate to attend primary school, as Masai children are normally expected to take on herding and childcare responsibilities, but did not anticipate that it would be possible for her to continue her education, as her mother is the sole provider for the whole family.

Through the Prudential Scholarship programme with the Kenya Education Fund, Jackline now attends St. Clare Girls' High School, where she has taken a keen interest in civil engineering and wants to continue her studies so that she is able to support her community and country by advancing infrastructure.

'My friend Beatrice was married when she finished class eight because her parents did not have the money for fees and she now has a child. I know I was also very close to sharing the same story. That is why words can't possibly explain how grateful I am to Prudential, because now I know my dreams will come to life.'

life skills and starting them on the first step of their careers.

Support for disadvantaged communities

M&G continues to care for and enable disadvantaged communities near to its offices and during 2016 more than 200 charities received support either by donation or as a result of employee volunteering. In 2016, M&G held its first City Giving Week, an onsite event which each day showcased and highlighted the services provided by charities that had received support. The Lord Mayor of the City of London attended M&G's event as part of his initiative to promote the varied charitable activities undertaken by City businesses.

Colleague engagement

Successful volunteering programme – Chairman's Challenge

Many of our employees play an active role in their communities through volunteering, charitable donations and fundraising. In the UK, the US and Asia we offer our employees the opportunity to support charities through payroll giving.

Chairman's Challenge is our flagship international volunteering programme, bringing together people from across the Group to help in their communities. Colleagues from across the Group give their time and skills to support our global charity partners, including Plan International, Help Age International and Junior Achievement.

The programme continues to appeal to colleagues, with the number of volunteers signing up increasing year-on-year. From its launch in 2006, when 2,603 employees signed up, volunteer numbers have increased by 208 per cent. Last year, 8,011 colleagues around the world took part, volunteering over 27,000 hours to support 30 projects, benefiting over 92,000 individuals across the world.

Each volunteering project focuses on one or more of our CR priorities and allows us to support both large, well established charities and innovative, smaller-scale activities with volunteers as well as financial support. Prudential donates £150 to our charity partners for every employee who registers for the programme. Charity partners use this money to seed-fund charitable projects for Prudential volunteers. Each year employees across the Group are involved in the voting process to decide on the most innovative projects, which receive extra funding towards their charitable objectives.

Volunteering across the Group

As well as volunteering efforts on behalf of the Chairman's Challenge, employees around the Group volunteered on a huge range of other charitable projects, from providing relief following disasters to mentoring schoolchildren, supporting the elderly and skills-sharing. In 2016, employees across the Group volunteered in their communities on a range of projects, providing a total of 83,284 hours of volunteering, up from 51,979 hours in 2015. This includes the Chairman's Challenge hours. We recognise that employee volunteering brings benefit not only to the charities but also to the development of our people, and we actively encourage colleagues to participate in our programmes.

Charitable donations

We calculate our community investment spend using the internationally recognised London Benchmarking Group (LBG) standard. This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions.

In 2016, the Group spent £20 million supporting community activities. The direct cash donations to charitable organisations amounted to £16 million, of which approximately £5 million came from our UK and EU operations, which are principally our UK insurance operation and M&G. The remaining £11 million was contributed to charitable organisations by Jackson National Life Insurance Company, Prudential Corporation Asia and Prudential Africa.

The cash contribution to charitable organisations from our UK and EU operations is broken down as follows: education £2,667,000; social, welfare and environment £2,036,000; cultural £142,000; and staff volunteering £88,000.

The balance includes in-kind donations and is prepared in accordance with LBG guidelines. This included more than 10,675 employees (including 8,011 who volunteered for the Chairman's Challenge) who dedicated more than 83,284 hours of volunteer service in their communities. Furthermore, over £460,000 was donated across the Group by our employees through our payroll giving scheme.

Political donations

It is the Group's policy neither to make donations to political parties nor to incur political expenditure, within the meaning of those expressions as defined in the UK Political Parties, Elections and Referendums Act 2000. The Group did not make any such donations or incur any such expenditure in 2016.

Valuing our people

At Prudential we encourage an inclusive working environment where we develop our talent, reward great performance and recognise our differences in order to continue to deliver outstanding results for our customers, shareholders and communities. This is achieved through our continued focus on diversity and inclusion, talent development and performance and reward.

Diversity and inclusion

Prudential believes that diversity of experience, thought and background is vital to success, both today and in the future. The Board has therefore decided to make diversity and inclusion one of the strategic objectives for Prudential and appointed Penny James, Group Chief Risk Officer, to act as executive sponsor for diversity and inclusion.

Our policies and plans support an inclusive culture sensitive to the needs of all employees. We protect all our employees against discrimination and provide opportunities for our people regardless of their age, caring responsibilities, disability status, ethnicity, gender, religion or sexual orientation. We make appropriate disability adjustments as required, and provide training and career development opportunities for all. We give full and fair consideration and encouragement to all applicants with suitable aptitude and abilities.

We aim to foster a working environment where individuals are empowered and differences recognised. We aspire that over time our senior management better represents the experiences and background of our customers and stakeholders.

The Board monitors progress on diversity and inclusion through quarterly updates and the annual talent review process.

We have a strategic, long-term approach to diversity and inclusion at Group level and in each business unit and we invest in targeted activity across 10 priority areas ranging from diversity and inclusion-focused development through support for various affinity groups, including, among others, ethnicity/nationality, gender, LGBT, disability, age, social mobility, parenting and care. Across our businesses, our commitment to diversity and inclusion is supported by initiatives such as reviews of pay and performance management consistency, providing training to staff and engaging with recruitment firms to mitigate unconscious bias, and awareness campaigns to diversify the pool of potential candidates.

For example, in 2016, PCA rolled out the PRU+YOU programme to help colleagues to achieve personal well-being goals and promote family-friendly practices. Our North America business has expanded the existing College Relations initiative with the addition of partnerships with Morehouse College, Spelman College and Clark Atlanta University in order to support diversity of ethnicity at entry level. The apprenticeship programme offered within our UK insurance business continued to demonstrate its success and has recruited its fourth cohort. M&G further improved the nationality, academic and social diversity of its graduate schemes and for the first time ensured 50 per cent women on investments schemes. Group Head Office has increased its focus on gender diversity through development of talented women, with 46 per cent female participation in available talent programmes. Africa's scholarship programme has supported the education of 628 children in Ghana and Kenya.

We have further developed affinity networks: M&G Pride for LGBT employees and allies, and the UK-based Prudential Women's Network.

As part of our broad diversity and inclusion agenda, we have publicly committed to having at least 30 per cent of women in senior management by the end of 2021 and we have signed the HM Treasury Women in Finance Charter. As an important step in this direction, we aim to achieve 27 per cent female representation in senior management by the end of 2019.

Gender diversity within the senior leadership

Headcount	Notes	Total		Male	Female
Chairman and Independent Non-executive Directors		9	=	7	2
Executive Directors		7	=	5	2
Group Executive Committee (GEC)	Includes Executive Directors	13	=	11	2
Senior managers	Excludes the Chairman, all Directors and GEC members	93	=	71	22
Whole company[1]	Includes the Chairman, all Directors and GEC members	23,673	=	11,139	12,534

1 Excludes PCA joint ventures.

We believe in supporting human rights and acting responsibly and with integrity. Our policies are guided by the principles of the UN's Universal Declaration of Human Rights and the International Labour Organisation's core labour standards. These are also incorporated into our Group Code of Business Conduct, which sets out the Group values and expected standards of behaviour for all employees, and in our Group Outsourcing and Third Party Supply Policy.

Talent development

People development is essential to deliver our strategy. The quality of leadership across the Group is fundamental to the future growth and success of the business and we therefore review our talent annually, and offer a range of programmes that enable our people to continue to grow and develop. The majority of our programmes are managed by our business units, while Group Human Resources focuses on tailored programmes for senior leaders across the organisation, succession planning for senior roles and development of our leadership talent pipeline. We invest in succession planning for our leaders and critical specialists, and segment our talent to identify short-, medium- and long-term successors. We support them with the appropriate development and career planning, to ensure that we maintain an appropriate balance of internal progression and external hires.

Individually tailored development offerings are provided for our most senior executives so they are well prepared to deliver the long-term ambitions of the Group. In 2016, more than 143 senior high-potential individuals participated in our Group-wide leadership development programmes 'Impact' and 'Agility'. These programmes have been developed in partnership and co-delivered with world-leading academic institutions.

Within our businesses there are many examples of our continuing commitment to talent development. Prudential Corporation Asia develops CEOs with programmes such as cross-company experience, which are continually reviewed, incorporating new thinking and future capabilities as required. In the US, Jackson University provides a highly customisable approach for associates' personal development and professional learning; and Prudential UK provides a fully differentiated management development offering, distinguishing the requirements of aspiring managers and experienced leaders. M&G Real Estate supports career development through a fund manager job-shadowing programme; and Group Head Office provides innovative programmes designed in partnership with top academic institutions, which offer leadership development and the opportunity to gain valuable experience through relevant business projects.

Employee engagement

An array of initiatives are in place within our different businesses to drive employee engagement. Depending on the business this engagement can start as soon as a new employee joins us, with an induction programme to learn about the history and strategy of the Group. Throughout the employee's career, additional opportunities may include being offered a number of high impact training sessions as well as workshops on resilience, managing energy and enhancing productivity.

Each of our businesses manages its own intranet, providing all employees with access to regular updates, articles and internal and external news items relevant to the business and its geographical location. Each intranet also gets updated with material news from across the Group.

Some of our businesses hold regular employee open-forums with senior management, conduct yearly engagement surveys or organise away-days to discuss the business, our performance and internal management. Any highlighted issues are then used to improve the way in which we work. In addition, there are informal opportunities to meet senior managers and facilities to network with both peers and senior leaders across functions; and well-being programmes to support sustainable high performance. We also have policies to encourage and support volunteering for charitable causes. The success of our efforts has again been recognised internally and externally.

In addition, our businesses in the UK have a long-standing relationship with the union Unite.

We encourage volunteering through which our employees can support our communities and acquire new skills. See page 67 for further details.

Performance and reward

Our reward packages are designed to attract, motivate and retain high-calibre people across all levels. Each individual contributes to the success of the Group and should be rewarded accordingly.

We recognise and reward high performance while operating a fair and transparent system of reward. Reward is linked to the delivery of business goals and expected behaviours and we ensure that rewards for our people are consistent with our values and do not incentivise inappropriate risk taking. To enable this, employees are not only regularly assessed on 'what' they have achieved, but also on 'how' they did so.

There are recognition initiatives running across our businesses, such as the Prudential Stars awards at Group Head Office, which are made to individuals nominated by their colleagues for outstanding examples of execution, impact and engagement. We also believe in the importance of giving employees the opportunity to benefit from the Group's success through share ownership, and operate employee share plans for employees in the UK and Asia. This includes PruSharePlus, which enables employees in Asia to share in the longer-term success of the business, and actively encourages share ownership and engagement.

Protecting the environment

We carefully monitor our environmental impact and the management of environmental issues is an integral part of managing the total risks faced by our business.

We have processes in place to measure and report on our global greenhouse gas (GHG) emissions, together with waste and water data for the 12 months, October through to September. In 2016, we increased our absolute GHG emissions from our occupied estate and company-owned vehicles by 1 per cent to 72,568 TCO_2-e (2015: 71, 704 TCO_2-e). The

Corporate responsibility review
Continued

increase was driven by growth in our business and increased data centre activity. When normalised against net lettable floor area, our GHG emissions efficiency metric improved by 7 per cent to 123 $kgCO_2$-e/m^2 in 2016 (2015: 132 $kgCO_2$-e/m^2) and 12 per cent over the past three years (2013: 139 $kgCO_2$-e/m^2) driven through our energy efficiency efforts focusing on the larger properties in the portfolio. This data refers to Scope 1 and 2 only.

We continue to deploy energy management strategies across our business. A new 100 per cent renewable energy contract for electricity purchased for our UK occupied property estate was introduced during the year, replacing an earlier low carbon energy contract. Our US business increased the Energy Star performance score for its Corporate Head Office in Lansing by 80 per cent over the year, placing it in the top 20 per cent of its type in the country https://www.energystar.gov/buildings/about-us following an earlier energy efficient re-fit. In Asia, we delivered our first LEED Gold certified refurbishment for our One Island East offices in Hong Kong through LED lighting, daylight sensors, energy and water-efficient appliances and a green 'living' wall in reception.

We maintained our sector positioning in key benchmarks, including the Carbon Disclosure Project, with a B rating in 2016 (level with our peers), and ClimateWise, the insurance sector climate initiative managed by the Cambridge Institute for Sustainability Leadership, maintaining our position of ninth out of 19 participants www.cisl.cam.ac.uk/business-action/sustainable-finance/climatewise. Our performance in ClimateWise against six core principles is independently audited.

M&G Real Estate forms part of the M&G group of companies, the asset management arm of Prudential plc in the UK and Europe. Its approach to responsible property investment enables it to manage and respond to the growing range of environmental and social issues that can impact property values. It also helps M&G Real Estate to protect and enhance fund and asset performance for its clients. Responsible property investment is integrated within M&G Real Estate's day-to-day investment practices. Carbon emissions from the investment portfolio of M&G Real Estate have halved over the past four years. It has achieved six Green Stars (2015: four Green Stars) in the 2016 Global Real Estate Sustainability Benchmark survey out of eight participating funds. M&G Real Estate's progress can be found in its annual Responsible Property Investment report at www.mandg.co.uk/institutions/realestate/responsible-investing/

We expect continued developments on environmental factors in the years ahead, including increasing disclosure of climate-related risks and opportunities for financial companies. The work of the Financial Stability Board in particular could be a major development in the transition to a low-carbon economy, with its guidance on strategy, risk management, metrics and reporting on climate risks www.fsb.org/2016/12/fsb-welcomes-task-force-consultation-on-recommendations-for-climate-change-disclosure/

Michele's story
Jackson, US

Michele Fedewa, Jackson's Strategic Support programme manager, has championed the adoption of recycling and composting programmes as part of Jackson Smartcycle in its Lansing offices.

'There has been a tremendous amount of interest for more recycling options in the office. The business sent approximately 1,138,000lbs of refuse in Lansing to landfill in 2015 and the aim of this new programme is to reduce waste sent to the landfill to zero. Many of our associates are students at Michigan State University and already recycle on campus. I've had numerous employees reach out to me with ideas and questions about how we can make more of a difference environmentally. We're thrilled to support this programme and see it make an impact on reducing our carbon footprint.'

Prudential plc greenhouse gas emissions statement

We have compiled our greenhouse gas emissions data in accordance with the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013.

We have included full reporting for Scope 1 (direct emissions such as combustion of gas for heating fugitive emissions and emissions from owned vehicles) and Scope 2[1] (indirect emissions for consumption of electricity, heat or steam) emissions where operational control of the emissions of the sources concerned was demonstrated.

We have also reported on a number of Scope 3 emissions as a matter of best practice. These are emissions arising as a consequence of the activities of the company, but occur from sources not owned or controlled by the company. For the purpose of 2016 report, these Scope 3 emissions include: business travel booked from the UK, global water consumption (occupied and investment properties) and waste. The waste reporting covers, all investment properties with operational control, UK and US occupied properties. We do not currently collect waste data for our occupied buildings in Asia and continental Europe. We are continuously working with our business units to review the extent of our Scope 3 reporting and increase where practicable.

Assessment parameters	Baseline year: 1 October 2014 to 30 September 2015 Reporting year: 1 October 2015 to 30 September 2016
Assurance	Deloitte LLP has provided limited assurance over selected environmental metrics in accordance with the International Auditing and Assurance Standards Board's (ISAE3000 (Revised)) international standard. www.prudential.co.uk/responsibility/performance/external-assurance-of-responsibility-reporting
Consolidation approach	Operational control.
Boundary summary	All entities and all facilities under operational control (including those owned) are included.
Consistency with the financial statements	The reporting period (1 October 2015 to 30 September 2016) does not correspond with the Directors' Report period (1 January 2016 to 31 December 2016). The reporting period was brought forward by three months to improve the availability of invoice data (which often lags by one month or more after the usage period) and reduce the reliance on estimated data. Prudential owns assets, which are held on its balance sheet in the financial statements, over which it does not have operational control. These are excluded from the data below. Assets not included on the balance sheet but held under an operating lease and where we have operational control are included.
Emission factor data source	We have used the UK DEFRA 2016 GHG Conversion Factors for Scope 1 and 3 reporting and the IEA GHG 2016 conversion factors for global Scope 2 reporting.
Assessment methodology	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard 2004. In 2016 Prudential reviewed its reporting methodology for Scope 2 (electricity) emissions in recognition of the release of the revised GHG Protocol Scope 2 Guidance that requires both location and market-based reporting. As the Group operates in a number of mature and emerging markets, the availability of market-based factors that met the necessary quality criteria was deemed insufficient for reporting, and as such our 2016 reporting continues to use the location-based factors already available.
Materiality threshold	5 per cent.
Intensity ratio	Kilograms of Carbon Dioxide Equivalent per metre squared (net lettable area).

Note
1 This is calculated using location-based methodology (GHG protocol).

Corporate responsibility review
Continued

Emissions source		2016	2015	2014	2013
Scope 1 (tonnes CO_2-e)	Occupied Estate	10,155	8,409	8,486	6,019
	Investments	7,559	8,845	10,044	13,062
Scope 2 (tonnes CO_2-e)	Occupied Estate	62,413	62,695	61,550	65,730
	Investments	20,973	28,691	39,573	42,079
Scope 1 and Scope 2 (tonnes CO_2-e)	Occupied Estate	72,568	71,104	70,036	71,749
	Investments	28,532	37,536	49,617	55,141
Total Scope 1 and 2 (tonnes CO_2-e)		101,100	108,640	119,653	126,890
Normalised Scope 1 and 2 (kg CO_2-e/sq.m)[1]	Occupied Estate	123	132	135	139
	Investments	14	18	13	15
Total Scope 1 and 2 (kg CO_2-e/sq.m)		38	42	28	31
Scope 3 (tonnes CO_2-e)	Occupied Estate	11,253	13,664	10,069	9,583
	Investments	386	418	387	840
Total Scope 3 (tonnes CO_2-e)		11,639	14,082	10,456	10,423
Total Scope 1, 2 and 3 (tonnes CO_2-e)	Occupied Estate	83,821	84,768	80,105	81,332
	Investments	28,918	37,954	50,004	55,981
Total Scope 1,2 and 3 (tonnes CO_2-e)		112,739	122,722	130,109	137,313
Normalised Scope 1, 2 and 3 (kg CO_2-e/sq.m)	Occupied Estate	142	157	154	157
	Investments	14	18	13	16
Total Scope 1, 2 and 3 (kg CO_2-e/sq.m)[1]		43	47	30	33

Note

1 Comparative 2015 data for normalised emissions have been restated due to a methodology change for accounting for floor area. Please refer to the Basis of reporting at www.prudential.co.uk/responsibility/performance/greenhouse-gas-emissions for further detail.

Due to the changing size and nature of the investment portfolio, absolute and normalised comparisons between years are not comparative. Net lettable area is reported for all properties held within the reporting period. In line with best practice, environmental data is collected for properties at acquisition and at date of divestment therefore comparisons for absolute change and normalised change are not directly comparative.

Accountability and governance for corporate responsibility

The Board

The Board regularly reviews the Group's corporate responsibility performance and scrutinises and approves the Group corporate responsibility report and strategy on an annual basis.

Local governance

We believe that CR is best managed on the ground by our people running the businesses. In M&G, Jackson and Prudential UK there are governance committees in place – with senior management representation – that agree strategy and spend. In Asia, the Prudence Foundation has been established as a unified charitable platform to align and maximise the impact of community efforts across the region. The Prudence Foundation is governed by a statutory Board of Directors, under which a Board of Trustees operates as a decision-making forum, directing the management of the programmes in collaboration with our local markets, and ensuring that we maximise the value of our spend to local communities.

Code of Business Conduct

Consideration of environmental, social and community matters is integrated in our Code of Business Conduct. Our code is reviewed by the Board on an annual basis. Refer to page 69 for more information.

Risk assessment

For more information on the risks facing our business see page 50.

Supply chain management

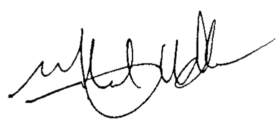
It is our policy to work in partnership with third parties whose values and standards are aligned with our Group Code of Business Conduct.

Procurement practices in Prudential UK have been successfully accredited with the Chartered Institute of Purchasing and Supply certification, an industry benchmark of recognised good practice. Prudential will publish its Modern Slavery statement later in the year.

Strategic report approval by the Board of Directors

The strategic report set out on pages 9 to 73 is approved by the Board of Directors.

Signed on behalf of the Board of Directors



Mike Wells
Group Chief Executive
13 March 2017

03
Governance

Chairman's introduction

Strong, effective and transparent governance

Dear Shareholder

I am pleased to introduce our 2016 Governance report, in which we update you on our governance of Prudential during the year.

Good governance ensures decisions are made in the interests of the business and take into account the views of stakeholders, including our employees and our customers. Our strategy aims to achieve just this by ensuring we have a responsive governance framework that supports and challenges our executives' decision making.

Board operations

As Chairman, I have responsibility for ensuring the Board process operates effectively and that we establish an appropriate ethos and culture at Board level, which set the tone from the top around the Group.

Driving that culture means that, when we meet as a Board, I ensure that there is open debate and constructive and effective challenge of the issues under discussion. We test issues rigorously and we have a robust decision-making process. I am pleased to say that we have strong contribution from all Board members and challenge from our Non-executive Directors, and the diversity of experience in our Boardroom comes through in the discussions. This ensures our decisions are balanced and all the risks are considered.

Supporting our strategy

I also ensure that our governance supports our strategy and the long-term success of Prudential. This year specifically, the Board has overseen major transactions in support of our strategy: the initial public offering of our Indian joint venture, ICICI Prudential Life; commencing the divestment of our Korean life business; the launch of a global risk and portfolio management platform for our asset management businesses; and growing our African business to include Zambia. Every major transaction, including those in the smaller parts of our business such as Africa, is brought to the Board. In each case, management and the Board worked closely together to ensure the right information was provided and key risks were robustly challenged.

Governance

We keep our governance structures under constant review to ensure they suit the needs of our business and our stakeholders. This year we have increased the remit of the Nomination and Governance Committee to provide oversight of our material subsidiary boards. In 2015 we identified Prudential Corporation Asia Limited, The Prudential Assurance Company Limited, Jackson National Life Insurance Company (Jackson) and M&G Group Limited as material subsidiaries of our principal business units. Over the first half of 2016, we appointed independent non-executive directors to their boards, including board chairs and chairs of the subsidiary audit and risk committees. To support our new independent directors, we designed a reporting and governance framework. The focus in 2016 was on embedding this framework. Howard Davies, Ann Godbehere and I have established good communication links with our new material subsidiary chairs and material subsidiary risk and audit committee chairs. We continue to see benefits from the greater alignment of the governance within our subsidiary businesses.

Looking forward

We have also focused further on the quality of our Environmental, Social and Governance Reporting in 2016 and I am pleased to announce that we will be publishing our first dedicated ESG report later this year. This report provides important information on our approach to managing the business in a sustainable fashion. It explains the actions to support this approach and the benefits we bring to our customers and stakeholders. We firmly believe this information, coupled with stakeholder engagement, improves the quality of the decisions we make.

However, we need to remain vigilant not only to our internal needs but also to external factors that may require decisions from the Board. It remains critical for the Board to have an understanding of and respond to policy debates in all markets in which we operate.

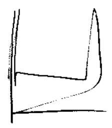
Culture of the Group

While the Board can ensure good decision making at an executive level, it is important that the same approach is taken throughout the organisation. The best way to achieve this is to ensure that we have a culture where managers at every level are accountable, stakeholder views are taken seriously and colleagues feel free to challenge decision making. We firmly believe the Board determines culture and the Board aims to exhibit the behaviour we expect from all.

Stakeholders

I also oversee the balance of Board consideration between the interests of our shareholders, customers, employees and our other key stakeholders. An important part of this is the active shareholder engagement that we participate in every year. We were pleased to welcome 186 shareholders to our Annual General Meeting in 2016 as well as holding frequent meetings with our institutional investors. The quality of our people is a key driver of our success. At Prudential, we create an environment in which our people find value and meaning in their work, and create shared value for our customers, shareholders and communities. The financial peace of mind that we help to provide to our customers remains the focus of Prudential's purpose as a business.

Finally, I believe that good governance is based on the right level of oversight and challenge. I hope that reading the reports of my Committee Chairs that follow will demonstrate to you the work we have done this year to ensure that oversight and challenge are in place, and, more importantly, the tangible and positive impact it has had on our business. The methodology and results of our 2016 Board evaluation are also set out on page 87.



Paul Manduca
Chairman

Paul Manduca

Chairman

Appointment: October 2010
Chairman: July 2012
Committees: Nomination and Governance (Chair)
Age: 65

Relevant skills and experience

Paul has held a number of senior leadership roles. Notable appointments include serving as Chairman of the Association of Investment Companies (1991 to 1993), acting as founding CEO of Threadneedle Asset Management Limited (1994 to 1999), directorships of Eagle Star and Allied Dunbar, holding the offices of European CEO of Deutsche Asset Management (2002 to 2005), global CEO of Rothschild Asset Management (1999 to 2002), Chairman of Bridgewell Group plc and a director of Henderson Smaller Companies Investment Trust plc. Other previous appointments include the chairmanship of Aon UK Limited and JPM European Smaller Companies Investment Trust Plc.

From September 2005 until March 2011, Paul was a non-executive director of Wm Morrison Supermarkets Plc, including as Senior Independent Director, Audit Committee Chairman and Remuneration Committee Chairman. He was also a non-executive director and Audit Committee Chairman of KazMunaiGas Exploration & Production until the end of September 2012.

Other appointments

Paul is a member of the Securities Institute and Chairman of Henderson Diversified Income Limited and of the Templeton Emerging Markets Investment Trust (TEMIT). Paul is also Chairman of TheCityUK's Advisory Council.

Michael Wells

Group Chief Executive

Appointment: January 2011
Group Chief Executive: June 2015
Age: 56

Relevant skills and experience

Mike joined Jackson in 1995 and became Chief Operating Officer and Vice-Chairman of Jackson in 2003. In 2011, he was appointed President and Chief Executive Officer of Jackson, and joined the Board of Prudential.

During his leadership of Jackson, Mike was responsible for the establishment of the broker-dealer network National Planning Holdings and the development of Jackson's market-leading range of variable annuities. He was also part of the Jackson teams that purchased and successfully integrated a savings institute, three broker-dealers and two life companies.

Mike began his career at the brokerage house Dean Witter, going on to become a managing director at Smith Barney Shearson.

Board of Directors
Continued

Executive Directors

Nicolaos Nicandrou ACA
Chief Financial Officer
Appointment: October 2009
Age: 51

Relevant skills and experience
Nic started his career at PricewaterhouseCoopers. Before joining Prudential, he worked at Aviva, where he held a number of senior finance roles, including Norwich Union Life Finance Director and Board Member, Aviva Group Financial Control Director, Aviva Group Financial Management and Reporting Director and CGNU Group Financial Reporting Director.

Other appointments
Nic is the Chairman of the European Insurance CFO Forum.

Penelope James ACA
Group Chief Risk Officer
Appointment: September 2015
Age: 47

Relevant skills and experience
Penny qualified as a chartered accountant with Coopers & Lybrand Deloitte (now part of PwC) and then joined Zurich Financial Services, where she held a number of senior finance positions over 12 years. Before joining Prudential, Penny was Group Chief Financial Officer of Omega Insurance Holdings (formerly listed on the London Stock Exchange). Penny joined Prudential in 2011 as the Director of Group Finance, a position she held until her appointment to the Board in 2015. During that time, she was leading on the implementation of Solvency II.

Other appointments
Penny serves as a non-executive director of Admiral Group plc and is a member of Admiral's Audit and Nomination Committees.

John Foley
Chief Executive of Prudential UK & Europe
Appointment: January 2016
Age: 60

Relevant skills and experience
John spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury of the combined TSB and Hill Samuel Bank. He joined Prudential as Deputy Group Treasurer in 2000 and became Managing Director of Prudential Capital and Group Treasurer in 2001. During his career at Prudential, John has held the offices of Chief Executive of Prudential Capital, Group Chief Risk Officer, Group Investment Director and, since 2015, Chief Executive of Prudential UK & Europe. John first joined the Board of Prudential plc in 2011 and was reappointed in January 2016, having stepped down during his time as Group Investment Director.

Anne Richards

Chief Executive, M&G

Appointment: June 2016
Age: 52

Relevant skills and experience

Anne became an analyst for Alliance Capital in 1992 and then moved into portfolio management roles at JP Morgan Investment Management and Mercury Asset Management. She joined the Board of Edinburgh Fund Managers plc as Chief Investment Officer and Joint Managing Director in 2002 and continued in this role following Aberdeen Asset Management PLC's acquisition of Edinburgh Fund Managers in 2003. Anne was Chief Investment Officer and Head of the EMEA region for Aberdeen Asset Management PLC, positions she held until February 2016.

Other appointments

Anne is Chair of the Court of Edinburgh University and the CERN & Society Foundation, and a member of the Financial Conduct Authority Practitioner Panel.

Barry Stowe

Chairman and Chief Executive Officer of the North American Business Unit

Appointment: November 2006
Age: 59

Relevant skills and experience

Barry joined Prudential in October 2006 and was the Chief Executive of Prudential Corporation Asia until June 2015, leading Prudential's Asian business through a period of major growth and development. Before joining Prudential, Barry was President, Accident & Health Worldwide for AIG Life Companies. He joined AIG in 1995 after having held senior positions at Pan-American Life and Willis in the United States.

Other appointments

Barry is a member of the Board of Directors of the International Insurance Society.

Tony Wilkey

Chief Executive, Prudential Corporation Asia

Appointment: June 2015
Age: 57

Relevant skills and experience

Tony joined Prudential in 2006 as Chief Executive of Prudential Corporation Asia's network of life insurance operations in Asia across 12 markets, a position he held until his appointment to the Board. Before joining Prudential, he served as Chief Operating Officer of American International Assurance (AIA), based in Hong Kong, overseeing AIA's life companies in South-east Asia.

Board of Directors
Continued

Non-executive Directors

The Hon. Philip Remnant CBE FCA
Senior Independent Director
Appointment: January 2013
Committees: Audit, Nomination and Governance, Remuneration
Age: 62

Relevant skills and experience
Philip was a senior adviser at Credit Suisse, a Vice Chairman of Credit Suisse First Boston (CSFB) Europe and Head of the UK Investment Banking Department. He was twice seconded to the role of Director General of the Takeover Panel. Philip also served on the board of Northern Rock plc and as Chairman of the Shareholder Executive.

Other appointments
Philip is a Deputy Chairman of the Takeover Panel, a non-executive director of Severn Trent plc and the Senior Independent Director of UK Financial Investments Limited. Philip is also Chairman of City of London Investment Trust plc and Chairman of M&G Group Limited, a subsidiary of Prudential plc.

Sir Howard Davies
Appointment: October 2010
Committees: Audit, Nomination and Governance, Risk (Chair)
Age: 66

Relevant skills and experience
Sir Howard has a wealth of experience in the financial services industry, across the Civil Service, consultancy, asset management, regulatory and academia. Sir Howard was previously Chairman of the Phoenix Group and an independent director of Morgan Stanley Inc.

Other appointments
Sir Howard is Chairman of the Royal Bank of Scotland and a Professor at Institut d'Études Politiques (Sciences Po). He is Chairman of the International Advisory Board of the China Securities Regulatory Commission and a member of the International Advisory Board of the China Banking Regulatory Commission.

Ann Godbehere FCPA FCGA
Appointment: August 2007
Committees: Audit (Chair), Nomination and Governance, Risk
Age: 61

Relevant skills and experience
Ann began her career in 1976 with Sun Life of Canada. Between 1996 and 2003, she held a number of CFO and CEO posts in different businesses within Swiss Re, including Chief Financial Officer of the Swiss Re Group. Ann also held directorships at Northern Rock, Atrium Underwriting Group Limited and Atrium Underwriters Limited, as well as Arden Holdings Limited.

Other appointments
Ann is a non-executive director of British American Tobacco p.l.c., Rio Tinto plc, Rio Tinto Limited, UBS Group AG and UBS AG.

David Law ACA
Appointment: September 2015
Committees: Audit
Age: 56

Relevant skills and experience
David was the Global Leader of PwC's insurance practice, a Partner in PwC's UK firm, and worked as the Lead Audit Partner for multi-national insurance companies until his retirement in 2015. David has also been responsible for PwC's insurance and investment management assurance practice in London and the firm's Scottish assurance division.

Other appointments
David is a Director and Chief Executive of L&F Holdings Limited and its subsidiaries, the professional indemnity captive insurance group that serves the PwC network and its member firms.

Kaikhushru Nargolwala FCA

Appointment: January 2012
Committees: Remuneration, Risk
Age: 66

Relevant skills and experience

Kai spent 19 years at Bank of America and was based in Hong Kong in roles as Group Executive Vice President and Head of the Asia Wholesale Banking Group during 1990 to 1995. He spent 10 years working for Standard Chartered PLC in Singapore as Group Executive Director responsible for Asia Governance and Risk during 1998 to 2007. Kai was Chief Executive Officer of the Asia Pacific Region of Credit Suisse AG during 2008 to 2010. Kai previously served on the Board of Singapore Telecommunications Limited, Standard Chartered plc, Credit Suisse's Executive Board, the Board of Tate and Lyle plc and Visa International's Asia Pacific Advisory Board.

Other appointments

Kai is the Chairman of Clifford Capital Pte. Ltd., a company supported by the Singapore government to facilitate the financing of long-term cross-border projects of Singapore-based companies. He is also a non-executive Director of Credit Suisse Group AG and a non-executive Director of PSA International Pte Ltd. Additionally, Kai is the Chairman of the Governing Board of the Duke-NUS Medical School. He serves on the Board of the Casino Regulatory Authority of Singapore. He is also Chairman of Prudential Corporation Asia Limited, a subsidiary of Prudential plc.

Anthony Nightingale CMG SBS JP

Appointment: June 2013
Committees: Nomination and Governance, Remuneration (Chair)
Age: 69

Relevant skills and experience

Anthony spent his career in Asia, where he joined the Jardine Matheson Group in 1969, holding a number of senior positions before joining the Board of Jardine Matheson Holdings in 1994. He was Managing Director of the Jardine Matheson Group from 2006 to 2012.

Other appointments

Anthony is a non-executive director of Jardine Matheson Holdings and a number of other Jardine Matheson group companies. Other directorships include Schindler Holding Limited, Vitasoy International Holdings Limited and Shui On Land Limited. Notable appointments include: Hong Kong representative to the APEC Business Advisory Council, Chairman of The Hong Kong-APEC Trade Policy Study Group, member of the Securities and Futures Commission Committee on Real Estate Investment Trusts, member of the UK-ASEAN Business Council Advisory Panel, and non-official member of the Commission on Strategic Development in Hong Kong.

Alice Schroeder

Appointment: June 2013
Committees: Audit
Age: 60

Relevant skills and experience

Alice began her career as a qualified accountant at Ernst & Young. She joined the Financial Accounting Standards Board as a manager in 1991, overseeing the issuance of several significant insurance accounting standards. From 1993, she led teams of analysts specialising in property-casualty insurance as a Managing Director at CIBS Oppenheimer, PaineWebber (now UBS) and Morgan Stanley. Alice was also an independent board member of the Cetera Financial Group.

Other appointments

Alice is a non-executive director of Bank of America Merrill Lynch International. She is also CEO and Chairman of WebTuner Corp.

Lord Turner FRS

Appointment: September 2015
Committees: Risk
Age: 61

Relevant skills and experience

Lord Turner began his career with McKinsey & Co, advising companies across a range of industries. He has served as Director-General of the Confederation of British Industry, Vice-Chairman of Merrill Lynch Europe, Chairman of the Pensions Commission and as a non-executive director of Standard Chartered Bank. Lord Turner was Chairman of the UK's Financial Services Authority (FSA), a member of the international Financial Stability Board and a non-executive director of the Bank of England.

Other appointments

Lord Turner has been a crossbench member of the House of Lords since 2005. Other appointments include OakNorth Bank, Chairman of the Institute for New Economic Thinking, Chair of the Energy Transition Commission, and Visiting Professor at both the London School of Economics and the Cass Business School.

The Board appointed John Foley as Executive Director and Chief Executive of Prudential UK & Europe in January 2016 and Anne Richards as Executive Director and Chief Executive, M&G in June 2016. Alistair Johnston retired as a Non-executive Director at the conclusion of the 2016 Annual General Meeting and Michael McLintock retired as an Executive Director and Chief Executive, M&G in June 2016. All Directors will stand for election or re-election at the 2017 Annual General Meeting except Ann Godbehere, who will have served for nine years since her election by shareholders in 2008. Proposals for elections and re-elections are supported by the annual review of the performance of each Director, which concluded that all Directors continue to perform effectively.

Board roles and governance

Prudential has dual primary listings in the UK and Hong Kong, and has therefore adopted a governance structure based on the UK Corporate Governance Code and the Hong Kong Corporate Governance Code.

Responsibility for governance lies with the Board. The descriptions below explain Board roles and how duties are fulfilled.

Chairman

Paul Manduca

- Overall responsibility for leadership of the Board and ensuring its effectiveness
- Responsible for setting the Board's agenda, ensuring the right focus and promoting constructive debate
- Responsible for making recommendations to the Nomination and Governance Committee for the appointment of Directors, and ensuring appropriate induction and ongoing development of Board members
- Leading the Board in determining appropriate corporate governance and business values
- Meeting regularly with the Non-executive Directors, without the Executive Directors present
- Key contact point for the independent chairs of the Group's material subsidiaries
- Representing the Company with external stakeholders and acting as key contact for shareholders and regulators to ensure effective communication on governance and strategy
- Paul works closely with the Group Chief Executive and the Company Secretary to ensure effective Board governance and operation. This included ensuring that Board meetings have the right focus, that enough time is allocated for the discussion of agenda items, in particular strategic issues, and that Directors receive timely and relevant information
- Paul plays a leading part in the identification of potential candidates for Board succession, working closely with the Group Chief Executive in the succession planning process for Executive Directors
- Paul focuses on promoting a culture of openness and debate among Directors, helping to build and maintain constructive relationships between the Executive and Non-executive Directors. When chairing Board meetings, Paul ensures that all views are heard and that the Non-executive Directors have an opportunity to challenge management constructively
- During the year, Paul met with the Non-executive Directors without the Executive Directors being present, on five occasions
- Paul meets regularly with the independent chairs of the Group's material subsidiaries
- Externally, Paul has a regular programme of meetings with major shareholders throughout the year
- Paul plays a key role in the Group's engagement with regulators

Group Chief Executive

Mike Wells

- Responsible for the operational management of the Group, on behalf of the Board
- Leading the Executive Directors and other senior executives in the management of all aspects of the day-to-day business of the Group
- Responsible for implementation of the Board's decisions
- Establishing processes to ensure operations are compliant with regulatory requirements
- Mike sets policies, provides day-to-day leadership and makes decisions on matters affecting the operation, performance and strategy of the Group, seeking Board approval for matters reserved to the Board
- Mike chairs the Group Executive Committee (GEC), which comprises the Executive Directors and the Group functional heads. The Executive Committee supports Mike in the operational management of the Group, providing the expertise to fulfil the strategic objectives set by the Board
- Mike works closely with the Executive Directors in developing the Operating Plan, for approval by the Board
- Mike keeps in close contact with the Chairman and ensures he is briefed on key issues
- Mike meets with the Group's key regulators worldwide

Senior Independent Director

Philip Remnant

- Acting as sounding board for the Chairman
- Leading the Non-executive Directors in conducting the Chairman's annual evaluation
- Being available to shareholders to address concerns not resolved through normal channels
- Philip kept in close contact with the Chairman throughout the year
- Philip held meetings in Q1 2017 with the Non-executive Directors to review the Chairman's performance
- Philip holds meetings throughout the year with Non-executive Directors as needed, without management being present
- In 2016, Philip offered meetings to Prudential's key shareholders to provide them with an additional channel of communication

Committee Chairs

- Responsible for leadership and governance of the Board's principal Committees
- Responsible for setting the agenda for Committee meetings and reporting on the Committees' activities to the Board
- Audit and Risk Committee Chairs act as key contact points for the independent chairs of the audit and risk committees of the Group's material subsidiaries
- The Committee Chairs worked closely with the Company Secretary and management to ensure Committee governance continued to be effective throughout the year
- Each Committee Chair provided a written update of Committee business to the Board, followed by a verbal update after each Committee meeting
- Ann Godbehere, the Audit Committee Chair, and Howard Davies, the Risk Committee Chair, commenced quarterly meetings with chairs of the audit and risk committees of the material subsidiaries during 2016 and provided updates to the Audit and Risk Committees respectively

Non-executive Directors

- Responsible for providing constructive and effective challenge
- Contributing to the development of proposals on Group strategy, offering input based on individual and collective experience
- Responsible for scrutinising the performance of management in meeting agreed goals and objectives
- Serving on principal Board Committees
- The Non-executive Directors have engaged throughout the year with the Executive Directors and management, at Board and Committee meetings, as part of site visits, through training sessions and on an informal basis
- They contributed to the development of strategic options through one-to-one meetings with the Group Strategy team and participated in the annual Strategy Away Day
- All Non-executive Directors serve on at least one of the principal Board Committees

How we operate
Continued

Board decision making

— The Board is collectively responsible:

- To shareholders for the long-term success of the Company and, in particular, for setting the Group's strategy and risk appetite;
- For providing leadership within a framework of effective controls; and
- For monitoring management's performance against strategic goals and ensuring appropriate resources are available to achieve these goals.

— When making decisions, the Board has due regard to the balance of interests between shareholders, employees, customers and community.

— The Board operates in accordance with relevant corporate governance codes and has established a number of principal committees comprising Non-executive Directors to ensure Board duties are appropriately allocated between members.

— The Group has established and regularly reviews a governance framework designed to promote appropriate behaviours across the Group to ensure prudent management and protection of the interests of shareholders, customers and other key stakeholders.

— As part of the governance framework, the Board has established a control framework to identify significant risks and apply appropriate measures to manage and mitigate them (described more fully on pages 90 and 91).

— The framework sets out the behaviours expected of the Group's employees and requires all business units to seek delegated authority from the Board to carry out actions exceeding pre-determined limits or which could have a material effect on the Group.

— Specific key decisions have been reserved to the Board for decision. These include strategic decisions, determination of interim dividends and recommendation of final dividends to shareholders, approval of major transactions, approval of key financial reporting, approval of the overall risk appetite and capital and liquidity positions, and responsibility for the effectiveness of the system of internal control and risk management.

Board

Nomination and Governance Committee

Paul Manduca

— Ensures that the Board retains an appropriate balance of skills to support the strategic objectives of the Group

— Ensures that an effective framework for senior succession planning is in place

— Recommends appointments to the Board and its principal Committees and appointments of non-executive directors to the boards of material subsidiaries

— Oversees the governance of material subsidiaries

See Nomination and Governance Committee report on pages 92 to 94

Audit Committee

Ann Godbehere

— Responsible for the integrity of the Group's financial reporting, including scrutinising accounting policies

— Monitors the effectiveness of internal control and risk management systems, including compliance arrangements

— Monitors the effectiveness and objectivity of internal and external auditors

— Approves the internal audit plan and recommends the appointment of the external auditor

See Audit Committee report on pages 95 to 102

Risk Committee

Howard Davies

— Leads on and oversees the Group's overall risk appetite, risk tolerance and strategy

— Approves the Group's risk management framework and monitors its effectiveness

— Supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk

See Risk Committee report on pages 103 to 105

Remuneration Committee

Anthony Nightingale

— Recommends the Directors' Remuneration Policy for approval by shareholders

— Approves the individual remuneration packages of the Chairman, the Executive Directors, other senior executives and the non-executive directors of material subsidiaries

— Determines the overall Remuneration Policy for the Group

— Reviews the design and development of share plans requiring shareholder approval and approves and assesses performance targets where applicable

See Directors' remuneration report on pages 111 to 157

Terms of reference for the principal Committees can be accessed at www.prudential.co.uk
Each Committee reviews its terms of reference at least annually and recommends changes to the Board for its approval.

Authority for the operational management of the Group's businesses in order to implement Board strategy and decisions has been delegated to the Group Chief Executive for execution or further delegation by him. The Group Chief Executive is supported by the Group Executive Committee, which receives reports on performance and implementation of strategy for each business unit and discusses major projects and other activities related to the attainment of strategy. The members of the Group Executive Committee and their roles are set out on page 405. To manage the Group's delegated authorities and to monitor material expenditure, the Group Chief Executive has established a Chief Executive's Committee, which meets on a weekly basis. The Chief Executive of each business unit has responsibility for the management of that business unit.

Key areas of focus – how the Board spent its time

The Board met on 10 occasions during the year, which included meetings in Kuala Lumpur, Malaysia and Lansing, USA. At the overseas meetings, additional sessions were held outside of the formal Board meetings, to allow the Board to focus on the regional business operations and to spend time meeting local senior management. The Board also held a separate strategy event over two days during the year.

The table below gives an overview of how the Board spent its time in 2016 and its key areas of focus.

	Feb	Apr	May	Jun	Jul	Sep	Nov	Dec
Strategy and implementation								
Full review of strategy				●				
Strategic conclusions finalised					●			
Operating plan review							●	●
Strategic objectives monitoring	●		●		●			●
Major projects			●	●		●	●	●
Review of operational performance	●	●	●	●	●	●	●	●
Report from Committee Chairs	● 1,2,3,4	● 1,3,4	● 1,4	● 3	● 1,4	● 2,3,4	● 1,2,4	● 1,3,4
Financial reporting and dividends								
Full year	●							
Half year					●			
Review of financial performance	●	●	●	●	●	●	●	●
Business unit reviews								
PCA		●						
Jackson						●		
M&G							●	
UK&E			●					
PPMG								●
Africa	●							
Regulation								
ORSA, Solvency II, IMAP	●		●		●	●	●	●
CRO report	●		●		●	●	●	●
Regulatory and compliance update	●		●	●	● 5	●	●	●
Governance and stakeholders								
Board evaluation tracking	●					●		
Succession planning	●							
Corporate responsibility report			●					●
Diversity and inclusion					●			
Talent review								●
Feedback from Chair/NED investor meetings	●							
Investor conference planning						●	●	

Notes
1 Audit Committee.
2 Nomination and Governance Committee.
3 Remuneration Committee.
4 Risk Committee.
5 Including meeting with regulators.

At a number of meetings, the Board considered, and where appropriate approved, major projects. These included Prudential Africa's opening in Zambia, with its acquisition of Professional Life Assurance; the listing of ICICI Prudential Life Insurance Company Limited, Prudential's Indian joint venture with ICICI Bank; commencement of the sale of Prudential's life business in Korea and the implementation of a global risk and portfolio management platform for the Group's asset management businesses, working with BlackRock.

In addition to the eight full meetings outlined above, two further meetings were held to approve the final full and half year financial reports.

Individual Directors' attendance at meetings throughout the year is set out in the table below.

Board and Committee meeting attendance during 2016

	Board	Audit Committee	Nomination and Governance Committee	Remuneration Committee	Risk Committee	General Meeting
Number of meetings held	10	10*	4	6	8*	1
Chairman						
Paul Manduca	10	–	4	–	–	1
Executive Directors						
Mike Wells	10	–	–	–	–	1
Nic Nicandrou	10	–	–	–	–	1
Penny James	10	–	–	–	–	1
John Foley	10	–	–	–	–	1
Michael McLintock[1]	4/4	–	–	–	–	1
Anne Richards[2]	6/6	–	–	–	–	–
Barry Stowe	10	–	–	–	–	1
Tony Wilkey	10	–	–	–	–	1
Non-executive Directors						
Philip Remnant	10	10	4	6	–	1
Howard Davies	10	10	4	–	8	1
Ann Godbehere	10	10	4	–	8	1
Alistair Johnston[3]	4/4	6/6	–	–	–	1
David Law	10	9/10	–	–	–	1
Kai Nargolwala	10	–	–	6	8	1
Anthony Nightingale	10	–	4	6	–	1
Alice Schroeder	10	10	–	–	–	1
Lord Turner	9/10	–	–	–	7/8	1

* The Audit and Risk Committees held a joint meeting in addition to those listed, which was attended by all members from both Committees.

Notes
1 Michael McLintock retired as a Director on 6 June 2016.
2 Anne Richards was appointed as a Director on 7 June 2016.
3 Alistair Johnston retired as a Director from the conclusion of the Annual General Meeting held on 19 May 2016.

Board and Committee papers are usually provided one week in advance of a meeting. Where a Director is unable to attend a meeting, his or her views are canvassed in advance by the Chairman of that meeting where possible.

Board effectiveness

Actions during 2016 arising from the 2015 review

During the year, the action points identified in respect of the 2015 evaluation were addressed and the Board received an update on progress against those actions in September 2016 and February 2017. The key themes of the 2015 evaluation are set out below.

Governance of subsidiary boards – The 2015 Board evaluation recognised that, following the decision to appoint independent non-executive directors to certain of the Group's larger subsidiaries, referred to as the material subsidiaries, more formal oversight of the governance arrangements for the material subsidiary boards would be required. In addition, a process for appointing the material subsidiary independent directors and the relationship between them and the Chairman and Chairs of the Group Audit and Risk Committees would need to be implemented.

In the first half of 2016, governance processes were established for the Chairman and the Audit and Risk Committee Chairs to meet with their material subsidiary counterparts and keep the Board appropriately updated. In addition, the Audit and Risk Committees receive written updates outlining the business discussed by the material subsidiary audit and risk committees.

The Nomination and Governance Committee played a key part in the establishment and embedding of these governance processes. Regular progress updates were provided to the Board, which tracked alignment to regulatory expectations.

Post action reviews – The 2015 evaluation noted that the Board should continue to analyse past decisions closely, testing assumptions and projections made in the past.

Reviews of certain past transactions were undertaken by the Risk Committee and the outcome was considered by the Board during its strategy discussions in June.

The Board also discussed a full report of the Group's past actions in Africa which allowed them to confirm the rationale behind the Group's decision to invest in that region and the acquisitions made to date.

Board papers – On Board processes, the 2015 feedback highlighted the progress made during the year, in particular improvements in clarity of papers. This was another area of focus during 2016, with work undertaken to ensure that the right balance continued to be struck regarding the level of detail provided in papers, especially for technically complex matters. Concise papers assisted the Board in managing a growing agenda.

During the year, updates were issued to senior staff explaining the rationale for Board paper content guidelines, including a reminder of best practices and timelines. The review process for papers is designed to ensure all relevant aspects of Directors' duties are addressed and consideration is given to risk, legal, regulatory and other appropriate stakeholder aspects.

Products and customers – The Board continued holding in-depth focus sessions on products and customers of the Group, primarily through Board visits to the business units. In 2016, these focus sessions took place when the Board visited its overseas operations, as more fully described below.

2016 review and actions for 2017

The performance evaluation of the Board and its principal Committees for 2016 was conducted internally at the end of 2016 and beginning of 2017, through a questionnaire. The findings were presented to the Board in February 2017 and an action plan agreed to address areas of focus identified by the evaluation.

The review confirmed that the Board continued to operate effectively during the year and no major areas requiring improvement were highlighted.

The performance during 2016 of the Non-executive Directors and the Group Chief Executive was evaluated by the Chairman in individual meetings. Philip Remnant, the Senior Independent Director, led the Non-executive Directors in a performance evaluation of the Chairman.

Executive Directors are subject to regular review and the Group Chief Executive individually appraised the performance of each of the Executive Directors as part of the annual Group-wide performance evaluation of all staff.

The following themes were identified as areas for focus in 2017:

Subsidiary governance – The Board evaluation recognised that the appointment of independent non-executive chairs and directors to the Group's material subsidiaries had been well executed, and a good governance framework established. The Board's focus for 2017 would be on ensuring good subsidiary governance was maintained and best governance practices were shared between the material subsidiaries. Ensuring that reporting by the material subsidiaries to the Board and its Committees continued to be of a high standard would also be emphasised.

Board agenda – The Board agreed to continue to ensure time spent at its meetings reflected the Group's strategic and operational priorities. One of the primary ways to achieve constructive debate is to ensure pre-Board preparation is of a very high standard with papers continuing to be delivered on time with succinctly presented facts creating, where needed, a clear decision path. The Board also agreed to build on the work done in 2016 to further increase the Board's focus on products and customers.

Senior employee focus – The Board evaluation noted the number of successful internal promotions over 2015 and 2016, and that management's focus was now on rebuilding strength in the senior management teams around the Group below GEC level. In 2017, the Board will ensure it remains properly updated in this area and that it continues to have opportunities to meet senior management across all the Group's businesses.

Remuneration – The Board evaluation noted the growing complexity of remuneration across all UK-listed companies and also the pace of changes in these areas as a result of focus by government and institutional investor groups over recent months. The Board will implement an annual training session for any Non-executive Directors not on the Remuneration Committee to discuss the Directors' Remuneration Policy and the remuneration structures contained in it, as well as broader market practice information.

The Board will track its progress in addressing these themes at its meetings throughout the course of 2017 and report on actions taken in its next Annual Report.

Directors' development

The Chairman is responsible for ensuring that induction programmes are provided for all new Directors. These are tailored to reflect the experience of each Director and their position as either Executive or Non-executive Directors. Anne Richards' induction was carried out by both Group and M&G, and included updates on the Group's results, the role of the Board and its Committees, the Group's key risks and the risk management framework, as well as the compliance environment in which the Group operates. M&G provided a detailed briefing on product range, the markets in which it operates and the overall competitive environment.

The Chairman is also responsible for ensuring that all Directors update their skills, knowledge and familiarity with the Group. Directors regularly receive reports on the Group's businesses and the regulatory and industry-specific environments in which it operates. All Directors have the opportunity to discuss their development needs as part of the annual Board effectiveness review and Directors are asked to provide a record of training received externally on an annual basis.

In 2016, the Board took time for particular focus on the Group's US and Asian businesses. During visits to the US and Malaysia, the Board received updates on key products and distribution, risks and performance in the US and in the Asian businesses, including regulatory developments and their potential impact on future business. The Board's overseas visits also allowed the Directors to meet with the local senior management teams.

Kuala Lumpur, Malaysia

- Prudential Malaysia
  - Overview of life insurance industry and comparative position in the marketplace
  - Products and strategy
  - Financial performance
  - Update on Takaful business: governance, performance, strategy
- Asia financial performance, strategy and growth update, risk profile and risk function development, and HR planning
- Overview of Eastspring Investments

Lansing, USA

- Regulatory update – impact of the Department of Labor's fiduciary rule on Jackson and the industry
- Jackson:
  - Comparative position in the marketplace and marketing
  - Products and operating environment
  - Financial performance
  - Risk function development
- PPM America performance
- Cyber security within the North American business

How we operate
Continued

The Board was kept updated on key political and regulatory developments, including Solvency II implementation and reporting, the US Department of Labor fiduciary rule, the Senior Insurance Managers Regime, the UK regulator's thematic review of annuity sales and the implementation of the Market Abuse Regulation. In addition, Directors were provided with updates at each Board meeting on other legal and regulatory changes and developments that could impact the industry or the Group.

Committee members received updates at Committee meetings on areas of particular relevance to the respective Committees and were kept updated on ongoing developments in regulations, as well as the impact these have on the Group. The Risk Committee received in-depth information on a number of business areas and products in 2016, focusing on the particular risks arising and how these are managed. Some of those topics were also shared with the Audit Committee to ensure it was appropriately briefed to assess any impact on financial reporting and internal control. In 2016, the Audit Committee and Risk Committee held a joint session in which they were provided with an update on the impact of Solvency II on the 2015 results.

Diversity

Given the global reach of the Group's operations, and our business strategy and long-term focus, the Board makes every effort to ensure it is able to recruit directors from different backgrounds, with diverse experience, perspective and skills. This diversity not only contributes towards Board effectiveness but is essential for successfully delivering the strategy of an international Group, as reflected in our Group Diversity and Inclusion Policy.

The Board is committed to recruiting the best available talent and appointing the most appropriate candidate for each role, while at the same time aiming for appropriate diversity on the Board. This approach informed the Nomination and Governance Committee's ongoing activities carried out during 2016 in respect of succession planning for Executive and Non-executive Directors.

The Board does not endorse quotas as these may generate unintended consequences, but continues to commit to developing a robust and diverse talent pipeline and increasing representation of women in senior positions in the Group and on the Board. As part of this commitment, the Board may endorse relevant measurable objectives for increasing diversity. For example, in 2016 the Board decided to sign the HM Treasury Women in Finance Charter, with the aim to have in place at least 30 per cent women in senior management positions by the end of 2021.

Shareholder engagement

As a major institutional investor, the Board recognises the importance of maintaining an appropriate level of two-way communication with shareholders.

The Company holds an ongoing programme of regular contact with major shareholders, conducted by the Chairman, to discuss their views on the Company's governance. The Senior Independent Director offers meetings to major shareholders as needed and other Non-executive Directors are available to meet with major shareholders on request.

Shareholder feedback from these meetings is communicated to the Board.

In addition, a full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is conducted each year by the Group Chief Executive and the Chief Financial Officer, led by the Director of Strategy and Capital Market Relations. As part of this, a conference for investors and analysts has been held on a regular basis since 2010, with in-depth business presentations and opportunities for attendees to meet with members of the Board and senior management through the course of the event. Most recently, the Group held a conference for investors in November 2016. The Group Chief Executive, Chief Financial Officer and investor relations team also attend major financial services conferences to present to and meet with the Company's shareholders. In 2016, as part of the investor relations programme, over 360 meetings were held with approximately 800 individual institutional investors across the UK, in continental Europe, the US and Asia.

The Annual General Meeting is an opportunity for further shareholder engagement, for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors then in office attended the 2016 Annual General Meeting.

Details of the 2017 Annual General Meeting are available on www.Prudential.co.uk under 'Investors'.

Further information on Directors

Information on a number of regulations and processes relevant to Directors, and how these are addressed by Prudential, is given below.

Area	Prudential's approach
Rules governing appointment and removal	— The appointment and removal of Directors is governed by the provisions in the Articles of Association (the Articles), the UK Corporate Governance Code (the UK Code), the Hong Kong Corporate Governance Code (HK Code) as appended to the Hong Kong Listing Rules (the HK Listing Rules) and the Companies Act 2006.
Terms of appointment	— Non-executive Directors are appointed for an initial term of three years. — Subject to review by the Nomination and Governance Committee and re-election by shareholders, it would be expected that Non-executive Directors serve a second term of three years. — After six years, Non-executive Directors may be appointed for a further year, up to a maximum of three years in total. Reappointment is subject to rigorous review as well as re-election by shareholders at the Annual General Meeting. — The Directors' remuneration report sets out the terms of the Non-executive Directors' letters of appointment on page 133. — The Directors' remuneration report sets out the terms of Executive Directors' service contracts on page 132.
Independence	— Prudential is one of the UK's largest institutional investors. The Board does not believe that this compromises the independence of those Non-executive Directors who are on the boards of companies in which the Group has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre Non-executive Directors. — The independence of the Non-executive Directors is determined by reference to the UK Code and HK Listing Rules. Prudential is required to affirm annually the independence of all Non-executive Directors under the HK Listing Rules and the independence of its Audit Committee members under Sarbanes-Oxley legislation. — For the purposes of the UK Code, throughout the year, all Non-executive Directors were considered by the Board to be independent in character and judgement and to have met the criteria for independence as set out in the UK Code. — All the Non-executive Directors are considered independent for the purposes of the Company's Hong Kong listing, and each Non-executive Director provides an annual confirmation of his or her independence as required under the HK Listing Rules. The Company has considered David Law's position and has deemed him to be independent from 1 July 2016, being the date one year following his retirement from PwC, for the purposes of the HK Listing Rules and HK Code. — There were no other material factors that were deemed to affect the Non-executive Directors' independence.
Audit Committee experience and independence	— In relation to the provisions of the UK Corporate Governance Code and HK Listing Rules, the Board is satisfied that Ann Godbehere and David Law have recent and relevant financial experience. — The Board has determined that Ann Godbehere and David Law qualify as audit committee financial experts under the requirements of Form 20-F and that both Ms Godbehere and Mr Law are independent within the meaning of Rule 10A-3 under the Exchange Act. — The Board does not consider that Mr Law's previous position at PwC affects his status as an independent Director for the purposes of the UK Code or in relation to his membership of the Audit Committee, under applicable Sarbanes-Oxley legislation.
Indemnities, protections and legal advice	— Subject to the provisions of the Companies Act 2006, the Company's Articles permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. — Suitable insurance cover is in place in respect of legal action against directors and senior managers of companies within the Group. — Qualifying third party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain directors of other companies within the Group. — Qualifying pension scheme indemnity provisions are also in place for the benefit of certain pension trustee directors within the Group. — These indemnities were in force during 2016 and remain so. — Directors have the right to seek independent professional advice at the Group's expense.
Significant contracts	— At no time during the year did any Director hold a material interest in any contract of significance with the Company or any subsidiary undertaking.

Risk management and internal control

The Board is responsible for ensuring that an appropriate and effective system of internal control and risk management is in place across the Group. The framework of risk management and internal controls centres on clear delegated authorities to ensure Board oversight and control of important decisions. The framework is underpinned by the Group Code of Business Conduct, which sets out the ethical standards the Board requires of itself, employees, agents and others working in the Group. The framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal control

The Group Governance Manual (the Manual) sets out the delegated authorities and establishes the requirements for subsidiaries to seek approvals from or report to Group Head Office. Group-wide standards are established through policies and other governance arrangements, which are also included in the Manual.

Internal controls and processes, based on the provisions established in the Manual, are in place across the Group. These include controls for the preparation of financial reporting. The operation of these controls and processes facilitates the preparation of reliable financial reporting and the preparation of local and consolidated financial statements in accordance with the applicable accounting standards and requirements of the Sarbanes-Oxley Act. These controls include certifications by the Chief Executive and Chief Financial Officer of each business unit regarding the accuracy of information provided for use in preparation of the Group's consolidated financial reporting and the assurance work carried out in respect of US reporting requirements.

The Board has delegated authority to the Audit Committee to review the framework and effectiveness of the Group's systems of internal control. The Audit Committee is supported in this responsibility by the assurance work carried out by Group-wide Internal Audit and the work of the business unit audit committees, which oversee the effectiveness of controls in each respective business unit. Details of how the Audit Committee oversees the framework of controls and their effectiveness on an ongoing basis, is set out more fully in the report on pages 95 to 102.

Risk management

A key component of the Manual is the Group Risk Framework, which requires all business units to establish processes for identifying, evaluating and managing the risks facing the business.

The Board determines the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. It has delegated authority to the Risk Committee to review and approve changes to the Group Risk Framework and risk policies and approve changes to risk limits within the overall Board approved risk appetite. The Risk Committee reviews compliance with the Group Risk Framework and risk policies through its regular activities detailed in the report on pages 103 to 105.

The Group's risk governance arrangements, which support the Board, the Risk Committee and the Audit Committee, are based on the principles of the 'three lines of defence' model: risk taking and management, risk control and oversight, and independent assurance.

First line of defence (risk taking and management)

- Takes and manages risk exposures in accordance with the risk appetite, mandate and limits set by the Board;
- Identifies and reports the risks that the Group is exposed to, and those that are emerging;
- Promptly escalates any limit breaches or any violations of risk management policies, mandates or instructions;
- Identifies and promptly escalates significant emerging risk issues; and
- Manages the business to ensure full compliance with the Group risk management framework as set out in the Manual, which includes the Group Risk Framework and risk policies as well as approvals requirements, among other requirements.

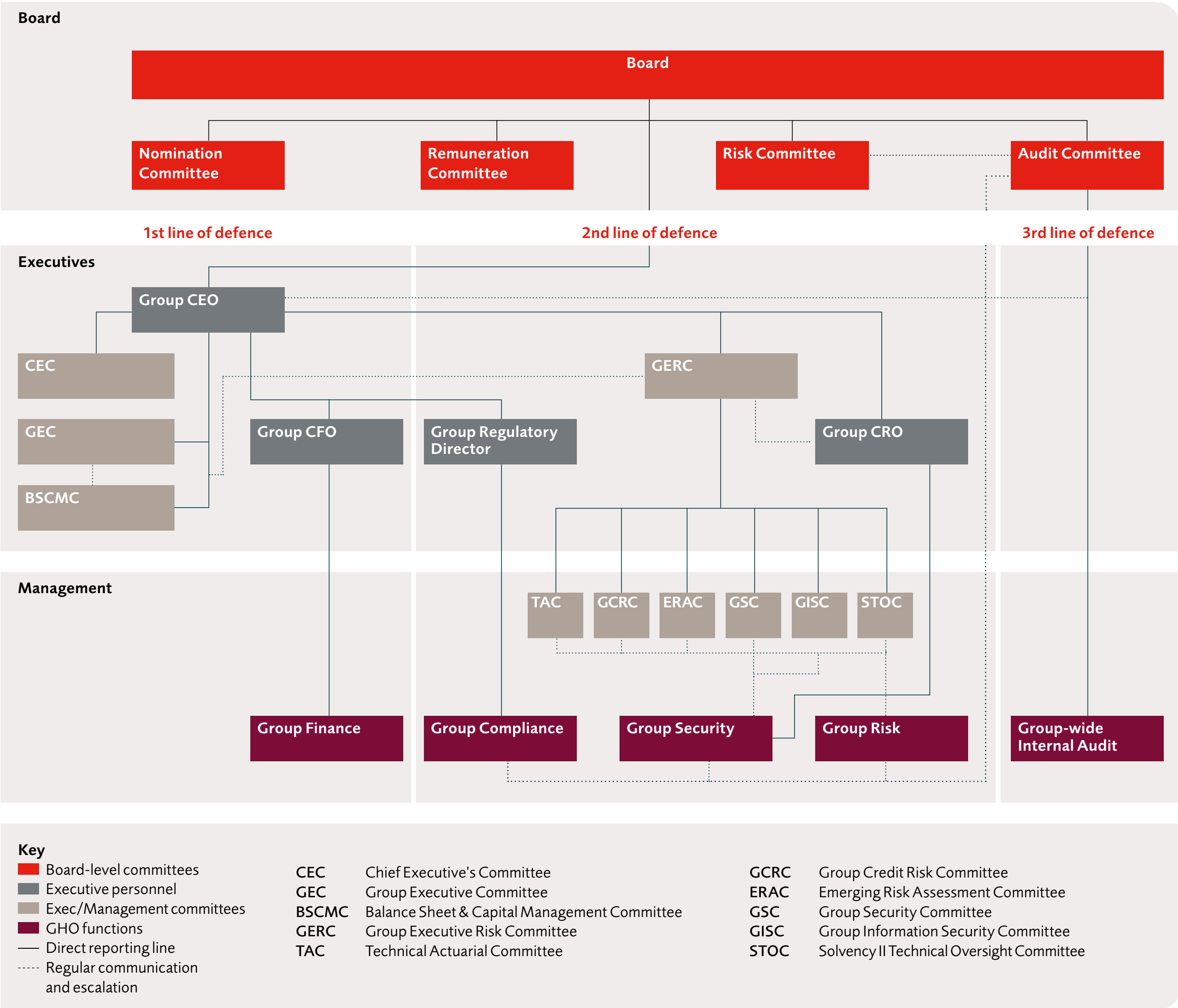
Second line of defence (risk control and oversight)

- Assists the Board to formulate and then implement the approved risk appetite and limit framework, risk management plans, risk policies, risk reporting and risk identification processes; and
- Reviews and assesses the risk-taking activities of the first line of defence and where appropriate, challenges the actions being taken to manage and control risks and approves any significant changes to the controls in place.

Third line of defence (independent assurance)

- Provides independent assurance on the design, effectiveness and implementation of the overall system of internal control, including risk management and compliance.

The three lines of defence model is adopted at the Group level as follows:



Formal review of controls

A formal evaluation of the systems of internal control and risk management is carried out at least annually. The report is considered by the Audit Committee and Risk Committee prior to the Board reaching a conclusion on the effectiveness of the systems in place. This evaluation takes place prior to the publication of the Annual Report.

As part of the evaluation, the Chief Executive and Chief Financial Officer of each business unit, including Group Head Office, certify compliance with the Group's governance policies and the risk management and internal control requirements. The Group Risk function facilitates a review of the matters identified by this certification process. This includes the assessment of any risk and control issues reported during the year, risk and control matters identified and reported by the other Group oversight functions and the findings from the reviews undertaken by Group-wide Internal Audit, which carries out risk-based audit plans across the Group. Issues arising from any external regulatory engagement are also taken into account.

For the purposes of the effectiveness review, the Group has followed the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In line with this guidance, the certification provided above does not apply to certain material joint ventures where the Group does not exercise full management control. In these cases, the Group satisfies itself that suitable governance and risk management arrangements are in place to protect the Group's interests. However, the relevant Group company which is party to the joint venture must, in respect of any services it provides in support of the joint venture, comply with the requirements of the Group's internal governance framework.

Effectiveness of controls

In accordance with provision C.2.3 of the UK Corporate Governance Code and provision C.2.1 of the HK Corporate Governance Code, the Board reviewed the effectiveness and performance of the system of risk management and internal control during 2016. This review covered all material controls, including financial, operational and compliance controls, risk management systems and the adequacy of the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions. The review identified a number of areas for improvement and the necessary actions have been or are being taken.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report, and confirms that the system remains effective.

Committee reports

The principal Committees of the Board are the Nomination and Governance, Audit, Risk, and Remuneration Committees. These Committees form a key element of the Group governance framework, facilitating effective independent oversight of the Group's activities by the Non-executive Directors.

Each Committee Chairman provides an update to the Board of each Committee meeting, supported by a short written summary of the Committee business considered.

Nomination and Governance Committee report

Dear Shareholder

As Chairman of the Nomination and Governance Committee, I am pleased to report on the Committee's activities and areas of focus during 2016.

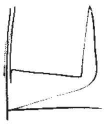
In 2016, we met on four occasions. Our focus was on ensuring we have suitable succession plans in place for the Board and senior executives. Particular emphasis this year was on succession planning for our Non-executive Directors given that Ann Godbehere is in her ninth year of service and will not stand for re-election at our next Annual General Meeting. Ann has been an asset to the Board and we are most grateful for her contribution, especially as Chair of our Audit Committee.

Our work on succession planning is based on an assessment of skills needed to fulfil our strategy and a rolling programme of progressively refreshing the skills on our Board. During 2016 and to date, we particularly focused on skills required to replace Ann's expertise in the context of the overall balance of skills on the Board and the main markets in which we operate, now and in the medium term. We also reviewed the membership of the Board's principal committees to ensure all committees continue to be appropriately composed, taking into account the time commitment required of each Non-executive Director role.

As part of our regular year-end related work at our February meeting, we reviewed the performance and independence of our Non-executive Directors, we confirmed that our Audit Committee has the required levels of financial expertise, we reviewed and confirmed conflicts of interest for all Board members and recommended all Non-executive Directors for re-election at the forthcoming Annual General Meeting, except Ann Godbehere.

The Committee expanded its remit in 2016, following the appointment of independent non-executive directors to the boards of our material subsidiaries. During the year, we approved the appointment of independent chairs to the boards of these companies. As part of our new governance duties, we reviewed the governance framework for our material subsidiaries and terms of reference for their boards and chairs. Going forward, the Committee will review the performance of the non-executive directors of the material subsidiaries, starting in early 2017.

As Chairman of the Committee, I have responsibility for ensuring the Committee operates effectively. To ensure we do so and provide constructive challenge to management, I encourage open debate and contributions from all Committee members. An annual review of our effectiveness was carried out as part of the Board evaluation, described in more detail on page 87. The Committee was found to be functioning effectively.



Paul Manduca
Chairman of the Nomination and Governance Committee

Committee members
— Paul Manduca (Chairman)
— Howard Davies
— Ann Godbehere
— Anthony Nightingale
— Philip Remnant

Regular attendees
— Group Chief Executive
— Group Human Resources Director
— Group General Counsel and Company Secretary

Number of meetings in 2016: four

How the Committee spent its time during 2016

The table below provides an overview of how the Committee spent its time in 2016.

	Feb[1]	Sep	Nov
Re-election of Directors, Non-executive Directors' performance and independence	●		
Succession planning	●	●	●
Membership review of principal Board Committees	●	●	
Material subsidiary governance	●	●	●
Committee terms of reference		●	

Note

1 Two meetings were held in February.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Succession planning — Appointments	The Committee kept succession plans for executive and non-executive Board roles under continuous review. This review takes account of the size, structure and composition of the Board and its Committees, including the overall knowledge, experience and diversity of the Board. The Committee makes recommendations to the Board based on its review as necessary.
– Non-executive Directors	During 2016, the Committee considered information about potential candidates who might be appointed to the Board as Non-executive Directors to keep the Board composition progressively refreshed in the future, assisted by Russell Reynolds as search consultant.
– Executive Directors	John Foley and Anne Richards were appointed during 2016. The work of the Committee in respect of those appointments, which was supported by Egon Zehnder as search consultant, is described in the Annual Report for 2015. The Committee received details of the succession plans in place for Executive Directors and other senior management positions. The development and renewal of these plans was led by the Group HR Director, who was supported by Egon Zehnder in identifying candidates who could be considered successors for key roles. Russell Reynolds has no additional connection with Prudential. In addition to acting as search consultant for certain executive hires, Egon Zehnder also provides support for senior development assessments.
— Re-election of Directors	As part of its ongoing work on Board succession planning, the Committee considered the terms of appointment for the Chairman, Committee Chairmen and Non-executive Directors taking into account time commitment and the general balance of skills, experience and knowledge on the Board, assessing length of service in their roles. Having reviewed the performance of relevant Non-executive Directors in office at the time, the Committee recommended to the Board that those Non-executive Directors should stand for re-election at the 2017 Annual General Meeting. The Committee considered the term of appointment of Ann Godbehere, who has been a Non-executive Director since 2007 and Chairman of the Audit Committee since 2010. In line with corporate governance guidelines, Ms Godbehere does not intend to stand for re-election in 2017. Philip Remnant completed his first term of three years following his initial appointment by shareholders at the 2013 Annual General Meeting. Following performance evaluation by the Committee and re-election by shareholders in 2016, he was invited to serve a further term of three years, expiring at the conclusion of the 2019 Annual General Meeting.
Independence	The Committee considered the independence of the Non-executive Directors against relevant requirements as outlined on page 89.

Key matters considered during the year continued

Matter considered	How the Committee addressed the matter
Conflicts of interest	The Board has delegated authority to the Committee to consider, and authorise where necessary, any actual or potential conflicts of interest in accordance with relevant legislation, the provisions in the Company's Articles and the procedures approved by the Board. In February 2016, the Committee considered the external appointments of all Directors and reviewed existing conflict authorisations, reaffirming or updating any terms or conditions attached to authorisations where required. No other conflict matters were brought to the Committee. New external positions were reviewed during the year as they arose. The Board considers that the procedure set out above for dealing with conflicts of interests has operated effectively.
Governance — Group subsidiaries	In February, the Committee expanded its remit to include oversight of the material subsidiary governance and independent directors. During the year, the Committee approved the appointments of the material subsidiary chairs (including Philip Remnant and Kai Nargolwala), reviewed the material subsidiary governance arrangements, approved the terms of reference for the material subsidiary boards and board chairs, and monitored the embedding of governance processes.

Audit Committee report

Dear Shareholder

As Chairman of the Audit Committee, I am pleased to report on the Committee's activities and areas of focus over the course of 2016.

The Committee met on 10 occasions during the year. The Committee works closely with the Risk Committee to ensure both Committees are updated on matters which impact on their responsibilities. Where a matter requires input from both Committees, joint meetings are held with the Risk Committee. In 2016, one joint meeting with the Risk Committee took place to discuss the Solvency II capital position as at 31 December 2015 and associated governance processes.

We maintained our focus during the year on monitoring the integrity of financial reporting and ensuring suitable accounting policies were adopted and applied consistently. We reviewed management's annual process for setting assumptions underpinning the Group's European Embedded Value (EEV) results and IFRS insurance liabilities and requested additional analysis and information where we felt this was required. Clarity of the Group's external disclosures is an important consideration of the Committee and we assessed whether the financial report for 2016 was fair, balanced and understandable before making a recommendation to the Board. Additional consideration was given to the Group's disclosure of alternative performance measures in light of new regulatory guidance and the Committee reviewed and agreed the resulting refinements to the Group's disclosures. We also reviewed the Group's external Solvency II disclosures following the formal introduction of the Solvency II framework for European insurers at the start of 2016.

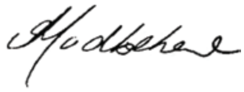
We approved all non-audit services, as well as audit services, to ensure our auditor remains independent. We continued with our annual process of monitoring auditor effectiveness through a Group-wide questionnaire of senior finance personnel. We meet privately with both the internal and external auditors to ensure they are able to operate effectively and to satisfy ourselves that management are responsive to their findings and recommendations.

We continued to monitor second and third line of defence functions to ensure their effectiveness. During 2016, the Audit Committee commissioned an external review to provide an independent assessment of compliance monitoring and internal audit reviews. Recommendations from this work have been approved and integrated into the respective functional plans going forward. The focus of the compliance plan is on strengthening the Compliance framework and further enhancing monitoring arrangements and mitigation of key risks. The internal audit plan provides risk-based coverage of financial, business change, regulatory and operational risk drivers and of customer outcomes.

We also refined our governance processes during the year to enhance the information the Committee receives on the activities of our business unit audit committees and to ensure key issues are escalated appropriately. I maintain regular contact with the audit committee chairs of our material subsidiaries and report to the Committee on the issues we discuss.

As Chairman of the Committee, I have responsibility for ensuring the Committee operates effectively. To ensure we do so and provide constructive challenge to management, I encourage open debate and contributions from all Committee members. An annual review of our effectiveness was carried out as part of the Board evaluation, described in more detail on page 87. The Committee was found to be functioning effectively.

This will be my last report as Audit Committee Chairman and Non-executive Director. Having served nine years on the Board, I will not offer myself for re-election at the 2017 Annual General Meeting. It has been my pleasure to serve as chairman of Prudential's Audit Committee and I am confident that I leave the Committee functioning well with a clear mandate of its priorities for the future. I would like to take this opportunity to thank my fellow committee members for their diligence and to thank everyone on the Prudential team who have supported me and the Committee over the years with such dedication and professionalism.



Ann Godbehere
Chairman of the Audit Committee

Committee members
— Ann Godbehere (Chairman)
— Howard Davies
— Alistair Johnston (until May 2016)
— David Law
— Philip Remnant
— Alice Schroeder

Regular attendees
— Chairman of the Board
— Group Chief Executive
— Chief Financial Officer
— Group Chief Risk Officer
— Director of Group Finance
— Group Regulatory and Government Relations Director
— Group General Counsel and Company Secretary
— Director of Group Compliance
— Director of Group-wide Internal Audit
— External Audit Partner

Number of meetings in 2016: 10 (in addition, a joint meeting was held with the Risk Committee)

How the Committee spent its time during 2016

The table below provides an overview of how the Committee spent its time in 2016.

	Jan	Feb	Mar[1]	Apr	May	Jul	Aug	Nov	Dec
Financial reporting and external auditor									
Periodic financial reporting including: — key accounting judgements and disclosures, — Solvency II results and governance processes, and — associated audit reports	●	●	●	●		●	●	●	●
Developments in tax disclosures		●				●			●
Audit planning, fees, effectiveness, independence and re-appointment		●			●	●		●	
Internal control framework effectiveness									
Internal control framework effectiveness		●							
Internal auditors									
Status updates and effectiveness		●			●	●		●	●
Internal audit plan for 2017						●			●
Compliance									
Status updates		●			●	●		●	●
Compliance plan for 2017									●
Financial crime and whistleblowing									
Update on whistleblowing issues raised		●			●	●		●	●
Anti-money laundering report		●							
Security and resilience development plan					●				
Governance									
Internal framework effectiveness/ refresh		●						●	
Planning for ESG governance and reporting								●	
Business unit audit committee effectiveness and terms of reference									●
Committee terms of reference									●

Note

1 Two meetings were held in March.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Financial reporting and tax Overview	One of the Committee's key responsibilities is to monitor the integrity of the financial statements. The Committee assessed whether appropriate accounting policies had been adopted throughout the accounting period and whether management had made appropriate estimates and judgements over the recognition, measurement and presentation of the financial results. There were no new or altered accounting standards in 2016 that had a material effect on the Group's financial statements. The Committee also reviewed the accounting for the planned disposal of the Korea life business, together with the presentation in the financial statements. The Committee considered compliance with accounting standards and obligations under applicable laws, regulations and governance codes. Particular areas on which the Committee focused during the year included the fair, balanced and understandable requirement under the UK Corporate Governance Code, providing advice to the Board in respect of this requirement. This included consideration of any resulting changes to disclosures following the decision by the UK to leave the European Union in June. The Committee also focused on the guidance issued by the European Securities and Markets Authority on Alternative Performance Measures that was effective for the first time in 2016. The Committee reviewed and agreed the refinements to the Group's disclosures as a result of that new guidance.
Key assumptions and judgements	The Committee reviewed the key assumptions and judgements made in valuing the Group's investments, insurance liabilities and deferred acquisition costs under IFRS, together with reports on the operation of internal controls to derive these amounts. It also reviewed the assumptions underpinning the Group's European Embedded Value (EEV) metrics. The Committee considered information, including peer comparisons if relevant and available, on the following key assumptions: — Persistency, mortality, morbidity and expense assumptions within the Asia life businesses; — Economic and policyholder behaviour assumptions affecting the measurement of Jackson guaranteed liabilities and amortisation of deferred acquisition costs; and — Mortality, expense and credit risk assumptions for the UK annuity business. 2016 saw the formal introduction of the Solvency II framework for European insurers. The Committee reviewed the Group's external disclosures of its Solvency II position, together with the consistency of assumptions with those used for IFRS and EEV reporting where relevant. In addition, given the adoption of Solvency II as the local regulatory requirement for the UK business, it reviewed the impact of the change in local capital regime on the EEV results for the UK insurance operations. The Committee also received information on the nature of goodwill and intangible asset values and the carrying value of investments in the Group's balance sheet. It considered what factors might give rise to an impairment of the Group's intangibles and whether those factors had arisen in the period. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2016. Following the UK referendum in June, where the majority voted in favour of leaving the European Union, and the resulting suspension of trading by some property funds, the Committee reviewed the Group's valuation basis for property investments and property funds at 30 June. The Committee satisfied itself that these and other investments were valued appropriately. Solvency II results and associated governance processes were considered in a separate meeting held jointly with the Risk Committee. No significant issues arose in respect of these items.

Key matters considered during the year continued

Matter considered	How the Committee addressed the matter
Other financial reporting matters and tax reporting	The Committee considered various analyses from management regarding Group and subsidiary capital and liquidity prior to recommending to the Board that it could conclude that the financial statements should continue to be prepared on the going-concern basis and the disclosures on the Group's longer-term viability were both reasonable and appropriate. The Committee reflected on how the viability statement could be enhanced to give more insight on the conclusions reached and updates were made accordingly. As part of its assessment of the description of performance within the Annual Report, the Committee considered judgemental aspects of the Group's reporting across the Group's IFRS and EEV metrics. This assessment included a review to ensure that the allocation of items between operating and non-operating profit was in accordance with the Group's accounting policy. The Committee considered the impact of equity and interest rate movements on the IFRS results of the Group's US business and after discussion, the Committee was satisfied that the presentation and disclosure of such impacts was appropriate and consistent with prior periods. The Audit Committee also considered judgemental matters regarding provisions for certain open tax items including tax matters in litigation. The Committee received information on the Group's annual risk rating meeting with HM Revenue & Customs. The Committee reviewed the Group's preparations for new country-by-country reporting disclosure requirements to tax authorities, and the Group's preparations for public disclosure of the Group's tax strategy. The Committee was satisfied that management's approach was reasonable in these areas. For all the above areas, the Committee received input from management and the external auditor prior to reaching its conclusions. In addition to these reporting matters, the Committee also received and considered regular updates from management on the status and implications for the Group of financial reporting developments, including updates on discussions by the International Accounting Standards Board on the development of the IFRS 17 Insurance Standard (known previously as "IFRS 4 Phase II") and the permitted deferral of IFRS 9 by insurers.
External audit, review of effectiveness, non-audit services and auditor reappointment External audit effectiveness	The Group's external auditor is KPMG LLP and oversight of the relationship with them is one of the Committee's key responsibilities. The Committee approved KPMG's terms of engagement for the statutory audit, and approved fees for both audit and non-audit services in accordance with the Group's policy. To assess the effectiveness of the auditor, the Committee reviewed the audit approach and strategy, and received an internal report on their performance. The separate internal evaluation of the auditor was conducted using a questionnaire which was circulated to the Committee, the Chief Financial Officer and the Group's senior financial leadership for completion. In total, 89 people provided input on the performance of the auditor. The feedback provided was reviewed and compiled into a report for the Committee which covered areas such as the knowledge and expertise of the partners and team members, their understanding of the Group, the resourcing applied to the audit and continuity of the team, liaison with Group-wide Internal Audit and approach to resolution of issues, as well as factors such as their coordination across the Group's multiple jurisdictions and quality of their written and oral communication. The degree of challenge and robustness of approach to the audit were key components of the evaluation. The Committee Chairman invited other Group stakeholders to provide their views on the performance of the auditor, and KPMG was given the opportunity to respond to the findings in the report. In addition to the usual auditor effectiveness process, early in 2016 the Committee also considered KPMG's response to a report issued by the Financial Reporting Council's Audit Quality Review team following inspection of KPMG's 2014 audit. The Committee discussed the actions undertaken by KPMG as part of their 2015 audit to address the matters raised. It agreed that any identified areas for further improvement had been addressed or had appropriate action plans in place. On completion of the activities outlined above, the Committee concluded that the audit had been effective and the challenge appropriately robust across all parts of the Group.

Matter considered	How the Committee addressed the matter
Auditor independence and objectivity	The Committee has responsibility for monitoring auditor independence and objectivity and is supported in doing so by the Group's Auditor Independence Policy (the Policy). The Policy is updated annually and approved by the Committee. It sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and is based on four key principles which specify that the auditor should not: — Audit its own firm's work; — Make management decisions for the Group; — Have a mutuality of financial interest with the Group; or — Be put in the role of advocate for the Group. The Policy has two permissible service types: those that require specific approval by the Committee on an engagement basis and those that are pre-approved by the Committee with an annual monetary limit. In accordance with the Policy, the Committee approved these permissible services, classified as either audit or non-audit services, and monitored the usage of the annual limits on a quarterly basis. All non-audit services undertaken by KPMG were agreed prior to the commencement of work and were confirmed as permissible for the external auditor to undertake under the provisions of the Sarbanes-Oxley Act. In November 2016, the Committee considered and approved revisions to the Policy with effect from 1 January 2017, to reflect final rules and guidance issued by the Financial Reporting Council, in connection with the implementation of broader European Union (EU) reforms to the audit market. The most significant change was to reduce the annual monetary limits for services that are pre-approved by the Committee. These revisions build on the previous year's updates, where amendments to the Policy were made to ensure the schedule of prohibited non-audit services was in line with the EU reforms referenced above. These changes were effective throughout 2016. In keeping with professional ethical standards, KPMG also confirmed their independence to the Committee and set out the supporting evidence for their conclusion in a report that was considered by the Committee prior to publication of the financial results.
Fees paid to the auditor	The fees paid to KPMG for the year ended 31 December 2016 amounted to £16.2 million (2015: £16.6 million) of which £2.8 million (2015: £4.3 million) was payable in respect of non-audit services. Non-audit services accounted for 17 per cent of total fees payable (2015: 26 per cent). A breakdown of the fees paid to KPMG can be found in Note B3.4 to the financial statements on page 193. Of the £2.8 million of non-audit services, the principal types of non-audit engagements approved for 2016 were other assurance services of £2.7 million (of which £1.5 million related to Solvency II reporting and disclosures) and other non-audit services of £0.6 million.
Reappointment	Based on the outcome of the effectiveness evaluation and all other considerations, the Committee recommended that KPMG be reappointed as the auditor. A resolution to this effect will be proposed to shareholders at the 2017 Annual General Meeting.
Audit tender	The external audit was last put out to competitive re-tender in 1999 when the present auditor, KPMG, was appointed. Since 2005, the Committee has annually considered the need to re-tender the external audit service and it again considered this in May 2016, concluding that there was nothing in the performance of the auditor which required such a tender. The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements, the Company will be required to change audit firm no later than for the 2023 financial year end. The Committee also recognises that the industry is in a period of unprecedented change with the IASB expecting to issue a new insurance accounting standard in 2017, for implementation in 2021. The Committee currently believes any change of auditor should be scheduled to limit operational disruption during such a period of change and, as a consequence, is not currently planning to re-tender the audit before the adoption of IFRS 17. This remains subject to the Committee's normal annual review. The Company has complied throughout the 2016 financial year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the Competition and Markets Authority. In line with the Auditing Practices Board Ethical Statements and the Sarbanes-Oxley Act, a new lead audit partner is appointed every five years. A new lead audit partner was appointed in respect of the 2012 financial year who will be replaced following the completion of this 2016 reporting cycle. The replacement lead audit partner has been identified.

Key matters considered during the year continued

Matter considered	How the Committee addressed the matter
Third line oversight – internal audit Regular reporting	The Committee is responsible for approval of the internal audit programme and monitoring the effectiveness of the internal audit function. The independent assurance provided by Group-wide Internal Audit (GwIA) formed a fundamental part of the Committee's deliberations on the Group's overall control environment. The Committee received regular updates on audits conducted and management's progress in addressing audit findings. Each of the Group's business units has an internal audit team, the heads of which report to the Director of Group-wide Internal Audit. The function also has a Quality Assurance Director, whose primary role is to monitor and evaluate adherence to industry practice guidelines and Group-wide adherence to GwIA's own standards and methodology. Internal audit resources, plans, budgets and its work, including the function's annual review of the control environment and risk, and control culture of the organisation, are overseen by both the Committee and the relevant business unit audit committee. The Director of GwIA reports functionally to the Chairman of the Committee and for management purposes to the Group Chief Executive, and also has direct access to the Chairman of the Board. In addition to formal Committee meetings, the Committee meets with the Director of GwIA in private to discuss matters relating to, for example, the effectiveness of the internal audit function, significant audit findings and the risk and control culture of the organisation.
Annual plan and focus for 2017	The Committee approved the half year update of the 2016 plan. It also considered and approved the Internal Audit Plan, resource and budget for 2017. At the half year, the Committee considered recommendations to refresh the Internal Audit Plan in response to changes in the business unit operating environments and an update to the Group's top risks. The 2017 Internal Audit Plan was formulated based on a bottom-up risk assessment of audit needs mapped against various metrics combined with top-down challenge by the GwIA Leadership Team and executive management at business unit and Group level. The plan was then mapped against a series of risk and control parameters, including the top risks identified by the Risk Committee, to verify that it is appropriately balanced between financial, business change, regulatory and operational risk drivers and provides appropriate coverage of key risk areas and audit themes within a risk-based cycle of coverage. Key areas of focus for 2017 include programme assurance, cyber security, outsourcing arrangements, customer outcomes and governance.
Internal audit effectiveness	The Committee assesses the effectiveness through a combination of external effectiveness reviews, required every five years (last conducted in 2012), and an annual internal effectiveness review, performed by the GwIA Quality Assurance Director. In 2016, Deloitte assessed the overall GwIA annual planning approach and the quality of audit work and concluded that the function 'is a well-developed group function that applies a number of leading practices on a consistent basis across the Prudential Group, including advanced data analytics capabilities and well embedded approaches for conducting audits'. In addition, an internal effectiveness review was conducted in 2016, in accordance with the professional practice standards of the Chartered Institute of Internal Auditors (CIIA). This review concluded that GwIA continues to comply with the requirements of internal audit policies, procedures and practices, and standards in all material respects relating to audit planning and execution, and continued to be aligned with its mandated objectives and maintained general conformance with the CIIA guidance for Effective Internal Audit in the Financial Services Sector. Having considered the findings of Deloitte's review and the 2016 internal effectiveness review, the Committee concluded that GwIA had continued to operate in compliance with the requirements of GwIA policies, procedures and practice standards in all material respects and had remained aligned to mandated objectives during 2016.

Matter considered	How the Committee addressed the matter
Business unit audit committee effectiveness	The Committee is supported by the work carried out by the material subsidiary and other business unit audit committees and annually reviews the effectiveness of these committees in meeting their defined terms of reference. These audit committees provide oversight of the respective business units. During the year, membership of the committees for all material subsidiaries has been changed to comprise solely of independent non-executive directors. The minutes of all business unit audit committees were provided to the Committee and their meetings were attended by the external auditor, as well as senior management from the business unit (including the Business Unit Chief Executive, heads of Finance, Risk, Compliance and GwIA) and from Group Head Office. In addition, the Committee chairman meets in person or telephonically at least quarterly with the chairs of each of the material subsidiary audit committees. The Committee's assessment of these committees was supported by local teams from GwIA and considered whether each of the committees fulfilled the responsibilities documented in their terms of reference. Attendance rates by audit committee members and evidence of the audit committees' coverage of key business unit issues, as well as the appropriate escalation of concerns to the Committee, formed part of the criteria used for the evaluation.
Business unit model terms of reference	The Committee approved the Group's standard terms of reference for the material subsidiary and other business unit audit committees, which were updated to reflect changes in the Committee's own responsibilities to align them with best practice, as well as the change in membership for the material subsidiaries. These were adopted by the business unit audit committees with minor variations to address local regulations or the particular requirements of the business.
Second line oversight – compliance, financial crime prevention, whistleblowing Regular reporting from Compliance	Regular updates were provided to the Committee by the Group Regulatory and Government Affairs Director and the Group Compliance Director. The reports kept the Committee apprised of key compliance activities, issues and controls, including progress against the 2016 Compliance Plan, the outcome of compliance monitoring activities across the Group and the effectiveness of business units compliance departments.
Compliance Plan and focus for 2017	The Committee considered and approved the 2017 Group Compliance Plan. Areas of focus included strengthening the compliance framework, enhancing compliance monitoring arrangements and mitigation of key risks, including conflicts of interest, the fair treatment of customers and anti-money laundering and sanctions. Following the external review of the effectiveness of compliance monitoring, the Plan includes developing a more consistent approach to the planning, execution and reporting of compliance monitoring activity across the Group.
Financial crime prevention	The Committee received the Money Laundering Prevention Officer's report which assessed the operation and effectiveness of the Group's systems and controls in relation to managing money laundering and sanctions risk. The Committee noted the regulatory developments relating to initiatives by the Financial Action Task Force and the 4th EU Anti-Money Laundering Directive. An external review of the Group's anti-bribery and corruption programme was undertaken this year and the Committee noted the recommendations being taken forward by management.
Whistleblowing	The Committee noted the launch of an enhanced, Group-wide whistleblowing programme ('Speak Out'), reflecting UK regulatory changes and the Group's geographic expansion. The programme captures and comprehensively records matters raised through the Group's Confidential Reporting process. Throughout the year, the Committee has continued to receive regular updates on such matters and the actions taken to address them. The role of the whistleblowing champion, for the purpose of the Senior Insurance Managers Regime, will be carried out by the chair of the UK business unit risk committee. At Group level, the Chair of the Audit Committee remains responsible for oversight of whistleblowing activities across the whole of the Group.
Internal control Internal control and risk management systems	The Committee is responsible for reporting and making recommendations to the Board on the effectiveness of Group-wide internal control and risk management systems. The Committee considered the outcome of the annual review of the systems of internal control and risk management. The report considered all material controls, including financial, operational and compliance controls and reflected changes in the HK Code which became effective for financial years commencing on or after 1 January 2016. Having considered the review, the Committee made recommendations to the Board regarding the ongoing processes and effectiveness of the risk management and internal control systems in place. The Board's statement regarding effectiveness of these systems can be found on page 91.

Key matters considered during the year continued

Matter considered	How the Committee addressed the matter
Governance Group Governance Framework	The Group Governance Manual sets out the policies and processes by which the Group operates within its framework of internal governance, taking into account relevant statutory and regulatory matters. Used as a platform for mandating specific ways of working across the Group, each business unit attests annually to compliance with: — Mandatory requirements set out in Group-wide policies; — Matters requiring prior approval from those parties with delegated authority; and — Matters which must be reported to the Group Functions. The Committee reviewed the results of the Group Governance Manual annual content review to ensure its continued effectiveness and long-term value to the Group, and the results of the year end certification of compliance with Group Governance Manual requirements for the period ended 31 December 2016.
Committee effectiveness	A review of the Committee's activities was conducted against applicable regulation and codes of conduct. The results of this assessment were provided to the Committee alongside the outcome of the part of the annual Board evaluation relating to the Committee.

Risk Committee report

Dear Shareholder

As Chairman of the Risk Committee, I am pleased to report on the Committee's activities and focus during 2016.

The Committee assists the Board in providing leadership, direction and oversight of the Group's overall risk appetite and limits, risk strategy and risk culture. We also oversee and advise the Board on current and future risk exposures of the Group, including those which have the potential to impact on the delivery of the Group's business plan. The Committee reviews and approves the Group Risk Framework and monitors its appropriateness in identifying and managing the risks faced by the Group.

The committee met on eight occasions during the year. We work closely with the Audit Committee to ensure both Committees are updated on matters which impact on their responsibilities. Where a matter requires input from both Committees, joint meetings are held with the Audit Committee. In 2016, one joint meeting with the Audit Committee took place to discuss the Solvency II capital position as at 31 December 2015 and associated governance processes.

During 2016, we reviewed the Group's risk policies and updated the Group's risk appetite limits to reflect changes in the Group's risk profile and the evolving regulatory and macroeconomic environments. We also reviewed the principal risks facing the Group and received regular updates on these through the course of the year. We receive regular reports from the Chief Risk Officers of our material subsidiaries.

Over 2016, we continued to focus on the key risks arising from the products we offer to our customers, the risks inherent in our investment portfolios, and the operational risks that arise from operating our businesses. We regularly reviewed the strength of our capital and liquidity positions, and the significant ongoing changes to the regulatory framework and environment. In addition, we closely monitored risks arising from the macroeconomic environment and regulatory developments such as the risks relating to prolonged low interest rates and the pace of regulatory developments across the globe.

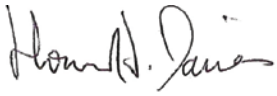
During 2016, we oversaw the work required as a result of the Group's continuing designation as a Global Systemically Important Insurer, including the development of the Systemic Risk Mitigation Plan, the Liquidity Risk Mitigation Plan and the Recovery Plan. We also considered the methodology underpinning and validation of our Solvency II internal model, oversaw the delivery of the Group's major Model Change application to the PRA, and risks arising from the Solvency II regime.

We provided oversight of the Group's planning for, and response to, the results in the Brexit referendum and US presidential election that have driven increased uncertainty in markets and the macroeconomic environment. We reviewed in depth the risk arising from our business, including examining the hedging programme in Jackson, and persistency and policyholder behaviour risks across the Group. Other areas of focus in 2016 included reviewing our cyber defence resilience and defence strategy, and reviewing the effectiveness of the risk management functions across the Group. We commissioned a number of 'deep dive' reviews to support these areas, and monitored the implementation of recommendations arising.

We also refined our governance processes during the year to enhance the information the Committee receives on the activities of our business unit risk committees and ensure key issues are escalated appropriately. I maintain regular contact with the risk committee chairs of our material subsidiaries and report to the Committee on issues we discuss.

Looking forward into 2017, the Committee will remain focused on monitoring the Group's principal risks and those posed by regulatory developments and macroeconomic conditions. We approved the 2017 plans for the Risk function, and will continue to adapt our plan of work to respond to any changes in the business environment or the Group's strategy.

As Chairman of the Committee, I have responsibility for ensuring the Committee operates effectively. To ensure we do so and provide constructive challenge to management, I encourage open debate and contributions from all Committee members. An annual review of our effectiveness was carried out as part of the Board evaluation, described in more detail on page 87. The Committee was found to be functioning effectively.



Howard Davies
Chairman of the Risk Committee

Committee members
- Howard Davies (Chairman)
- Ann Godbehere
- Kai Nargolwala
- Lord Turner

Regular attendees
- Chairman of the Board
- Group Chief Executive
- Group Chief Risk Officer
- Chief Financial Officer
- Group Regulatory and Government Relations Director
- Group General Counsel and Company Secretary
- Director of Group-wide Internal Audit

Number of meetings in 2016: eight (in addition, a joint meeting was held with the Audit Committee)

How the Committee spent its time during 2016

The table below provides an overview of how the Committee spent its time in 2016.

	Feb	Apr	May	Jul	Sep	Oct	Nov
Markets and Group risk updates							
Market conditions and impact	●	●	●	●	●	●	
Group risk update	●		●	●		●	
Risk management							
Group top risk identification	●						●
Top risk discussions	●		●	●	●	●	●
Business unit specific risk matters	●		●			●	●
Risk assessment of business plan							●
Risk function effectiveness	●			●		●	
Regulatory matters							
Regulatory matters		●	●				●
Risk framework							
Solvency II internal model development	●		●	●		●	
Risk limit updates	●		●	●			
Risk policy framework refresh	●		●	●		●	
Year end E-cap results			●		●	●	
Governance and reporting							
Year end risk disclosures	●						●
Policy compliance	●			●			●
Own Risk and Solvency Assessment	●			●			
Compliance report			●	●		●	
Global Systemically Important Insurer: Liquidity Risk Management Plan, Systemic Risk Management Plan and Recovery Plan						●	
Solvency II reporting and governance processes	●		●				●
IFRS Phase II							●
Environmental Social Governance (ESG) reporting						●	
Committee terms of reference			●				●

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Risk appetite	As part of the Group's business plan, risk appetite limits were reviewed and updated. The primary driver of the changes was the increased macroeconomic uncertainty and market volatility, while regulatory and business change continued. In order to be confident that the business continued to remain within risk appetite, risk limits were reviewed and several new measures introduced.
Risk management	Annually, business units must assess and certify their compliance with the Group Risk Framework and risk policies as part of the annual Group Governance Manual certification. The annual certification process for risk policies is facilitated by Group Risk and subject to oversight by the Risk Committee. In 2016, the Group Risk Framework and risk policies were subject to their annual review, with changes being approved by the Risk Committee. The Risk Committee approved a number of deep dives to be undertaken during 2016. These focused on risks embedded within the existing portfolio of products in our US, Asia and UK businesses. The Group Cyber Risk Strategy was overseen by the Risk Committee in mid 2016. The Committee reviewed the Cyber Defence Plan, providing further detail around the implementation of the cyber strategy at the end of 2016. The Cyber Strategy and Defence Plan articulate the strategic outcomes and key deliverables relating to our cyber resilience. The Committee also agreed the characteristics of an effective risk function and conducted its first annual review of risk effectiveness in May.
Group top risks	The Committee evaluated the Group's top risks, considering recommendations for promoting additional risks, expanding the scope of existing risks, and removing those risks no longer requiring particular focus from the Committee. The Committee received regular reporting on the top risks and mitigating actions over the course of the year. The Group Chief Risk Officer's reports also provided the Committee with regulatory updates, particularly regarding Solvency II, the Group's Internal Model, development of the Group's global capital standards and the deliverables required as a result of the Group's designation as a Global Systemically Important Insurer.
Solvency II and Pillar 3 reporting	The Committee considered the Own Risk and Solvency Assessment report based on the outcomes of the Group's business plan, the results of the Group's regular stress and scenario testing, and the current and projected risk and solvency positions prior to its approval by the Board. The approval of the Solvency II Internal Model formalised the Group's Model change process, which records, evaluates and reports changes to management and the regulator. The Major Model Change application was closely overseen by the Risk Committee throughout 2016 and approved before submission to the regulator. Solvency II results and associated governance processes were considered in a separate meeting held jointly with the Audit Committee.
Global Systemically Important Insurer	The Financial Stability Board announced on 3 November 2015 that the Group continues to be designated as a Global Systemically Important Insurer. In 2016, the Group was required to update the 2015 Global Systemically Important Insurer deliverables – these include the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan. The Committee played a key part in considering and approving a number of these, including the Group's Liquidity Risk Management Plan, Systemic Risk Management Plan and Recovery Plan.
Reverse stress testing	Stress and scenario testing is a key risk measurement and management tool for the Group. The Reverse Stress Test exercise was carried out to confirm the Group's position as being significantly resilient to certain business failure scenarios. The report related to the Group's year end 2016 position and was submitted to the PRA.
Committee effectiveness	A review of the Committee's activities was conducted against applicable regulation and codes of conduct. The results of this assessment were provided to the Committee alongside the outcome of the part of the annual Board evaluation relating to the Committee.
Compliance reporting	The Committee received reporting on key compliance risks and mitigation activity, including customer risk, conflicts of interest, financial crime and the implementation of the Senior Insurance Managers Regime. The Committee also reviewed and approved a number of regulatory compliance risk-related policies.

Financial reporting

The Directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 160 to 318 and the supplementary information on pages 324 to 361. It is the responsibility of the auditor to form independent opinions, based on its audit of the financial statements and its audit of the EEV basis supplementary information, and to report its opinions to the Company's shareholders and to the Company. Its opinions are given on pages 319 to 322 and page 362.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial affairs of the Company and of the Group. The criteria applied in the preparation of the financial statements are set out in the statement of Directors' responsibilities on page 318 and page 361.

Company law also requires the Board to approve the Strategic report. In addition, the UK Code requires the Directors' statement to state that they consider the Annual Report and financial statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors are further required to confirm that the Strategic report includes a fair review of the development and performance of the business, with a description of the principal risks and uncertainties. Such confirmation is included in the statement of Directors' responsibilities on page 318 and page 361.

The Strategic report provides, on pages 47 and 48, a description of the Group's capital position, financing and liquidity. The risks facing the Group's business and how these are managed are discussed in the audited sections of the Group Chief Risk Officer's report on pages 50 to 60.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Going concern

In accordance with the requirements of the guidance issued by the Financial Reporting Council in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', after making sufficient enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that the financial statements are approved. In support of this expectation, the Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate, are set out in the Strategic report on pages 10 to 73. The risks facing the Group's capital and liquidity positions and their sensitivities are referred to in the Strategic report on pages 50 to 61. The Group's IFRS financial statements include the details of the Group's borrowings in Note C6 on page 255, the market risk and liquidity analysis associated with the Group's assets and liabilities can be found in Note C3.4(a) on pages 224 and 225, policyholder liability maturity profile by business units in Notes C4.1(b), (c) and (d) on pages 232, 234 and 236 respectively, cash flow details in the consolidated statement of cash flows and provisions and contingencies in Notes C11 and D2. The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2016.

Powers of the Board

The Board may exercise all powers conferred on it by the Company's Articles and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company.

Securities dealing and inside information

Prudential has adopted securities dealing rules relating to transactions by Directors on terms no less exacting than required by Appendix 10 to the HK Listing Rules and by relevant UK regulations (the UK Model Code was replaced by the Market Abuse Regulation with effect from 3 July 2016). The Directors have complied with this code of conduct throughout the period. Relevant controls are applied to the handling and dissemination of inside information which form part of the Group's internal governance framework. As part of the framework, the Group has adopted an Inside Information Policy which includes guidance and procedures for the identification and escalation of inside information as well as appropriate controls on the disclosure of such information in line with regulatory requirements.

Compliance with corporate governance codes

The Board confirms that the Company has complied with all principles and relevant provisions of both the UK and HK Corporate Governance Codes throughout the accounting year. An explanation of how the principles and provisions have been applied is set out in this report and in the Directors' remuneration report on pages 109 to 157.

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 the Non-executive Directors. In line with the principles of the UK Code, fees for the Non-executive Directors are determined by the Board.

The UK Code can be viewed on the FRC's website and the HK Code is available on the website of the HK Stock Exchange.

US regulation and legislation

As a result of its listing on the New York Stock Exchange, the Company is required to comply with the relevant provisions of the Sarbanes-Oxley Act 2002 as they apply to foreign private issuers and has adopted procedures to ensure such compliance.

In particular, in relation to Section 302 of the Sarbanes-Oxley Act 2002 which covers disclosure controls and procedures, a Disclosure Committee has been established, reporting to the Group Chief Executive, chaired by the Chief Financial Officer and comprising members of head office management. The work of the Disclosure Committee supports the Group Chief Executive and Chief Financial Officer in making the certifications regarding the effectiveness of the Group's disclosure procedures.

Change of control

Under the agreements governing Prudential Corporation Holdings Limited's life insurance and fund management joint ventures with China International Trust & Investment Corporation (CITIC), if there is a change of control of the Company, CITIC may terminate the agreements and either (i) purchase the Company's entire interest in the joint venture or require the Company to sell its interest to a third party designated by CITIC, or (ii) require the Company to purchase all of CITIC's interest in the joint venture. The price of such purchase or sale is to be the fair value of the shares to be transferred, as determined by the auditor of the joint venture.

Customers

The five largest customers of the Group constituted in aggregate less than 30 per cent of its total sales for each of 2016 and 2015.

Index to principal Directors' report disclosures

Information required to be disclosed in the Directors' report may be found in the following sections:

In addition, the risk factors set out on pages 392 to 397 and the additional unaudited financial information set out on pages 364 to 391, are incorporated by reference into the Directors' report.

Signed on behalf of the Board of Directors

A. Porter

Alan F Porter
Group General Counsel and Company Secretary
13 March 2017

04

Directors' remuneration report

This report has been prepared to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, as well as the Companies Act 2006 and other related regulations.

The following sections were subject to audit: Table of 2016 and 2015 Executive Director total remuneration 'The Single Figure' and related notes, salary information table in section entitled Remuneration in respect of performance in 2016, Pension entitlements, Long-term incentives awarded in 2016, Chairman and Non-executive Director remuneration in 2016, Statement of Directors' shareholdings, Outstanding share options, Recruitment arrangements and Payments to past Directors and payments for loss of office.

Dear Shareholder

I am pleased to present the Remuneration Committee's report for the year to 31 December 2016.

The Committee's report is presented in the following sections:

- An 'at a glance' summary of the Group's remuneration arrangements on pages 112 and 113;
- Our Directors' remuneration policy on pages 114 to 117 which describes how we pay Directors currently. This policy was approved by shareholders at the 2014 AGM;
- Our Annual report on remuneration on pages 118 to 134 and 151 to 152 which describes how the Committee applied the Directors' remuneration policy in 2016 and the decisions it has made in respect of 2017;
- Our new Directors' remuneration policy on pages 135 to 150 which describes how we propose paying Directors from 18 May 2017. This will be subject to an ordinary resolution of shareholders at the 2017 AGM; and
- Supplementary information on pages 153 to 157.

By way of preface, I would like to share the context for the key decisions the Committee took during 2016, in particular, the decisions relating to remuneration arrangements in 2017 and how we rewarded the performance achieved in 2016.

Reviewing the Directors' remuneration policy

Ahead of the renewal of the Directors' remuneration policy at the AGM in 2017, the Committee very carefully considered and debated a range of potential remuneration models. The Committee concluded that the current model continues to connect remuneration with the achievement of the Group's ambitious goals to deliver further profitable growth in the coming years. On this basis, the Committee decided to retain the current remuneration model while making a number of improvements to ensure that it continues to be aligned with the Group's remuneration principles, business priorities and evolving stakeholder expectations.

The proposed new Directors' remuneration policy set out on pages 135 to 150 has been designed to:

Simplify incentive arrangements

The Committee is committed to simplifying the remuneration arrangements for the Executive Directors wherever possible. To this end, the number of Annual Incentive Plan financial metrics is being reduced from the seven measures used in 2016 to four measures (cash flow, operating free surplus, IFRS operating profit and NBP EEV profit) for the 2017 financial year. These targets are aligned with the Group's focus on growth and cash generation. Minimum capital levels must be achieved for future bonuses to be paid, underscoring the importance of disciplined and proactive risk and capital management.

In a similar spirit of simplification, the Chief Executive, M&G will receive long-term incentive awards under a single incentive plan (the Prudential Long Term Incentive Plan, PLTIP) from 2017. In the past, the role holder has participated in two long-term incentive arrangements. The face value of the awards will remain unchanged.

Reward the delivery of the Group's longer-term strategy

It is proposed that a sustainability scorecard be used to determine vesting of 25 per cent of PLTIP awards made in 2017 and subsequent years. The scorecard rewards the longer-term generation of capital, the development of a more diverse senior leadership team and the achievement of the Group's conduct expectations. These measures are aligned to the Group's strategic priorities and corporate values, and achieving them will support the Group's ability to deliver to its stakeholders during and beyond the three-year performance period.

The Committee continues to be mindful of its scope to use discretion to adjust bonus payments and/or PLTIP vesting levels if it is not satisfied that the underlying financial performance of the Company during the relevant performance periods justifies the payments arithmetically suggested by the achievement of the performance conditions.

Strengthen the connection between executives and other shareholders

The Committee has decided to introduce a two-year holding period for PLTIP awards made in 2017 and subsequent years. This holding period will apply after the end of the three-year performance period, giving a five-year time horizon for these awards.

To further strengthen the alignment between executives and shareholders, the value of shares which Executive Directors are asked to own will be increased as follows:

- The Group Chief Executive will be asked to own shares worth at least 400 per cent of base salary (350 per cent at present); and
- Other Executive Directors will be asked to own shares worth at least 250 per cent of base salary (200 per cent at present).

Many of the Executive Directors have shareholdings well in excess of the guidelines that they are asked to meet. For instance, on 31 December 2016, Mike Wells had a beneficial interest in shares with a value of over 700 per cent of his salary.

As the Committee considered the new Directors' remuneration policy, I corresponded with and met shareholders who together own around 43 per cent of the Group's share capital as well as organisations that represent and advise shareholders. The Committee and I are grateful for the feedback and support that we received.

Rewarding 2016 performance

Prudential's executive remuneration arrangements reward the achievement of Group, business and personal targets, provided that this performance is delivered within the Company's risk framework and appetites, and that the conduct expectations of Prudential, our regulators and other stakeholders are met.

In rewarding performance, the Committee scrutinises the proposed bonus and LTIP performance targets, which are based on the business plans agreed by the Board, to ensure they are sufficiently challenging, and the Committee sets stretching performance ranges for each of the financial performance measures. The Committee believes that there is a high degree of stretch in both the business plans and the target ranges when factors such as the external economic, political and regulatory environment, across the Group's businesses and geographies, are taken into account.

As set out in the Business review section earlier in this annual report, the Group delivered strong financial performance in 2016, notwithstanding the significant changes which took place in the markets in which it operates.

Performance against these key metrics exceeded the stretching targets established by the Board and the results achieved in recent years. The Group achieved these results while maintaining appropriate levels of capital and operating within the Group's risk framework and appetites. The Committee believes that the bonuses it awarded to Executive Directors for 2016 appropriately reflect this performance.

Performance in 2016 built on the strong results achieved in recent years, despite the external challenges faced by the Group during this time. Based on total shareholder return (TSR) and strong cumulative IFRS operating profit performance over the performance period, the Committee determined that between 41.7 and 70.8 per cent of the PLTIP awards made to Executive Directors in 2014 would vest (depending on the business unit). These awards will be released to participants in April 2017.

The total 2016 'single figure' for the Group Chief Executive is lower than the total 2015 'single figure', despite continuing strong business performance. This is chiefly a result of a lower level of vesting of the 2014 PLTIP award. Mike Wells's 2016 'single figure' is 30 per cent less than his 2015 'single figure', notwithstanding his exceptional leadership and personal performance.

As you will be aware, there have been three changes to Prudential's team of Executive Directors during 2016. The remuneration decisions arising from these changes were disclosed in stock exchange and website announcements when they took place. Further information can be found in the Recruitment arrangements and Payments to past Directors sections of this report.

I trust that you will find this report a clear account of the way in which the Committee has implemented the Directors' remuneration policy during 2016 and of the Committee's proposed new Directors' remuneration policy.

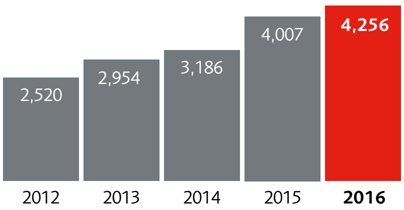
Strategic priority | **Group performance** £m | **2016 bonus achievement**

IFRS operating profit[1]

Prudential's primary measure of profitability and a key driver of shareholder value

CAGR (excluding Korea): +14%

2015-2016 growth 7%



Above stretch level

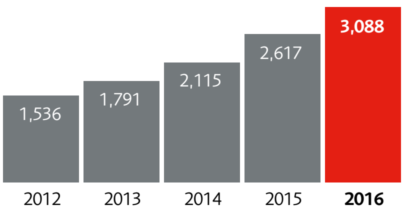
IFRS operating profit accounted for 35 per cent of Group financial bonus targets

EEV new business profit[2]

A measure of the future profitability of the new business sold during the year and indicates the profitable growth of the Group

CAGR (excluding Korea and UK bulk annuity new business profits): +14%

2015-2016 growth 24%



Above stretch level

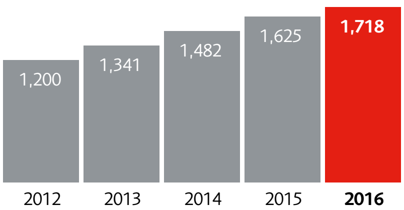
EEV new business profit accounted for 5 per cent of Group financial bonus targets

Business unit remittances

Cash flows across the Group balance these net remittances (which support dividend payments) with the retention of cash for profitable reinvestment

CAGR: +9%

2015-2016 growth 6%



Above stretch level

A cash flow measure was used to determine 10 per cent of the Group financial bonus targets

Notes

1 As previously reported and includes the contribution from the Korea Life business for all years prior to 2016.

2 As previously reported and includes the contribution from the Korea Life business and UK bulk annuity new business profits for all years prior to 2016.

Anthony Nightingale

Anthony Nightingale, CMG SBS JP

Chairman of the Remuneration Committee

13 March 2017

Our Executive Directors' remuneration at a glance

Our remuneration strategy and principles

During 2016, our remuneration strategy remained unchanged from that previously approved by shareholders:

To attract and retain the high calibre executives required to lead and develop the Group

Reward must be:

— Valued by executives; and

— Competitive, to engage executives who are in demand in the global talent market and if required, support hiring the best external talent.

To reward executives for delivering our business plans and generating sustainable growth and returns for shareholders

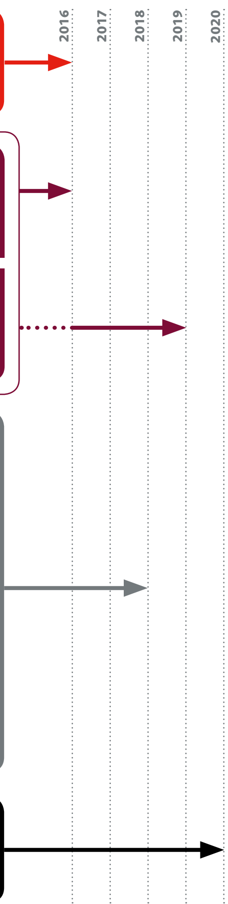
Reward must be:

— Determined by delivery of the Group's annual and longer-term business objectives;

— Aligned with shareholder value creation; and

— Consistent with the Group's risk appetite so that delivery of the business plan can be sustained.

Our current remuneration architecture



	Key elements[1,2]	Key features of the policy	How we implemented the policy
	Salary and benefits	Broadly aligned with pay budget for other employees	Salary increases of 1% in 2016
Financial and personal/ functional objectives set with reference to business plans approved by the Board.	Cash bonus Deferred bonus	The maximum opportunity is up to 200% of salary 40% of bonus is deferred into shares for three years Award is subject to malus and clawback provisions	The Group Chief Executive has a maximum bonus opportunity of 200% of salary. For other Executive Directors the maximum is 180% of salary or less 2016 bonuses were paid based on performance measures related to profit, cash flow and capital adequacy as well as personal/ functional objectives
Stretching IFRS profit ranges set with reference to business plans approved by the Board. TSR vesting schedule relative to insurance peers.	Prudential Long Term Incentive Plan (PLTIP)	Maximum award under the Plan is 550% of salary Aligned with long-term business strategy and delivery of shareholder value, with vesting subject to: — Relative TSR; and — Group or business unit IFRS profit. Measured over the three financial years from year of award Award is subject to malus and clawback provisions	Awards in 2016 were below the Plan limits: — Group Chief Executive: 400% of salary; — CEO, NABU: 460% of salary; — CEO, M&G: 150% of salary; and — Other PLTIP awards were 250% of salary. For business unit CEOs, awards vest based on TSR and business unit IFRS profit. For other Executive Directors, awards are subject to TSR and Group IFRS profit
	Share ownership guidelines	Significant share ownership guidelines for all Executive Directors as follows: — 350% of salary for the Group Chief Executive; and — 200% of salary for other Executive Directors.	

Key
- Fixed pay
- Short-term variable pay
- Long-term variable pay
- Share ownership guidelines

Notes
1 The Chief Executive, NABU also receives a 10% share of the Jackson bonus pool
2 The Chief Executive, M&G retains separate bonus and long-term incentive arrangements

What performance means for Executive Directors' pay

At Prudential, remuneration packages are designed to ensure a strong alignment between pay and performance. As you can see from the charts on page 111, sustained growth across all of our key performance metrics has delivered substantial value to our shareholders. This has been reflected in both the annual bonuses paid and the release of long-term incentive awards, as set out in the Annual report on remuneration.

In particular, the long-term incentives awarded to Executive Directors in 2014 had stretching performance conditions attached to vesting and were denominated in shares or ADRs. The value generated for shareholders through share price growth and dividends paid over the last three years is therefore reflected in the value of the LTIP releases.

The value of these performance-related elements of remuneration are added to the fixed packages provided to Executive Directors to calculate the 2016 'single figure' of total remuneration. The total 2016 'single figure' for the Group Chief Executive is lower than the total 2015 'single figure', despite continuing strong business performance. This is chiefly a result of a lower level of vesting of the 2014 PLTIP award. Mike Wells's 2016 'single figure' is 30 per cent less than his 2015 'single figure', notwithstanding his exceptional leadership and personal performance. The values for the current Executive Directors who were Directors during the year are outlined in the table below:

		Fixed pay		Performance related				
Executive Director	**Role**	**2016 salary**	**Pension and benefits**	**2016 bonus**	**LTIP vesting**	**Other payments**	**2016 single figure**	**2015 single figure**
John Foley[1]	Chief Executive, UK & Europe	£714,000	£313,000	£1,271,000	£1,781,000	–	£4,079,000	–
Penny James	Group Chief Risk Officer	£606,000	£235,000	£962,000	£347,000	–	£2,150,000	£958,000
Nic Nicandrou	Chief Financial Officer	£711,000	£539,000	£1,236,000	£1,518,000	–	£4,004,000	£4,278,000
Anne Richards[2]	Chief Executive, M&G	£228,000	£139,000	£1,368,000	–	£2,140,000	£3,875,000	–
Barry Stowe	Chairman & CEO, NABU[3]	£820,000	£251,000	£5,229,000	£1,168,000	–	£7,468,000	£6,763,000
Mike Wells	Group Chief Executive	£1,081,000	£1,143,000	£2,151,000	£2,520,000	–	£6,895,000	£9,894,000
Tony Wilkey	Chief Executive, PCA[4]	£845,000	£1,041,000	£1,440,000	£918,000	–	£4,244,000	£3,289,000

Notes
1 John Foley was appointed to the Board on 19 January 2016. The remuneration above was paid in respect of his service as an Executive Director, other than the LTIP releases which related to his previous role.
2 Anne Richards was appointed to the Board on 7 June 2016. The remuneration above was paid in respect of her service as an Executive Director.
3 NABU is an abbreviation of North American Business Unit.
4 PCA is an abbreviation of Prudential Corporation Asia.

Aligning 2017 pay to performance

The Remuneration Committee awarded salary increases to the Executive Directors, other than the Chief Executive, M&G and the Group Chief Risk Officer, for 2017 of 2 per cent, which was below the salary increase budget for the wider workforce. The Chief Executive, M&G, was appointed during the year and therefore no increase in salary was proposed. The Remuneration Committee awarded a salary increase for 2017 of 5 per cent to the Group Chief Risk Officer to reflect her performance and contribution. When Penny was promoted to the Board in 2015 her salary was lower than that of her predecessor. No other changes have been made as we believe remuneration packages remain strongly aligned with performance over both the short and the long term.

The resultant remuneration packages for 2017 are set out in detail in the Annual report on remuneration and summarised below:

			AIP		
Executive Director	**Role**	**2017 salary**	**Maximum bonus (% salary)**	**Bonus deferred**	**LTI award (% salary)**
John Foley	Chief Executive, UK & Europe	£765,000	180%	40%	250%
Penny James	Group Chief Risk Officer	£637,000	160%	40%	250%
Anne Richards[1]	Chief Executive, M&G	£400,000	600%	40%	450%
Nic Nicandrou	Chief Financial Officer	£726,000	175%	40%	250%
Barry Stowe[2]	Chairman & CEO, NABU	US$1,134,000	160%	40%	460%
Mike Wells	Group Chief Executive	£1,103,000	200%	40%	400%
Tony Wilkey	Chief Executive, PCA	HK$9,070,000	180%	40%	250%

Notes
1 The bonus opportunity for the Chief Executive, M&G remains the lower of 0.75 per cent of M&G's IFRS profit or six times salary. The Committee determined that Anne Richards should receive a 2017 PLTIP award with a face value of 450% of base salary, consistent with the combined face value of her previous LTI awards under the PLTIP (150% of salary) and M&G Executive LTIP (300% of salary). All future awards will be made under the PLTIP.
2 The Chairman & CEO, NABU will also continue to have a 10 per cent share of the Jackson bonus pool. 40 per cent of this is deferred in shares.

Summary of the current Directors' remuneration policy

The Company's Directors' remuneration policy was approved by shareholders at the 2014 AGM. This policy came into effect following the AGM on 15 May 2014 and will apply until the 2017 AGM, when shareholders will be asked to approve a revised Directors' remuneration policy. Details of the revised policy can be found on pages 135 to 150.

The pages that follow present a summary of the current Directors' remuneration policy. The complete policy can be found on our website at: www.prudential.co.uk/investors/governance-and-policies/directors-remuneration-policy

Remuneration for Executive Directors

Fixed pay

Element	Operation	Opportunity
Salary	The Committee reviews salaries annually, considering factors such as: — Salary increases for all employees; — The performance and experience of the executive; — Group or business unit financial performance; — Internal relativities; and — Economic factors such as inflation. Market data is also reviewed so that salaries remain in a competitive range relative to each Executive Director's local market.	Annual salary increases for Executive Directors will normally be in line with the increases for other employees across our business units. However, there is no prescribed maximum annual increase.
Benefits	Executive Directors are offered benefits which reflect their individual circumstances and are competitive within their local market, including: — Health and wellness benefits; — Protection and security benefits; — Transport benefits; — Family and education benefits; — All employee share plans and savings plans; and — Relocation and expatriate benefits.	The maximum paid will be the cost to the Company of providing benefits. The cost of benefits may vary from year to year but the Committee is mindful of achieving the best value from providers.
Provision for an income in retirement	Current executives have the option to: — Receive payments into a defined contribution scheme; and/or — Take a cash supplement in lieu of contributions. Jackson's Defined Contribution Retirement Plan has a guaranteed element (6 per cent of pensionable salary) and additional contributions (up to a further 6 per cent of pensionable salary) based on the profitability of Jackson.	Executive Directors are entitled to receive pension contributions or a cash supplement (or combination of the two) up to a total of 25 per cent of base salary. In addition, the Chief Executive, PCA receives statutory contributions into the Mandatory Provident Fund.

Variable pay

Element	Operation	Opportunity
Annual bonus	Currently all Executive Directors participate in the Annual Incentive Plan (AIP). AIP awards for all Executive Directors are subject to the achievement of financial and personal objectives. Business unit chief executives either have measures of their business unit's financial performance in the AIP or they may participate in a business unit specific bonus plan. For example, the Chairman and CEO, NABU currently participates in the Jackson Senior Management Bonus Pool as well as in the AIP. The financial measures used for the annual bonus will typically include profit, cash and capital adequacy. Jackson's profitability and other key financial measures determine the value of the Jackson Senior Management Bonus Pool. In specific circumstances, the Committee also has the power to recover all (or part of) bonuses for a period after they are awarded to executives. These clawback powers apply to the cash and deferred elements of 2015 and subsequent bonuses made in respect of performance in 2015 and subsequent years.	The Chief Executive, M&G has a bonus opportunity of the lower of six times salary or 0.75 per cent of M&G's IFRS profit. For other Executive Directors the maximum AIP opportunity is up to 200 per cent of salary. Annual awards are disclosed in the relevant Annual report on remuneration. In addition to the AIP, the Chairman & CEO, NABU receives a 10 per cent share of the Jackson Senior Management Bonus Pool.
Deferred bonus shares	Executive Directors are required to defer a percentage (currently 40 per cent) of their total annual bonus into Prudential shares for three years. The release of awards is not subject to any further performance conditions. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding deferred award in specific circumstances. From 2015 and future awards, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined time frame (clawback).	The maximum vesting under this arrangement is 100 per cent of the original deferral plus accrued dividend shares.
Prudential Long Term Incentive Plan	Currently all Executive Directors participate in the Prudential Long Term Incentive Plan (PLTIP). The PLTIP has a three-year performance period. Vesting of outstanding awards is dependent on: — Relative total shareholder return (50 per cent of award); and — Group IFRS profit (50 per cent of award); or — Business unit IFRS profit (50 per cent of award). The performance measures attached to each award are dependent on the role of the executive and will be disclosed in the relevant Annual report on remuneration. The Chief Executive, M&G's PLTIP awards are subject only to the TSR performance condition as the IFRS profit of M&G is a performance condition under the M&G Executive LTIP. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and future awards, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).	The value of shares awarded under the PLTIP (in any given financial year) may not exceed 550 per cent of the executive's annual basic salary. Awards made in a particular year are usually significantly below this limit and are disclosed in the relevant Annual report on remuneration. The Committee would consult with major shareholders before increasing award levels during the life of this policy. The maximum vesting under the PLTIP is 100 per cent of the original share award plus accrued dividend shares.
M&G Executive LTIP	The Chief Executive, M&G currently receives awards under this plan. The incumbent receives an annual award of phantom shares each with a notional starting share price of £1. The phantom share price at vesting is currently determined by M&G's profitability, with profit and investment performance adjustments, over the three-year performance period. Awards are settled in cash. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and future awards, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined time frame (clawback).	The Chief Executive, M&G receives an award with an initial value of 300 per cent of salary under this plan. Maximum vesting is 100 per cent of the number of phantom shares originally awarded.

Summary of the current Directors' remuneration policy Continued

Share ownership guidelines

The guidelines for share ownership are as follows:

- 350 per cent of salary for the Group Chief Executive; and
- 200 per cent of salary for other Executive Directors.

Executives have five years from the implementation of these increased guidelines (or from the date of their appointment, if later) to build this level of ownership.

The full policy sets out the Committee's powers in respect of Executive Directors joining or leaving the Board, where a change in performance conditions is appropriate or in the case of corporate transactions (such as a takeover, merger or rights issue). The policy also describes legacy long-term incentive plans under which some Executive Directors continue to hold awards.

Remuneration for Non-executive Directors and the Chairman

Non-executive Directors

Fees	Benefits	Share ownership guidelines
All Non-executive Directors receive a basic fee for their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of committees or acting as the Senior Independent Director. Fees are paid to Non-executive Directors in cash. Fees are reviewed annually by the Board with any changes effective from 1 July. If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.	Travel and expenses for Non-executive Directors are incurred in the normal course of business, for example, in relation to attendance at Board and Committee meetings. The costs associated with these are all met by the Company.	It is expected that Non-executive Directors will hold shares with a value equivalent to one times the annual basic fee (excluding additional fees for chairmanship and membership of any committees). Non-executive Directors are expected to attain this level of share ownership within three years of their appointment.

Chairman

The Chairman receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of time. Fees will otherwise be reviewed annually with any changes effective from 1 July. The Chairman is not eligible to participate in annual bonus plans or long-term incentive plans.	The Chairman may be offered benefits including: — Health and wellness benefits; — Protection and security benefits; — Transport benefits; and — Relocation and expatriate benefits (where appropriate). The Chairman is not eligible to receive a pension allowance or to participate in the Group's employee pension schemes.	The Chairman has a share ownership guideline of one times his annual fee and is expected to attain this level of share ownership within five years of the date of his appointment.

In setting the Directors' remuneration policy, the Committee considers a range of factors including:

Conditions elsewhere in the Group

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit's salary increase budget is set with reference to local market conditions. The Remuneration Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

Prudential does not consult with employees when setting the Directors' remuneration policy: Prudential is a global organisation with employees, and agents in multiple business units and geographies. As such, there are practical challenges associated with consulting with employees directly on this matter. As many employees are also shareholders, they are able to participate in binding votes on the Directors' remuneration policy and annual votes on the Annual report on remuneration.

Shareholder views

The Remuneration Committee and the Company undertake regular consultation with key institutional investors on the remuneration policy and its implementation. This engagement is led by the Remuneration Committee Chairman and is an integral part of the Company's investor relations programme. The Committee is grateful to shareholders for their feedback and takes this into account when determining executive remuneration.

The Board has established Audit, Remuneration, Risk, Nomination and Governance Committees as principal standing committees of the Board. These committees form a key element of the Group governance framework.

The operation of the Remuneration Committee

Members

Anthony Nightingale (the Chairman of the Committee)
Kai Nargolwala
Philip Remnant

Role and responsibility

The role and responsibilities of the Committee are set out in its terms of reference, which are reviewed by the Committee and approved by the Board on an annual basis, and which can be found on the Company's website. The Committee's role is to assist the Board in meeting its responsibilities regarding the determination, implementation and operation of the overall remuneration policy for the Group, including the remuneration of the Chairman and Executive Directors, as well as overseeing the remuneration arrangements of other staff within its purview.

The principal responsibilities of the Committee are:

— Determining and recommending to the Board for approval, the framework and policy for the remuneration of the Chairman, Executive Directors and other members of the Group Executive Committee;

— Approving the design of performance-related pay schemes operated for the Executive Directors and other members of the Group Executive Committee, and determining the targets and individual payouts under such schemes;

— Reviewing the design and development of all share plans requiring approval by the Board and/or the Company's shareholders;

— Approving the share ownership guidelines for the Chairman and Executive Directors and other members of the Group Executive Committee, and monitoring compliance;

— Reviewing and approving individual packages for the Executive Directors and other members of the Group Executive Committee, and the fees of the Chairman and the Non-executive Directors of the Group's material subsidiaries;

— Reviewing and approving packages to be offered to newly recruited Executive Directors and other members of the Group Executive Committee;

— Reviewing and approving the structure and quantum of any severance package for Executive Directors and other members of the Group Executive Committee;

— Ensuring the process for establishing remuneration policy is transparent and consistent with the Group's risk framework and appetites, encouraging strong risk management and solvency management practices and taking account of remuneration practices across the Group;

— Monitoring the remuneration and risk management implications of remuneration of senior executives across the Group, other selected roles and those with an opportunity to earn in excess of £1 million in a particular year; and

— Overseeing the implementation of the Group remuneration policy for those roles within scope of the specific arrangements referred to in Article 275 of Solvency II.

An annual review of the Committee's effectiveness was carried out as part of the Board evaluation, as described in more detail on page 87. The Committee was found to be functioning effectively.

In 2016, the Committee met six times. Key activities at each meeting are shown in the table below:

Meeting	Key activities
February 2016	Approve the 2015 Directors' remuneration report; consider 2015 bonus awards for Executive Directors; consider vesting of the long-term incentive awards with a performance period ending on 31 December 2015; and approve 2016 long-term incentive awards, performance measures and plan documentation.
March 2016	Confirm 2015 annual bonuses and the vesting of long-term incentive awards with a performance period ending on 31 December 2015, in light of audited financial results.
June 2016	Consider performance for outstanding long-term incentive awards, based on the half-year results; review the remuneration of senior executives across the Group, employees with a remuneration opportunity over £1 million per annum and employees within the scope of the Solvency II remuneration rules; consider proposals for new Directors' remuneration architecture and policy; and review progress towards share ownership guidelines by the Chairman, Executive Directors and other Group Executive Committee members.
September 2016	Review the dilution levels resulting from the Company's share plans; review proposed new Directors' remuneration architecture and policy; review proposed 2017 remuneration arrangements ahead of consultation with shareholders; approve the implementation of the remuneration requirements of Solvency II and approve the Remuneration Policy Statement; and review the Remuneration Committee's terms of reference.
November 2016	Finalise the proposed new Directors' remuneration architecture and policy and the approach to the shareholder consultation.
December 2016	Review the level of participation in the Company's all-employee share plans; approve Group Executive Committee members' 2017 salaries and incentive opportunities; consider the annual bonus and long-term incentive measures and targets to be used in 2017; review an initial draft of the 2016 Directors' remuneration report; approve the Group Remuneration Policy; and approve the Committee's 2017 work plan.

Additionally, a number of resolutions in writing were approved by the Committee between these meetings relating to new Executive Directors' remuneration arrangements and separation arrangements for an Executive Director who stepped down from the Board.

The Chairman and the Group Chief Executive attend meetings by invitation. The Committee also had the benefit of advice from:

— Group Chief Risk Officer;

— Chief Financial Officer;

— Group Human Resources Director; and

— Director of Group Reward and Employee Relations.

Individuals are never present when their own remuneration is discussed and the Committee is always careful to manage potential conflicts of interest when receiving views from Executive Directors or senior management about executive remuneration proposals.

During 2016, Deloitte LLP was the independent adviser to the Committee. Deloitte was appointed by the Committee in 2011 following a competitive tender process. As part of this process, the Committee considered the services that Deloitte provided to Prudential and its competitors as well as other potential conflicts of interest. Deloitte is a member of the Remuneration Consultants' Group and voluntarily operates under their code of conduct when providing advice on executive remuneration in the UK. Deloitte regularly meets with the Chairman of the Committee without management present. The Committee is comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee do not have connections with Prudential that may impair their independence and objectivity. The total fees paid to Deloitte for the provision of independent advice to the Committee in 2016 were £48,050 charged on a time and materials basis. During 2016, Deloitte gave Prudential management advice on remuneration, as well as providing guidance on capital optimisation, digital and technology, taxation, internal audit, real estate, global mobility and other financial, risk and regulatory matters. Remuneration advice is provided by an entirely separate team within Deloitte.

In addition, management received external advice and data from a number of other providers. This included market data and legal counsel. This advice, and these services, are not considered to be material.

During the year, the Company has complied with the appropriate provisions of the UK Corporate Governance Code regarding Directors' remuneration.

Annual report on remuneration
Continued

Table of 2016 Executive Director total remuneration 'The Single Figure'

£000s	2016 salary	2016 taxable benefits*	2016 total bonus	Of which: Amount paid in cash	Of which: Amount deferred into Prudential shares†	2016 LTIP releases‡	Other payments	2016 pension benefits§	Total 2016 remuneration 'The Single Figure'¶
John Foley[1]	714	134	1,271	763	508	1,781	–	179	4,079
Penny James	606	83	962	577	385	347	–	152	2,150
Michael McLintock[2]	173	70	920	552	368	1,811	–	43	3,017
Nic Nicandrou[3]	711	361	1,236	742	494	1,518	–	178	4,004
Anne Richards[4]	228	82	1,368	821	547	–	2,140	57	3,875
Barry Stowe[5,8]	820	46	5,229	3,137	2,092	1,168	–	205	7,468
Mike Wells[6]	1,081	873	2,151	1,291	860	2,520	–	270	6,895
Tony Wilkey[7,8]	845	828	1,440	864	576	918	–	213	4,244
Total	**5,178**	**2,477**	**14,577**	**8,747**	**5,830**	**10,063**	**2,140**	**1,297**	**35,732**

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.
† The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies.
‡ In line with the regulations, the estimated value of PLTIP releases in 2016 has been calculated based on the average share/ADR price over the last three months of 2016 (£14.86/$37.02). The actual value of PLTIPs, based on the share price on the date awards are released, will be shown in the 2017 report. Tony Wilkey's LTIP release includes an award which vested on 23 September 2016 (the share price on that date was £14.08) in addition to the awards which vest in 2017.
§ 2016 pension benefits include cash supplements for pension purposes and contributions into DC schemes as outlined on page 127.
¶ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act.

Notes

1. John Foley was appointed to the Board on 19 January 2016. The remuneration above was paid in respect of his service as an Executive Director, other than the LTIP releases which related to his previous role.
2. Michael McLintock stepped down from the Board on 6 June 2016. The remuneration above was paid in respect of his service as an Executive Director.
3. Nic Nicandrou's benefits relate primarily to relocation support under a legacy relocation clause in his contract, being £156,892 to cover taxes due on stamp duty paid in 2015.
4. Anne Richards was appointed to the Board on 7 June 2016. The remuneration above was paid in respect of her service as an Executive Director. In order to facilitate Anne's appointment as Chief Executive, M&G , the Company agreed to replace the deferred bonus awards she forfeited on leaving Aberdeen Asset Management. The terms of the replacement award are designed to replicate those of the forfeited awards and further details are set out on page 129. In addition, to support Anne's appointment as Chief Executive, M&G, the Company pays for accommodation in London and travel from Anne's home in Edinburgh to London totalling £45,493.
5. Barry Stowe's bonus figure excludes a contribution of £11,738 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2016 pension benefits.
6. To facilitate his move to the UK, Mike Wells's benefits include relocation support including £330,680 to cover taxes due on stamp duty paid in 2015 and £339,624 to cover mortgage interest. In addition, an amount of £497,748 was paid by the Company to meet a payment on account for US tax on these benefits which, as the tax will be payable in the UK, under the UK and US double tax treaty this amount will ultimately be refunded.
7. Tony Wilkey's benefits include costs of £260,917 for housing and a £413,663 Executive Director Location Allowance. The LTIP releases relate to his previous role, prior to his service as an Executive Director.
8. Barry Stowe and Tony Wilkey are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

Table of 2015 Executive Director total remuneration 'The Single Figure'

£000's	2015 salary	2015 taxable benefits*	2015 total bonus	Of which: Amount paid in cash	Of which: Amount deferred into Prudential shares†	2015 LTIP releases‡	2015 pension benefits§	Total 2015 remuneration 'The Single Figure'¶
Pierre-Olivier Bouée[1]	270	38	0	0	0	316	68	692
Jackie Hunt[2]	557	76	1,039	623	416	1,688	139	3,499
Penny James[3]	200	21	318	191	127	369	50	958
Michael McLintock	394	71	2,128	1,277	851	2,676	98	5,367
Nic Nicandrou[4]	703	377	1,224	734	490	1,798	176	4,278
Barry Stowe[5, 9]	729	558	3,281	1,969	1,312	2,007	188	6,763
Tidjane Thiam[6]	455	44	704	422	282	3,382	114	4,699
Mike Wells[7]	942	1,283	3,223	1,934	1,289	4,290	156	9,894
Tony Wilkey[8, 9]	433	402	748	449	299	1,597	109	3,289
Total	**4,683**	**2,870**	**12,665**	**7,599**	**5,066**	**18,123**	**1,098**	**39,439**

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.
† The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies.
‡ In line with the regulations, the estimated value of PLTIP releases in 2015 has been recalculated based on the actual share/ADR price on the date awards are released, being £13.25/$38.36.
§ 2015 pension benefits include cash supplements for pension purposes and contributions into DC schemes.
¶ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act.

Notes

1 Pierre-Olivier Bouée stepped down from the Board on 31 May 2015. The remuneration above was paid in respect of his service as an Executive Director.
2 Jackie Hunt stepped down from the Board on 3 November 2015. The remuneration shown above was paid in respect of her service as an Executive Director.
3 Penny James was appointed to the Board on 1 September 2015. The remuneration above was paid in respect of her service as an Executive Director, other than the LTIP releases which related to her previous role.
4 Nic Nicandrou's 2015 benefits relate primarily to a legacy relocation clause in his contract agreed on his appointment and disclosed in the 2009 Directors' remuneration report. The figure includes costs of £243,750 to cover stamp duty.
5 Barry Stowe's 2015 benefits relate primarily to his expatriate status while he was located in Hong Kong in his previous role as Chief Executive, PCA, including costs of £139,405 for housing, £62,586 home leave and a £152,978 Executive Director Location Allowance. In addition, to facilitate his move back to the US, his benefits include relocation support including costs of £110,101 for relocation, shipping and tax return preparation. His bonus figure excludes a contribution of £10,404 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2015 pension benefits.
6 Tidjane Thiam stepped down from the Board on 31 May 2015. The remuneration shown above was paid in respect of his service as an Executive Director.
7 To facilitate his move to the UK, Mike Wells's benefits include relocation support including an allowance of £200,000 for relocation and shipping, £177,890 for temporary accommodation, £513,750 to cover stamp duty and £56,604 to cover mortgage interest.
8 Tony Wilkey was appointed to the Board on 1 June 2015. The remuneration above was paid in respect of his service as an Executive Director, other than the LTIP releases which related to his previous role. Tony Wilkey's 2015 benefits include costs of £140,134 for housing and a £214,169 Executive Director Location Allowance.
9 Barry Stowe and Tony Wilkey are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

Remuneration in respect of performance in 2016

Base salary

Executive Directors' salaries were reviewed in 2015 with changes effective from 1 January 2016. When the Committee took these decisions it considered:

- The salary increases awarded to other employees;
- The performance and experience of each executive;
- The relative size of each Director's role; and
- The performance of the Group.

Salary increases for the wider workforce vary across our business units, reflecting local market conditions.

To provide context for this review, information was also drawn from the following market reference points:

Executive	Role	Benchmark(s) used to assess remuneration
John Foley	Chief Executive, UK and Europe	— FTSE 40 — International insurance companies
Penny James	Group Chief Risk Officer	— FTSE 40
Nic Nicandrou	Chief Financial Officer	— FTSE 40 — International insurance companies
Michael McLintock Anne Richards	Chief Executive, M&G	— McLagan UK Investment Management Survey — International insurance companies
Barry Stowe	Chairman & CEO, NABU	— Towers Watson US Financial Services Survey — LOMA US Insurance Survey
Mike Wells	Group Chief Executive	— FTSE 40 — International insurance companies
Tony Wilkey	Chief Executive, PCA	— Towers Watson Asian Insurance Survey

As reported last year, after careful consideration by the Committee, all Executive Directors received a salary increase of 1 per cent. The 2016 salary increase budgets for other employees across our business units were between 3 per cent and 6.5 per cent. No changes were made to Executives Directors' maximum opportunities under either the annual incentive or the long-term incentive plans.

Executive Director	2015 salary	2016 salary
John Foley[1]	–	£750,000
Penny James[2]	£600,000	£606,000
Michael McLintock[3]	£394,000	£398,000
Nic Nicandrou	£703,000	£711,000
Anne Richards[4]	–	£400,000
Barry Stowe[5]	US$1,100,000	US$1,111,000
Mike Wells[6]	£1,070,000	£1,081,000
Tony Wilkey[7]	HK$8,800,000	HK$8,890,000

Notes
1 John Foley was appointed Chief Executive, UK and Europe on 19 January 2016. The annualised 2016 salary above was paid in respect of his service as Chief Executive, UK and Europe.
2 Penny James was appointed Group Chief Risk Officer on 1 September 2015. The annualised 2015 salary above was paid in respect of her service as Group Chief Risk Officer.
3 Michael McLintock stepped down from the Board on 6 June 2016. The annualised 2016 salary above was paid in respect of his service as Chief Executive, M&G and was pro-rated for the portion of the year for which he was an Executive Director.
4 Anne Richards was appointed Chief Executive, M&G on 7 June 2016. The annualised 2016 salary above was paid in respect of her service as Chief Executive, M&G.
5 Barry Stowe was appointed Chairman & CEO, NABU on 1 June 2015. The annualised 2015 salary above was paid in respect of his service as Chairman & CEO, NABU.
6 Mike Wells was appointed Group Chief Executive on 1 June 2015. The annualised 2015 salary above was paid in respect of his service as Group Chief Executive.
7 Tony Wilkey was appointed Chief Executive, PCA on 1 June 2015. The annualised 2015 salary above was paid in respect of his service as Chief Executive, PCA.

Annual bonus

2016 annual bonus opportunities

Executive Directors' bonus opportunities, the weighting of performance measures for 2016 and the proportion of annual bonuses deferred are set out below:

			Weighting of measures		
Executive Director	**Maximum AIP opportunity (% of salary)**	**Deferral requirement**	**Group financial measures**	**Business unit financial/functional measures**	**Personal objectives**
John Foley[1]	180%	40% of total bonus	20%	60%	20%
Penny James	160%	40% of total bonus	50%	30%	20%
Michael McLintock[2]	600%	40% of total bonus	20%	60%	20%
Nic Nicandrou	175%	40% of total bonus	80%	–	20%
Anne Richards[3]	600%	40% of total bonus	20%	60%	20%
Barry Stowe[4]	160%	40% of total bonus	80%	–	20%
Mike Wells	200%	40% of total bonus	80%	–	20%
Tony Wilkey	180%	40% of total bonus	20%	60%	20%

Notes

1 John Foley was appointed to the Board on 19 January 2016. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director, which was pro-rated for the portion of the year for which he was an Executive Director.

2 Michael McLintock's annual bonus opportunity in 2016 was the lower of 0.75 per cent of M&G's IFRS profit and six times annual salary. M&G's IFRS profit in 2016 was £414 million. Michael stepped down from the Board on 6 June 2016. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director, which was pro-rated for the portion of the year for which he was an Executive Director.

3 Anne Richards's annual bonus opportunity in 2016 was the lower of 0.75 per cent of M&G's IFRS profit and six times annual salary. M&G's IFRS profit in 2016 was £414million. Anne was appointed to the Board on 7 June 2016. The maximum bonus opportunity shown represents her annual opportunity as an Executive Director, which was pro-rated for the portion of the year for which she was an Executive Director.

4 Barry Stowe also receives 10 per cent of the Jackson bonus pool.

2016 AIP performance measures and achievement

Target-setting process

For the financial metrics of the AIP, the performance ranges are set by the Remuneration Committee prior to, or at the beginning of, the performance period based on the annual business plans approved by the Board. These reflect the ambitions of the Group and business units, in the context of anticipated market conditions.

As part of the implementation of Solvency II, a portion of Executive Directors' 2016 bonuses was determined by the achievement of Solvency II surplus targets, which replaced the IGD capital surplus measure (part of the Solvency I framework). Otherwise no changes were made to the performance measures for the 2016 annual incentive plan.

Also as part of the implementation of Solvency II, the weightings of Penny James's AIP performance targets (with effect from 2016) were changed so that 50 per cent related to financial targets, 30 per cent related to functional targets and 20 per cent related to personal targets.

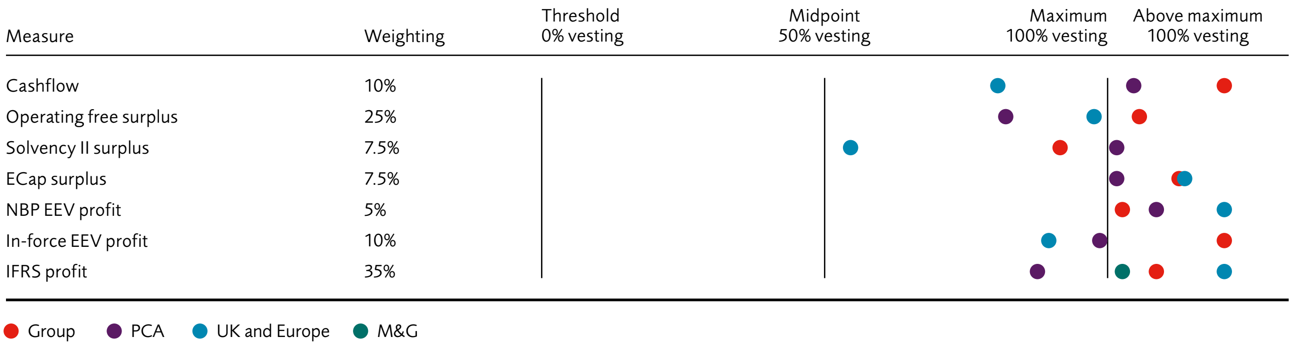
Financial performance

The Committee reviewed performance against the performance ranges at its meeting in February 2017; in all of the bonus performance metrics the Group's 2016 results exceeded the performance required for maximum vesting, other than the Group Solvency II surplus measure, which was between target and maximum.

Annual report on remuneration
Continued

The Committee also considered a report from the Group Chief Risk Officer which confirmed that these results were achieved within the Group's and business units' risk framework and appetite. The Group Chief Risk Officer also considered the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The Group Chief Risk Officer's recommendations were taken into account by the Committee when determining AIP outcomes for Executive Directors.

The performance measures, their weightings and the achievement compared to the performance range, is illustrated below. The performance range (the levels of performance required for threshold, target and maximum bonuses to be paid) for the 2016 Group financial measures will be disclosed in the 2017 Directors' remuneration report.



Personal performance

As set out in our Directors' remuneration policy, a proportion of the annual bonus for each Executive Director is based on the achievement of personal and, for the Group Chief Risk Officer, functional objectives. These objectives include:

- The executive's contribution to Group strategy as a member of the Board;
- Specific goals related to the business or function for which they are responsible, such as developing product propositions for a new generation of savers and investors; and
- Progress on major projects which in 2016 included the initial public offering of our Indian joint venture, ICICI Prudential Life, commencing the divestment of our Korean life business and growing our African business to include Zambia.

Performance against these objectives was assessed by the Committee at its meeting in February 2017.

2016 Annual Incentive Plan payments

On the basis of the strong performance of the Group and its business units, and the Committee's assessment of each Executive Director's personal performance, the Committee determined the following 2016 AIP payments:

Executive Director	Role	2016 salary[1]	Maximum 2016 AIP	2016 AIP payment (% of maximum)	2016 AIP payment
John Foley	Chief Executive, UK and Europe	£750,000	180%	94.2%	£1,271,000
Penny James	Group Chief Risk Officer	£606,000	160%	99.2%	£962,000
Michael McLintock[2]	Chief Executive, M&G	£398,000	600%	66%	£920,000
Nic Nicandrou	Chief Financial Officer	£711,000	175%	99.3%	£1,236,000
Anne Richards[3]	Chief Executive, M&G	£400,000	600%	100%	£1,368,000
Barry Stowe[4]	Chairman & CEO, NABU	US$1,111,000	160%	99.3%	US$1,765,000
Mike Wells	Group Chief Executive	£1,081,000	200%	99.5%	£2,151,000
Tony Wilkey	Chief Executive, PCA	HK$8,890,000	180%	94.6%	HK$15,138,000

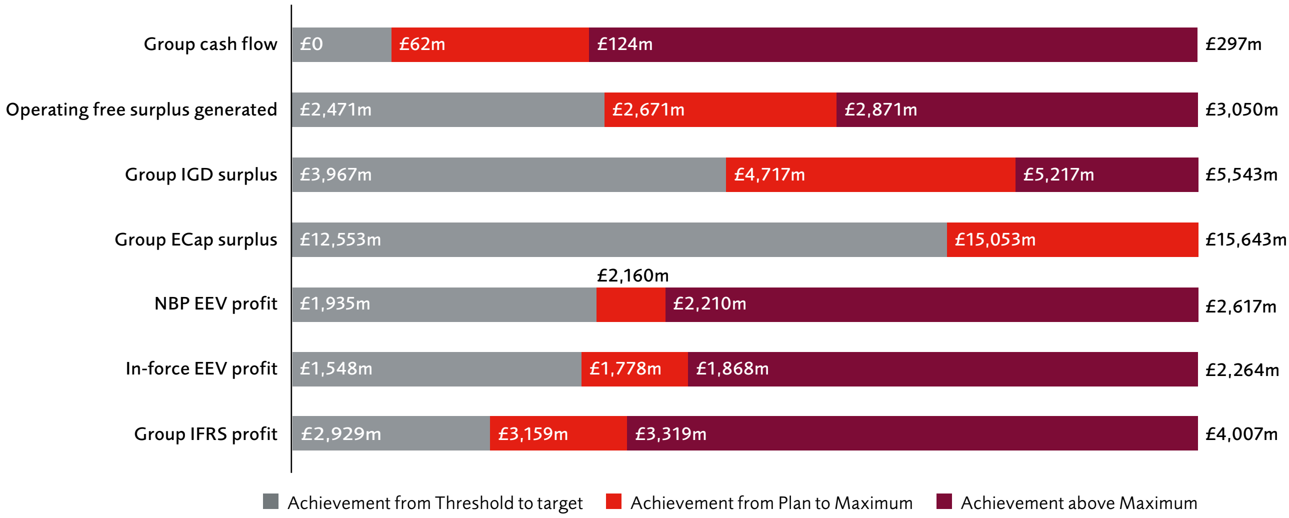
Notes
1 At 31 December 2016 or on stepping down from the Board if earlier.
2 Michael McLintock stepped down from the Board on 6 June 2016. The bonus shown above was paid in respect of his service as an Executive Director.
3 Anne Richards was appointed to the Board on 7 June 2016. The bonus shown above was paid in respect of her service as an Executive Director.
4 In addition to the Annual Incentive Plan, Barry Stowe also participates in the Jackson bonus pool (see below).

2016 Jackson bonus pool

In 2016, the Jackson bonus pool was determined by Jackson's profitability, capital adequacy, remittances to Group, in-force experience, ECap solvency ratio and credit rating. Across all these measures Jackson delivered strong performance. As a result of this performance the Committee determined that Barry Stowe's share of the bonus pool was US$5,318,000.

Disclosure of targets and achievement for the 2015 Annual Incentive Plan

The level of performance required for threshold, target and maximum payment against the Group's 2015 Annual Incentive Plan financial measures and the results achieved are set out below.



The Board believes that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

Update on performance against targets for awards made in 2015 and 2016 under the Prudential Long Term Incentive Plan

As at 31 December 2016, Prudential's TSR performance during the periods 1 January 2015 to 31 December 2016 and 1 January 2016 to 31 December 2016 was ranked below median.

As at 31 December 2016, Prudential's IFRS operating profit performance during the periods 1 January 2015 to 31 December 2016 and 1 January 2016 to 31 December 2016 was above the stretch targets for Group and all business units other than one which was between plan and the stretch target.

Remuneration in respect of performance periods ending in 2016

Long-term incentive plans with performance periods ending on 31 December 2016

Our long-term incentive plans have stretching performance conditions that are aligned to the strategic priorities of the Group. In deciding the portion of the awards to be released, the Committee considered actual financial results against these performance targets. The Committee also reviewed underlying Company performance to ensure vesting levels were appropriate. The Directors' remuneration policy contains further details of the design of Prudential's long-term incentive plans.

Prudential Long Term Incentive Plan (PLTIP)

In 2014, all Executive Directors were granted awards under the PLTIP. The awards were subject to challenging targets. The weightings of these measures are detailed in the table below.

	Weighting of measures	
Executive Director	**Group TSR**[1]	**IFRS profit (Group or business unit)**[2]
Michael McLintock	100%	–
Jackie Hunt	50%	50% (business unit target)
Barry Stowe	50%	50% (business unit target)
Mike Wells	50%	50% (business unit target)
All other Executive Directors	50%	50% (Group)

Notes
1 Group TSR is measured on a ranked basis over three years relative to peers.
2 IFRS profit is measured on a cumulative basis over three years.

Under the Group TSR measure, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. The peer group for the awards is:

Aegon	Aflac	AIA	AIG
Allianz	Aviva	AXA	Generali
Legal & General	Manulife	MetLife	Munich Re
Old Mutual	Prudential Financial	Standard Life	Sun Life Financial
Swiss Re	Zurich Insurance Group		

Prudential's TSR performance during the performance period (1 January 2014 to 31 December 2016) was between the median and upper quartile of the peer group (ranked ninth). The portion of the awards related to TSR which therefore vested was 41.7 per cent.

Under the IFRS measure, 25 per cent of the award vests for meeting the threshold IFRS profit set at the start of the performance period increasing to full vesting for performance at or above the stretch level. The table below illustrates the cumulative performance achieved over 2014 to 2016 compared to the Group targets set in 2014:

Group	2014-16 cumulative targets			2014-16 cumulative achievement	Overall vesting
	Threshold	Plan	Maximum		
IFRS operating profit	£8,525m	£9,472m	£10,419m	£11,449m	100%

The Committee determined that the cumulative IFRS operating profit target established for the PLTIP should be expressed using exchange rates consistent with the reported disclosures. All the individual business units exceeded their stretch performance target and achieved 100% vesting, other than Asia which exceeded plan performance, but not the stretch target, and therefore vested at 95%. Details of business unit IFRS targets have not been disclosed as the Committee considers that these are commercially sensitive and disclosure of targets at such a granular level would put the Company at a disadvantage compared to its competitors. The Committee will keep this disclosure policy under review based on whether, in its view, disclosure would compromise the Company's competitive position.

M&G Executive Long-Term Incentive Plan

The phantom share price at vesting for the 2014 M&G Executive Long-Term Incentive award is determined by the increase or decrease in M&G's profitability over the three-year performance period with adjustments for the investment performance of its funds. M&G performance and the resulting phantom share price for Michael McLintock are shown below:

Award	3-year profit growth of M&G	3-year investment performance	2016 phantom share price	Value of awards vesting
2014 M&G Executive LTIP	7%	Second quartile	£1.60	£1,577,398

Prudential Corporation Asia Long-Term Incentive Plan

Tony Wilkey received awards under the PCA Long-Term Incentive Plan before he was appointed to the Board, which vested during 2016. The PCA Long-Term Incentive Plan does not have performance conditions.

2016 LTIP vesting

The Committee considered a report from the Group Chief Risk Officer which confirmed that the financial results were achieved within the Group's and business units' risk framework and appetite. On the basis of this report, and the performance of the Group and its business units described above, the Committee determined the vesting of each executive's LTIP awards as set out below.

Executive Director	Maximum value of award at full vesting[1]	Percentage of the LTIP award vesting	Number of shares/ADRs vesting[2]	Value of shares vesting[1]
John Foley	£2,515,958	70.8%	119,872	£1,781,298
Penny James	£490,380	70.8%	23,364	£347,189
Michael McLintock[3]	£707,039	41.7%	15,707	£233,406
Nic Nicandrou	£2,144,163	70.8%	102,158	£1,518,068
Barry Stowe	£1,710,546	68.3%	42,748	£1,168,303
Mike Wells	£3,559,849	70.8%	92,220	£2,520,373
Tony Wilkey[4]	£1,035,757	100%/68.3%	64,254	£918,013

Notes

1 The share price used to calculate the value of the LTIP awards with performance periods which ended on 31 December 2016 and vest in 2017 was the average share price/ADR price for the three months up to 31 December 2016, being £14.86/$37.02.
2 The number of shares vesting includes accrued dividend shares.
3 This does not include the vesting of Michael McLintock's M&G Executive Long-Term Incentive Plan award, and has been pro-rated to reflect Michael's service during the performance period.
4 Tony Wilkey's awards include an award that vested on 23 September 2016 (the share price on that date was £14.08) in addition to the awards that vests in 2017.

Pension entitlements

Pension provisions in 2016 were:

Executive Director	2016 pension arrangement	Life assurance provision
Barry Stowe	Pension supplement of 25 per cent of salary, part of which is paid as a contribution to an approved US retirement plan.	Two times salary
Tony Wilkey	Pension supplement in lieu of pension of 25 per cent of salary and a HK$18,000 payment to the Hong Kong Mandatory Provident Fund.	Four times salary
UK-based executives	Pension contribution to defined contribution plan and/or pension supplement in lieu of pension of 25 per cent of salary.	Up to four times salary plus a dependant's pension

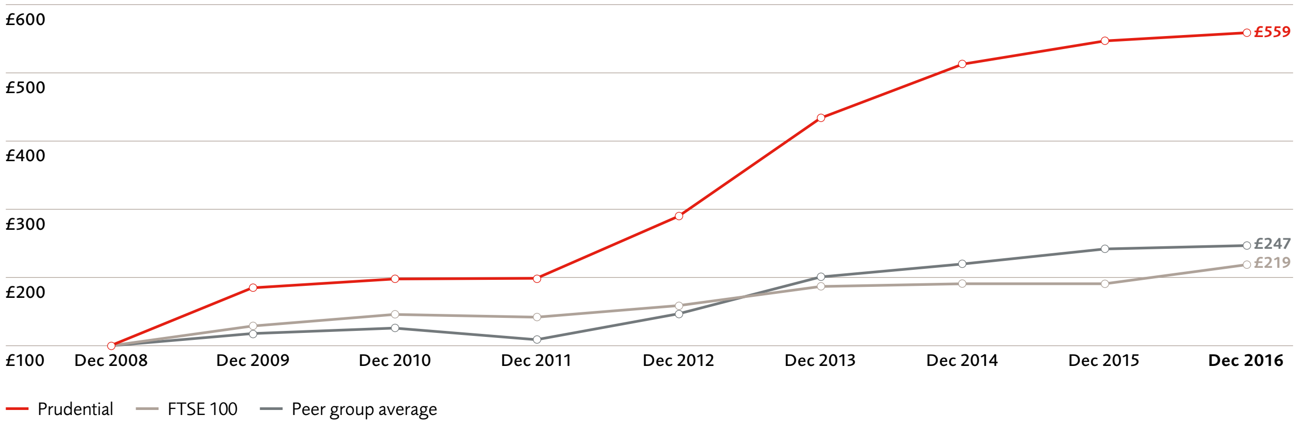
Michael McLintock previously participated in a contributory defined benefit scheme that was open at the time he joined the Company. The scheme provided a target pension of two-thirds of final pensionable earnings on retirement for an employee with 30 years or more potential service who remained in service to normal retirement date. Michael is a deferred member of the scheme and his normal retirement date under the scheme is age 60. If Michael claims his deferred pension before this age it will be subject to an actuarial reduction and there are no additional benefits payable should he retire early. At the end of 2016, the transfer value of Michael's entitlement was £1,505,483. This equates to an annual pension of £59,662 which will increase broadly in line with inflation in the period to Michael's retirement at the normal retirement date.

John Foley previously participated in a non-contributory defined benefit scheme that was open at the time he joined the Company. The scheme provided an accrual of 1/60ths of final pensionable earnings for each year of pensionable service. John is a deferred member of this scheme and, on reaching the normal retirement date (of 60), John has elected to defer payment of his pension. At the end of 2016, the transfer value of John's entitlement was £555,662. This equates to an annual pension of £19,937, based on current late retirement factors. The pension, once in payment, will be subject to statutory increases in line with the Consumer Prices Index.

Performance graph and table

The chart below illustrates the TSR performance of Prudential, the FTSE 100 and the peer group of international insurers used to benchmark the Company's performance for the purposes of the PLTIP.

Prudential TSR v FTSE 100 and peer group averages – total return, per cent over eight years to 31 December 2016



Note

The peer group average represents the average TSR performance of the peer group used for 2016 PLTIP awards (excluding companies not listed at the start of the period).

The information in the table below shows the total remuneration for the Group Chief Executive over the same period:

£000	2009	2009	2010	2011	2012	2013	2014	2015	2015	2016
Group Chief Executive	M Tucker[1]	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam[2]	M Wells	M Wells
Salary, pension and benefits	1,013	286	1,189	1,241	1,373	1,411	1,458	613	1,992	2,224
Annual bonus payment	841	354	1,570	1,570	2,000	2,056	2,122	704	1,244	2,151
(As % of maximum)	(92%)	(90%)	(97%)	(97%)	(100%)	(99.8%)	(100%)	(77.3%)	(99.7%)	(99.5%)
LTIP vesting	1,575	–	2,534	2,528	6,160	5,235	9,838	3,702	4,427	2,520
(As % of maximum)	(100%)	–	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(70.8%)
Other payments	308	–	–	–	–	–	–	–	–	–
Group Chief Executive Single Figure of total remuneration	3,737	640	5,293	5,339	9,533	8,702	13,418	5,019	7,663	6,895

Notes
1 Mark Tucker left the Company on 30 September 2009. Tidjane Thiam became Group Chief Executive on 1 October 2009. The figures shown for Tidjane Thiam's remuneration in 2009 relate only to his service as Group Chief Executive.
2 Tidjane Thiam left the Company on 31 May 2015. Mike Wells became Group Chief Executive on 1 June 2015. The figures shown for Mike Wells's remuneration in 2015 relate only to his service as Group Chief Executive.

Percentage change in remuneration

The table below sets out how the change in remuneration for the Group Chief Executive between 2015 and 2016 compared to a wider employee comparator group:

	Salary	Benefits	Bonus
Group Chief Executive	+14.8%	(32%)	(33.3%)
All UK employees	+3.4%	(6.2%)	(2.8%)

The employee comparator group used for the purpose of this analysis is all UK employees. This includes employees in the UK insurance operations business, M&G and Group Head Office, and reflects the average change in pay for employees employed in both 2015 and 2016. The salary increase includes uplifts made through the annual salary review as well as any additional changes in the year; for example to reflect promotions or role changes. The UK workforce has been chosen as the most appropriate comparator group as it reflects the economic environment where the Group Chief Executive is employed. The Group Chief Executive's salary increase reflects his promotion from President & CEO, Jackson to Group Chief Executive during 2015. With effect from 1 January 2016, the Group Chief Executive's salary increased by 1 per cent.

Relative importance of spend on pay

The table below sets out the amounts payable in respect of 2015 and 2016 on all employee pay and dividends:

	2015	2016	Percentage change
All employee pay (£m)[1]	1,475	1,885	27.80%
Dividends (£m)	1,253	1,122	(10.45%)

Note
1 All employee pay as taken from note B7 to the financial statements.

Long-term incentives awarded in 2016

2016 share-based long-term incentive awards

The table below shows the awards made to Executive Directors in 2016 under share-based long-term incentive plans and the performance conditions attached to these awards:

Executive Director	Role	Number of shares or ADRs subject to award*	Face value of award†	Percentage of awards released for achieving threshold targets‡	End of performance period	Weighting of performance conditions				
							IFRS profit			
						Group TSR	Group	Asia	US	UK
John Foley	Chief Executive, UK and Europe	144,340	£1,874,977	25%	31 December 2018	50%				50%
Penny James	Group Chief Risk Officer	116,628	£1,514,998	25%	31 December 2018	50%	50%			
Nic Nicandrou	Chief Financial Officer	136,836	£1,777,500	25%	31 December 2018	50%	50%			
Anne Richards[1]	Chief Executive, M&G	45,906	£600,000	25%	31 December 2018	100%				
Barry Stowe	Chairman & CEO, NABU	137,050	£3,772,770	25%	31 December 2018	50%			50%	
Tony Wilkey	Chief Executive, PCA	153,742	£1,997,109	25%	31 December 2018	50%		50%		
Mike Wells	Group Chief Executive	332,870	£4,323,981	25%	31 December 2018	50%	50%			

* Awards over shares were awarded to all Executive Directors other than Barry Stowe whose awards were over ADRs.
† Awards for Executive Directors are calculated based on the average share price over the three dealing days prior to the grant date. Other than for Anne Richards, awards were granted on 1 April 2016 (based on a share price of £12.99 and an ADR price of US$37.29).
‡ The percentage of awards released for achieving maximum targets is 100 per cent.

Note
1 PLTIP awards made to the Chief Executive, M&G are subject only to the TSR performance condition. The IFRS profit of M&G is a performance condition under the M&G Executive LTIP. Anne Richards's award was granted on 23 June 2016 following her appointment to the Board (based on an average share price of £13.07).

Group TSR performance will be measured on a ranked basis. 25 per cent of the award will vest for TSR performance at the median of the peer group increasing to full vesting for performance at the upper quartile. The peer group for 2016 awards is the same as for 2014 awards as detailed on page 125.

Performance ranges for IFRS operating profit measured on a cumulative basis over three years are set at the start of the performance period. Due to commercial sensitivities these are not published in advance but Group targets will be disclosed when awards vest.

2016 cash long-term incentive awards

In addition to her PLTIP award, in 2016 Anne Richards received a cash-settled award under the M&G Executive LTIP detailed below:

Executive Director	Role	Face value of award (% of salary)	Face value of award	Percentage of award released for achieving threshold target	End of performance period
Anne Richards	Chief Executive, M&G	300%	£1,200,000	See note	31 December 2018

Note
The value of the award on vesting will be based on the profitability and investment performance of M&G over the performance period as described in the Directors' remuneration policy.

Buy-out award

In order to facilitate Anne Richards's appointment as Chief Executive, M&G, the Company agreed to replace the deferred bonus awards she forfeited on leaving Aberdeen Asset Management. The terms of the replacement award were designed to replicate those of the forfeited awards and are therefore not subject to performance conditions and will accrue dividend equivalents. These awards entitle Anne to receive a cash amount equal to the market value of the specified notional number of Prudential shares on the date of exercise, less an award price of 5p per share. The award will vest on the dates detailed below. The market value of Prudential plc shares on the date of the award (23 June 2016) was £13.22.

Exercise period	Number of notional shares
1 December 2016 to 1 January 2017	59,086
1 December 2017 to 1 January 2018	39,810
1 December 2018 to 1 January 2019	25,078
1 December 2019 to 1 January 2020	25,078
1 December 2020 to 1 January 2021	13,426

In December 2016, Anne exercised the first tranche of this replacement award. The gross value of the award exercised (which included dividend equivalents) was £939,140 and Anne used the net of tax value of £496,162 to buy 31,439 Prudential shares.

This buy-out award was made under rule 9.4.2 of the UKLA Listing Rules as the award could not be effected under any of the Company's existing incentive plans. Anne is the sole participant in this arrangement and no further awards will be made to Anne under the arrangement.

Annual report on remuneration
Continued

Chairman and Non-executive Director remuneration in 2016

Chairman's fees

The Chairman's fee was reviewed by the Committee during 2016 and increased by 3 per cent to £720,000 with effect from 1 July 2016 in order to reflect the expansion of the Chairman's role to include oversight of the chairmen of the Group's four material subsidiaries and inflation.

Non-executive Directors' fees

The Non-executive Directors' fees were reviewed by the Board during 2016 and the basic fee was increased by 1 per cent to £95,000. Additionally, the fee for chairing the Audit Committee was increased by 7 per cent to £75,000 and the fee for chairing the Risk Committee was increased by 15 per cent to £75,000, to reflect the expanded scope of these roles which now includes more formal oversight of the material subsidiaries' Audit and Risk Committees.

Annual fees	From 1 July 2015 (£)	From 1 July 2016 (£)
Basic fee	94,000	95,000
Additional fees:		
Audit Committee Chairman	70,000	75,000
Audit Committee member	27,500	27,500
Remuneration Committee Chairman	60,000	60,000
Remuneration Committee member	27,500	27,500
Risk Committee Chairman	65,000	75,000
Risk Committee member	27,500	27,500
Nomination Committee member	10,000	10,000
Senior Independent Director	50,000	50,000

Note
If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.

The resulting fees paid to the Chairman and Non-executive Directors are:

£000s	2016 fees	*2015 fees*	2016 taxable benefits*	*2015 taxable benefits**	Total 2016 remuneration: 'The Single Figure'*†	*Total 2015 remuneration: 'The Single Figure'*†*
Chairman						
Paul Manduca	710	650	121	78	831	728
Non-executive Directors						
Howard Davies	202	195	–	–	202	195
Ann Godbehere	205	200	–	–	205	200
Alistair Johnston[1]	47	120	–	–	47	120
David Law	122	36	–	–	122	36
Kai Nargolwala[2]	150	146	–	–	150	146
Anthony Nightingale	165	147	–	–	165	147
Philip Remnant[3]	210	206	–	–	210	206
Alice Schroeder	122	120	–	–	122	120
Lord Turnbull[4]	–	70	–	–	–	70
Lord Turner	122	36	–	–	122	36
Total	2,055	1,926	121	78	2,176	2,004

* Benefits include the cost of providing the use of a car and driver, medical insurance and security arrangements.
† Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act. The Chairman and Non-executive Directors are not entitled to participate in annual bonus plans or long-term incentive plans.

Notes
1 Alistair Johnston stepped down from the Board on 19 May 2016.
2 Kai Nargolwala also received an annual fee of £250,000 (payable in HK$) in respect of his non-executive chairmanship of Prudential Corporation Asia Limited with effect from 1 February 2016.
3 Philip Remnant also received an annual fee of £250,000 in respect of his non-executive chairmanship of M&G Group Limited with effect from 1 April 2016.
4 Lord Turnbull retired from the Board on 14 May 2015.

Statement of Directors' shareholdings

The interests of Directors in ordinary shares of the Company are set out below. 'Beneficial interest' includes shares owned outright, shares acquired under the Share Incentive Plan and deferred annual incentive awards, detailed in the 'Supplementary information' section. It is only these shares that count towards the share ownership guidelines.

	1 January 2016 (or on date of appointment)	During 2016		31 December 2016 (or on date of retirement)			Share ownership guidelines	
	Total beneficial interest (number of shares)	Number of shares acquired	Number of shares disposed	Total beneficial interest* (number of shares)	Number of shares subject to performance conditions†	Total interest in shares	Share ownership guidelines (% of salary/fee)‡	Beneficial interest as a percentage of basic salary/basic fees§
Chairman								
Paul Manduca	42,500	–	–	42,500	–	42,500	100%	85%
Executive Directors								
John Foley[1]	218,644	215,696	184,375	249,965	422,480	672,445	200%	473%
Penny James	14,500	42,859	15,787	41,572	171,255	212,827	200%	97%
Michael McLintock[2]	210,884	122,728	134,143	199,469	79,498	278,967	200%	n/a
Nic Nicandrou	265,219	180,757	141,838	304,138	373,328	677,466	200%	607%
Anne Richards[3]	–	31,439	–	31,439	45,906	77,345	200%	112%
Barry Stowe[4]	246,656	255,646	236,424	265,878	553,532	819,410	200%	460%
Mike Wells[5]	465,285	418,559	339,310	544,534	811,178	1,355,712	350%	715%
Tony Wilkey	189,592	168,387	237,451	120,528	383,635	504,163	200%	202%
Non-executive Directors								
Howard Davies	8,730	319	–	9,049	–	9,049	100%	136%
Ann Godbehere	15,914	–	–	15,914	–	15,914	100%	239%
Alistair Johnston[6]	10,000	–	–	10,000	–	10,000	100%	n/a
David Law	3,327	3,577	–	6,904	–	6,904	100%	104%
Kaikhushru Nargolwala	50,000	20,000	–	70,000	–	70,000	100%	1,051%
Anthony Nightingale	30,000	–	–	30,000	–	30,000	100%	450%
Philip Remnant	5,816	1,100	–	6,916	–	6,916	100%	104%
Alice Schroeder[7]	8,500	–	–	8,500	–	8,500	100%	128%
Lord Turner	2,000	3,500	–	5,500	–	5,500	100%	83%

* There were no changes of Directors' interests in ordinary shares between 31 December 2016 and 13 March 2017 with the exception of the UK-based Executive Directors due to their participation in the monthly Share Incentive Plan (SIP). John Foley acquired a further 35 shares in the SIP, Nic Nicandrou acquired a further 35 shares in the SIP and Mike Wells acquired a further 35 shares in the SIP during this period.

† Further information on share awards subject to performance conditions are detailed in the 'share-based long-term incentive awards' section of the Supplementary information.

‡ Holding requirement of the Articles of Association (2,500 ordinary shares) must be obtained within one year of appointment to the Board. The increased guidelines for Executive Directors were introduced with effect from January 2013. Executive Directors have five years from this date (or date of joining or role change, if later) to reach the enhanced guideline. The guideline for Non-executive Directors was introduced on 1 July 2011. Non-executive Directors have three years from their date of joining to reach the guideline. The Chairman has five years from the date of his role change to reach the guideline. Where applicable, all Directors are in compliance with the share ownership guideline.

§ Based on the average closing share price for the six months to 31 December 2016 (£14.19).

The Company and its Directors, Chief Executives and shareholders have been granted a partial exemption from the disclosure requirements under part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, Directors, Chief Executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of Directors' and Chief Executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Hong Kong Stock Exchange any disclosure of interests notified to it in the United Kingdom.

Notes

1 John Foley was appointed to the Board on 19 January 2016.
2 Michael McLintock stepped down from the Board on 6 June 2016.
3 Anne Richards was appointed to the Board on 7 June 2016.
4 For the 1 January 2016 figure Barry Stowe's beneficial interest in shares is made up of 123,328 ADRs (representing 246,656 ordinary shares), (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 31 December 2016 figure the beneficial interest in shares is made up of 132,939 ADRs (representing 265,878 ordinary shares).
5 For the 1 January 2016 figure Mike Wells's beneficial interest in shares is made up of 232,594 ADRs (representing 465,188 ordinary shares) and 97 ordinary shares. For the 31 December 2016 figure his beneficial interest in shares is made up of 218,576 ADRs (representing 437,152 ordinary shares) and 107,382 ordinary shares.
6 Alistair Johnston stepped down from the Board on 19 May 2016.
7 For the 1 January 2016 and 31 December 2016 figure Alice Schroeder's beneficial interest in shares is made up of 4,250 ADRs (representing 8,500 ordinary shares).

Annual report on remuneration
Continued

Disclosure of interests of Directors

Outstanding share options

The following table sets out the share options held by the Executive Directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period. Anne Richards holds share options under her buy-out arrangement, details of which are set out on page 129.

	Date of grant	Exercise price (pence)	Market price at 31 Dec 2016 (pence)	Exercise period		Number of options						
				Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
John Foley	20 Sep 13	901	1,627.5	01 Dec 16	31 May 17	998	–	998	–	–	–	–
John Foley	23 Sep 14	1,155	1,627.5	01 Dec 17	31 May 18	779	–	–	–	–	–	779
John Foley	21 Sep 16	1,104	1,627.5	01 Dec 19	31 May 20	–	815	–	–	–	–	815
Penny James	21 Sep 12	629	1,627.5	01 Dec 15	31 May 16	858	–	858	–	–	–	–
Penny James	22 Sep 15	1,111	1,627.5	01 Dec 18	31 May 19	1,620	–	–	–	–	–	1,620
Michael McLintock	23 Sep 14	1,155	1,627.5	01 Dec 19	31 May 20	2,622	–	–	–	–	–	2,622
Nic Nicandrou	16 Sep 11	466	1,627.5	01 Dec 16	31 May 17	3,268	–	3,268	–	–	–	–
Nic Nicandrou	23 Sep 14	1,155	1,627.5	01 Dec 19	31 May 20	1,311	–	–	–	–	–	1,311
Nic Nicandrou	21 Sep 16	1,104	1,627.5	01 Dec 21	31 May 22	–	1,358	–	–	–	–	1,358
Anne Richards	21 Sep 16	1,104	1,627.5	01 Dec 19	31 May 20	–	1,630	–	–	–	–	1,630
Mike Wells	22 Sep 15	1,111	1,627.5	01 Dec 18	31 May 19	1,620	–	–	–	–	–	1,620

Notes

1 A gain of £49,028.33 was made by Directors in 2016 on the exercise of SAYE options.
2 No price was paid for the award of any option.
3 The highest and lowest closing share prices during 2016 were £16.49 and £10.87 respectively.
4 All exercise prices are shown to the nearest penny.
5 Michael McLintock participated in the plan during his time as an Executive Director. The column above marked 'End of period' reflects Michael McLintock's position at his date of retirement.

Directors' terms of employment and external appointments

The Directors' remuneration policy contains further details of the terms included in Executive Director service contracts. Details of the service contracts of each Executive Director are outlined in the table below.

Subject to the Group Chief Executive's or the Chairman's approval, Executive Directors are able to accept external appointments as non-executive directors of other organisations. Fees payable are retained by the Executive Directors.

	Service contracts			External appointment	
	Date of contract	Notice period to the Company	Notice period from the Company	External appointment during 2016	Fee received in the period the Executive Director was a Group Director
Executive Directors					
John Foley[1]	8 December 2010	12 months	12 months	–	–
Penny James	1 April 2016	12 months	12 months	Yes	£67,000
Nic Nicandrou	26 April 2009	12 months	12 months	–	–
Anne Richards[2]	4 July 2016	12 months	12 months	–	–
Barry Stowe	18 October 2006	12 months	12 months	–	–
Mike Wells	21 May 2015	12 months	12 months	–	–
Tony Wilkey	1 June 2015	12 months	12 months	–	–

Other Directors served on the boards of educational, charitable and cultural organisations without receiving a fee for these services.

Notes

1 John Foley was appointed to the Board on 19 January 2016.
2 Anne Richards was appointed to the Board on 7 June 2016.

Letters of appointment of the Chairman and Non-executive Directors

The Directors' remuneration policy contains further details on Non-executive Directors' letters of appointment. Details of their individual appointments are outlined below:

Chairman/Non-executive Director	Appointment by the Board	Initial election by shareholders at the AGM	Notice period	Expiry of the current term of appointment
Chairman				
Paul Manduca[1]	15 October 2010	AGM 2011	12 months	AGM 2018
Non-executive Directors				
Philip Remnant	1 January 2013	AGM 2013	6 months	AGM 2019
Howard Davies	15 October 2010	AGM 2011	6 months	AGM 2017
Ann Godbehere[2]	2 August 2007	AGM 2008	6 months	AGM 2017
David Law	15 September 2015	AGM 2016	6 months	AGM 2019
Kai Nargolwala	1 January 2012	AGM 2012	6 months	AGM 2018
Anthony Nightingale	1 June 2013	AGM 2014	6 months	AGM 2017
Alice Schroeder	10 June 2013	AGM 2014	6 months	AGM 2017
Lord Turner	15 September 2015	AGM 2016	6 months	AGM 2019

Notes
1 Paul Manduca was appointed as Chairman on 2 July 2012.
2 Ann Godbehere was reappointed in 2016 for one year.

Recruitment arrangements

In making decisions about the remuneration arrangements for those joining the Board, the Committee worked within the Directors' remuneration policy approved by shareholders and was mindful of:

— The skills, knowledge and experience that each new Executive Director brought to the Board;

— The need to support the relocation of executives to enable them to assume their roles; and

— Its commitment to honour legacy arrangements.

Appointing high-calibre executives to the Board and to different roles on the Board is necessary to ensure the Company is well positioned to develop and implement its strategy and deliver long-term value. As the Company operates in an international marketplace for talent, the best internal and external candidates are sometimes asked to move location to assume their new roles. Where this happens, the Company will offer relocation support. The support offered will depend on the circumstances of each move but may include paying for travel, shipping services, the provision of temporary accommodation and other housing benefits. Executives may receive support with the preparation of tax returns, but no current Executive Director is tax equalised.

Anne Richards joined the Board during the year and, as this resulted in Anne relocating to enable her to assume her role, relocation support in line with the approved Directors' remuneration policy was provided. In addition, on joining the Company, Anne forfeited share awards granted to her by her previous employer and a buy-out award in line with the approved Directors' remuneration policy was provided. Details of this relocation support and the buy-out award are included in the notes to the 2016 Single Figure table and in the section on long-term incentives awarded in 2016.

Payments to past Directors and payments for loss of office

The Committee's approach when exercising its discretion under the policy is to be mindful of the particular circumstance of the departure and the contribution the individual made to the Group.

Michael McLintock

Michael McLintock stepped down from the Board on 6 June 2016. His remuneration arrangements were in line with the approved Directors' remuneration policy, and disclosed in stock exchange announcements, and the remuneration he received in respect of his services as an Executive Director is set out in the 2016 Single Figure table.

Michael's employment with the Group ended on 31 July 2016 and between 7 June and 31 July he received £76,024 in respect of salary, benefits and pension in accordance with his contract of employment. In line with market practice, the Group paid the professional legal fees incurred by him in respect of finalising his termination arrangements, which amounted to £7,800. In addition, in consideration of agreeing to a confidentiality clause, Michael received £1,000. Michael did not receive a loss of office payment.

Michael's deferred bonus awards will be released in accordance with the plan rules and remain subject to malus and, for the 2015 award, clawback provisions.

Recognising his contribution to the Company's success, the Committee determined that Michael should be awarded a bonus in respect of the 2016 performance year which was calculated in the usual way and pro-rated for service to 31 July 2016. 60 per cent of this bonus will be paid in 2017 and 40 per cent will be deferred for three years, subject to malus and clawback provisions.

The Committee also exercised its discretion in accordance with the approved Directors' remuneration policy and determined that Michael should be allowed to retain his unvested PLTIP and M&G LTIP awards granted in 2014 and 2015. The 2014 and 2015 awards will vest in accordance with the original timetable, subject to the original performance conditions, remain subject to malus and, for the 2015 award, clawback provisions, and were pro-rated for service. Michael did not receive a 2016 long-term incentive award.

Annual report on remuneration
Continued

Jackie Hunt

As reported in the 2015 Directors' remuneration report, Jackie Hunt stepped down from the Board on 3 November 2015 and her employment with the Group ended on 30 June 2016. During 2016, Jackie received £441,352 in respect of salary, benefits and pension benefits in accordance with her contract of employment. In addition, in consideration of agreeing to a confidentiality clause, Jackie received £1,000. In line with market practice, the Group paid the professional legal fees incurred by Jackie in respect of finalising her separation arrangements which amounted to £600 in 2016.

2014 PLTIP award vesting

Pierre-Olivier Bouée, Tidjane Thiam and Jackie Hunt's employment with the Group ended on 30 June 2015, 31 May 2015 and 30 June 2016, respectively. The 2015 Directors' remuneration report provided details of the remuneration arrangements that would apply to Pierre-Olivier, Tidjane and Jackie after they left the Board. As set out in the section 'Remuneration in respect of performance in 2016' the performance conditions attached to Pierre-Olivier, Tidjane and Jackie's 2014 PLTIP awards were partially met and 70.8 per cent of these awards will be released in 2017. These awards were pro-rated for service (15 of 36 months, 14 of 36 months and 27 of 36 months, respectively) and the details of the release are set out below.

Former Executive Director	Number of shares vesting[1]	Value of share vesting[2]
Pierre-Olivier Bouée	39,319	£584,280
Jackie Hunt	65,114	£967,594
Tidjane Thiam	98,890	£1,469,505

Notes
1 The number of shares vesting includes accrued dividend shares.
2 The share price used to calculate the value was the average share price for the three months up to 31 December 2016, being £14.86.

Other Directors

A number of former Directors receive retiree medical benefits for themselves and their partner (where applicable). This is consistent with other senior members of staff employed at the same time. A de minimis threshold of £10,000 has been set by the Committee; any payments or benefits provided to a past Director under this amount will not be reported.

Statement of voting at general meeting

At the 2014 Annual General Meeting, shareholders were asked to vote on the current Directors' remuneration policy and at the 2016 Annual General Meeting, shareholders were asked to vote on the 2015 Directors' remuneration report. Each of these resolutions received a significant vote in favour by shareholders and the Committee is grateful for this support and endorsement by our shareholders. The votes received were:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the Directors' remuneration policy (2014 AGM)	1,745,240,139	91.85%	154,778,305	8.15%	1,900,018,444	46,152,673
To approve the Directors' remuneration report (2016 AGM)	1,714,488,665	92.80%	132,967,991	7.20%	1,847,456,656	159,010,106

New Directors' remuneration policy

This policy will apply following the AGM on 18 May 2017 (subject to shareholder approval).

Total remuneration for our Executive Directors is made up of a number of elements.

Fixed pay policy for Executive Directors

Component and purpose	Operation	Opportunity
Base salary Paying salaries at a competitive level enables the Company to recruit and retain key executives.	Prudential's policy is to offer all Executive Directors base salaries that are competitive within their local market. The Remuneration Committee reviews salaries annually with changes normally effective from 1 January. In determining base salary for each executive, the Committee considers factors such as: — Salary increases for other employees across the Group; — The performance and experience of the executive; — The size and scope of the role; — Group and/or business unit financial performance; — Internal relativities; and — External factors such as economic conditions and market data. As the Company has Executive Directors based in multiple geographies, and within insurance and asset management businesses, the Remuneration Committee reviews data from a number of different markets it believes to be the most relevant benchmarks. While salaries are typically paid in the local currency of the country where the executive is based, the Committee may determine that the salary of an executive is set or paid in an alternative currency.	Annual salary increases for Executive Directors will normally be in line with the increases for other employees unless there is a change in role or responsibility.
Benefits Provided to executives to assist them in carrying out their duties efficiently. Expatriate and relocation benefits allow Prudential to attract high-calibre executives in the international talent market and to deploy them appropriately within the Group.	Prudential's policy is for the Committee to have the discretion to offer Executive Directors benefits which reflect their individual circumstances and are competitive within their local market, including: — Health and wellness benefits; — Protection and security benefits; — Transport benefits; — Family and education benefits; — All employee share plans and savings plans; — Relocation and expatriate benefits; and — Reimbursed business expenses (including any tax liability) incurred when travelling overseas in performance of duties.	The maximum paid will be the cost to the Company of providing these benefits. The cost of these benefits may vary from year to year but the Committee is mindful of achieving the best value from providers.
Provision for an income in retirement Pension benefits provide executives with opportunities to save for an income in retirement.	Prudential's policy is to offer all Executive Directors a pension provision that is competitive and appropriate in the context of pension benefits for senior executives in the relevant local market. The pension provision for Executive Directors will normally be reflective of the arrangements in place for other employees in their business unit when they joined the Group. Executives have the option to: — Receive payments into a defined contribution scheme; and/or — Take a cash supplement in lieu of contributions. In addition, the Chief Executive, PCA receives statutory contributions into the PCA Mandatory Provident Fund.	Executive Directors are entitled to receive pension contributions or a cash supplement (or combination of the two) of up to 25 per cent of base salary. Contributions into the PCA Mandatory Provident Fund are in line with statutory limits.

Annual bonus policy for Executive Directors

Annual bonus

Payments under the Annual Incentive Plan (AIP) incentivise the delivery of stretching financial, functional and/or personal objectives which are drawn from the annual business plan.

Operation	Currently all Executive Directors participate in the AIP. The AIP payments for all Executive Directors are subject to the achievement of either financial and personal objectives or functional and personal objectives. Business unit chief executives either have measures of their business unit's financial performance in the AIP or they may participate in a business unit specific bonus plan. For example, the Chairman and CEO, NABU currently participates in the Jackson Senior Management Bonus Pool, as well as in the AIP.
Form and timing of payment	All Executive Directors are required to defer a percentage of their total annual bonus into Prudential shares. Currently all Executive Directors defer 40 per cent of their bonus for three years, with the remaining 60 per cent of their bonus paid in cash following the end of the performance year. The release of deferred bonus awards is not subject to any further performance conditions. Deferred bonus awards carry the right to receive an amount (in shares or cash) to reflect the dividends paid on the released shares, during the deferral period. The Committee has the authority to apply clawback and/or a malus adjustment to all, or a portion of, the cash and deferred award elements of the bonus. More details about clawback and malus are set out below. See the Policy on corporate transactions section for details of the Committee's powers in the case of corporate transactions.
Determining annual bonus payments	In assessing financial performance, the Committee determines the annual incentive payment for each Executive Director with reference to the performance achieved against performance ranges. The Jackson Senior Management Bonus Pool is calculated based on Jackson's performance and distributed to Jackson's leadership team. In assessing performance, the Committee will take into account the personal performance of the Executive Director and the Group and/or business units' adherence to the Group's risk framework and appetite, as well as other relevant factors. To assist them in their assessment the Committee considers a report from the Group Chief Risk Officer on adherence to the Group's risk framework and appetite and to all relevant conduct standards. The Committee may adjust the formulaic outcome based on the performance targets to reflect the underlying performance of the Company.
Opportunity	The Chief Executive, M&G has a bonus opportunity which is the lower of 0.75 per cent of M&G's IFRS profit or six times salary. For other Executive Directors the maximum AIP opportunity is up to 200 per cent of salary. Annual awards are disclosed in the relevant Annual report on remuneration. In addition to the AIP, the Chairman & CEO, NABU receives a 10 per cent share of the Jackson Senior Management Bonus Pool.

Annual bonus policy for Executive Directors continued

Performance measures	The Committee has the discretion to determine the specific performance conditions attached to each AIP cycle and to set annual targets for these measures with reference to the business plans approved by the Board. The financial measures used for the AIP will typically include profit and cash flow targets and payments depend on the achievement of minimum capital thresholds. For the measures used in 2016 and 2017, please refer to the Annual report on remuneration. No bonus is payable under the AIP for performance at or below the threshold level, increasing to 100 per cent for achieving or exceeding the maximum level. Jackson's profitability and other key financial and risk management measures determine the value of the Jackson Senior Management Bonus Pool. The weightings of the performance measures for 2017 for all Executive Directors, other than the Group Chief Risk Officer, are 80 per cent financial measures and 20 per cent personal measures. The Chairman and CEO, NABU also participates in the Jackson Senior Management Bonus pool. For the Group Chief Risk Officer, the performance measures for 2017 are entirely based on a combination of functional and personal measures. The Group Chief Risk Officer is responsible for ensuring that the Company's risk exposures are within the Board approved risk framework and appetite, and to provide overall leadership to the Risk function. The Committee retains the discretion to adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition and/or divestment of a Group business or a change in the share capital of the Company or a change in prevailing market conditions) which cause the Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.
Amendments	The Committee may make amendments to the rules of the deferred bonus plan which it considers appropriate (such as amendments which benefit the administration of the plan) but it will not make any amendments which are incompatible with the approved Directors' remuneration policy.

Long-term incentive policy for Executive Directors

Prudential Long Term Incentive Plan (PLTIP)

The Prudential Long Term Incentive Plan is designed to incentivise the delivery of:

— Longer-term business plans;

— Sustainable long-term returns for shareholders; and

— Group strategic priorities, such as disciplined risk and capital management.

Following the end of the performance period, a two-year holding period applies, further aligning the experience of executives and shareholders.

Operation	Currently all Executive Directors participate in the PLTIP. Prudential's policy is that Executive Directors may receive long-term incentive awards with full vesting only achieved if the Company meets stretching performance targets. The rules of the PLTIP were approved by shareholders in 2013. Subsequent to this, minor amendments have been made to the rules to incorporate clawback provisions and to provide for a two-year holding period to awards.
Granting awards	The PLTIP is a conditional share plan: the shares which are awarded will ordinarily vest after three years to the extent that performance conditions have been met. If performance conditions are not achieved, the unvested portion of any award lapses and performance cannot be retested. The PLTIP has a three-year performance period (although the Committee has the discretion to apply shorter or longer performance periods when the PLTIP is used for buy-out awards on recruitment – see the Approach to recruitment remuneration section).
Holding period	After the end of the three-year performance period, the shares are usually subject to an additional two-year holding period (except for buy out awards made under the PLTIP or in the case of the death of an executive). The Company may sell such number of shares as is required to satisfy any tax liability that arises on vesting. The balance of shares will be subject to the two-year holding period.
Determining the release of the award	The Committee has the authority to apply clawback and/or a malus adjustment to all, or a portion of, a PLTIP award. More details about clawback and malus are set out below. Awards carry the right to receive an amount (in shares or cash) to reflect the dividends paid on the released shares, during the period between the awards being granted and the award vesting.

Long-term incentive policy for Executive Directors continued

Opportunity	The value of shares awarded under the PLTIP (in any given financial year) may not exceed 550 per cent of the executive's annual basic salary. Awards made in a particular year are usually significantly below this limit. The levels of award made under the PLTIP in 2017 (as a percentage of base salary) are: Group Chief Executive 400% Chairman & CEO, NABU 460% Chief Executive, M&G 450% All other Executive Directors 250%
	The Committee does not envisage increasing the current award levels over the life of the policy and would consult with major shareholders before doing so. In addition, these current award levels would be disclosed in the relevant Annual report on remuneration. The maximum vesting under the PLTIP is 100 per cent of the original share award plus accrued dividend shares.
Performance measures	The performance conditions attached to PLTIP 2017 awards are: All Executive Directors except the Group Chief Risk Officer: — Relative TSR (25 per cent of award); — IFRS profit (50 per cent of award, Group or business unit as appropriate); and — Balanced scorecard of sustainability measures (25 per cent of award). Group Chief Risk Officer: — Relative TSR (50 per cent of award); — Group IFRS profit (20 per cent of award); and — Balanced scorecard of sustainability measures (30 per cent of award). The Committee may decide to attach different performance conditions and/or change the conditions' weighting for future PLTIP awards. The performance conditions attached to each award are dependent on the role of the executive and will be disclosed in the relevant Annual report on remuneration. Relative TSR is measured over three years. 25 per cent of this portion of each award will vest for achieving the threshold level of median, increasing to full vesting for meeting the stretch level of upper quartile. TSR is measured against a peer group of international insurers similar to Prudential in size, geographic footprint and products. This peer group was reviewed during 2016 to ensure the group remains a relevant comparator group. The peer group for each award is disclosed in the relevant Annual report on remuneration. Three-year cumulative IFRS operating profit is assessed at Group or business unit level. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the three-year business plan. 25 per cent of this portion of the award will vest for achieving threshold performance increasing to full vesting for meeting stretch targets. The target for Group IFRS operating profit will be disclosed when the performance period ends. Performance against the measures in the scorecard of sustainability measures is assessed at the end of the three-year performance period. The four measures have an equal weighting. 100 per cent of each measure in this portion of the award will vest for full achievement of that measure and no portion will vest if the measure is not achieved in full. The scorecard measures for each award are disclosed in the relevant Annual report on remuneration for the year of grant. The Committee also considers a report from the Group Chief Risk Officer on whether the results were achieved within the Group's and business units' risk framework and appetite. The Group Chief Risk Officer also considers the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The Committee may adjust the formulaic outcome based on the performance targets to reflect the underlying performance of the Company.

Long-term incentive policy for Executive Directors continued

Committee discretions	For any award made under the PLTIP to vest, the Committee must be satisfied that the quality of the Company's underlying financial performance justifies the level of reward delivered at the end of the performance period. The Committee receives data about factors such as risk management and the cost of capital to support their decision. The Committee has the discretion to alter or disapply the holding period if it believes that it is appropriate. See the Policy on corporate transactions section for details of the Committee's powers in the case of corporate transactions.
For awards made in 2016 and previous years	The Committee has the discretion to amend the performance conditions attached to an award if circumstances relevant to the performance conditions have changed, and the Committee is satisfied that the amended measure will be a fairer measure of performance and no more or less demanding than the original condition. The Committee would seek to consult with major shareholders before revising performance conditions on outstanding awards under the PLTIP.
For awards made in 2017 and subsequent years	The Committee retains the ability to amend the performance conditions attached to an award and/or set different performance measures (or to revise the weighting of measures) which apply to new or outstanding long-term incentive awards if events occur which cause the Committee to determine that circumstances relevant to the performance conditions have changed such that the measures described in this section are no longer appropriate and that amendment is required so that they achieve their original purpose, provided the Committee is satisfied that the amended measure will be a fairer measure of performance and no more or less demanding than the original condition. Examples of such events could include a change in strategy, a material acquisition and/or divestment of a Group business, or a change in the share capital of the Company or a change in prevailing market conditions or to meet the requirements of the Company's regulators. The Committee would seek to consult with major shareholders before revising performance conditions on outstanding awards under the PLTIP.
Amendments	The Committee may make amendments to the rules of the Plan which are minor and benefit the administration of the Plan, which take account of any changes in legislation, and/or which obtain or maintain favourable tax, exchange control or regulatory treatment. Otherwise no amendments may be made to certain key provisions of the PLTIP to the advantage of participants without prior shareholder approval.

Share ownership guidelines for Executive Directors

Operation	The share ownership guidelines for the Executive Directors are: — 400 per cent of salary for the Group Chief Executive; and — 250 per cent of salary for other Executive Directors. Executives have five years from the later of the date of their appointment or promotion, or the date of an increase in these guidelines, to build this level of ownership. Shares earned and deferred under the Annual Incentive Plan are included in calculating the Executive Director's shareholding for these purposes. Unvested share awards under long-term incentive plans are not included but vested share awards under long-term incentive plans which are subject to the two-year holding period are included. Progress against the share ownership guidelines is detailed in the Statement of Directors' shareholdings section of the Annual report on remuneration.

New Directors' remuneration policy
Continued

Malus and clawback policy

As detailed in the policy table, the Committee may apply clawback and/or a malus adjustment to variable pay in certain circumstances as set out below. The Committee can delay the release of awards pending the completion of an investigation which could lead to the application of malus or clawback.

	Circumstances when the Committee may exercise its discretion to apply malus or clawback to an award
Malus (applies in respect of any annual bonus or long-term incentive award) Allows unvested shares awarded under deferred bonus and LTIP plans to be forfeited or reduced in certain circumstances.	Where a business decision taken during the performance period by the business unit by which the participant was employed has resulted in a material breach of any law, regulation, code of practice or other instrument that applies to companies or individuals within the business unit. There is a materially adverse restatement of the accounts for any year during the performance period of (i) the business unit in which the participant worked at any time in that year; and/or (ii) any member of the Group which is attributable to incorrect information about the affairs of that business unit. Any matter arises which the Committee believes affects or may affect the reputation of the Company or any member of the Group.
Clawback Allows cash and share awards to be recovered before or after release in certain circumstances.	Where at any time before the fifth anniversary of the start of the performance period, either (i) there is a materially adverse restatement of the Company's published accounts in respect of any financial year which (in whole or part) comprised part of the performance period; or (ii) it becomes apparent that a material breach of a law or regulation took place during the performance period which resulted in significant harm to the Company or its reputation, and the Committee considers it appropriate, taking account of the extent of the participants' responsibility for the relevant restatement or breach, that clawback be applied to the relevant participant.

Notes to the remuneration policy table for Executive Directors

Committee's judgement

The Committee is required to make judgements when assessing Company and individual performance under the Directors' remuneration policy. In addition, the Committee has discretions under the Company's share plans, for example, determining if a leaver should retain or lose their unvested awards and whether to apply malus or clawback to an award. Exercise of such discretion during the year will be reported and explained in the next Annual report on remuneration.

The Committee may approve payments in excess of, in a different form to, or calculated or delivered other than as described above, where the Committee considers such changes necessary to meet regulatory requirements. If these changes are considered by the Committee to be material, the Company will seek to consult with its major shareholders.

Determining the performance measures

The Committee selected the performance measures that currently apply to variable pay plans on the following basis:

AIP

The performance measures are selected to incentivise the delivery of the Group's business plan, specifically to ensure that financial objectives are delivered while maintaining adequate levels of capital. Executives are also rewarded for the achievement of functional and/or personal objectives. These objectives include the executive's contribution to Group strategy as a member of the Board, specific goals related to their functional and/or business unit role and achievement of the Group's strategic priorities.

PLTIP

Awards made under the PLTIP are currently subject to the achievement of IFRS profit targets, relative TSR and, from 2017, a balanced scorecard of measures:

— IFRS profit was selected as a performance measure for the PLTIP (as well as the AIP) because it is central to the management of the business and a key driver of shareholder value;

— Relative TSR was selected as a performance measure because it focuses on the value delivered to shareholders – aligning the long-term interests of shareholders with those of executives; and

— From 2017, a balanced scorecard of measures was selected to ensure an alignment with the Group's strategic objectives, which are approved by the Board each year, and reflect Prudential's cultural values.

The Committee may decide to attach different performance conditions and/or change the conditions' weighting for future PLTIP awards.

Setting the performance ranges for financial targets

Where variable pay has performance conditions based on business plan measures (for example the financial metrics of the AIP and the IFRS profit element of the PLTIP) the performance ranges are set by the Remuneration Committee prior to, or at the beginning of, the performance period. Performance is based on annual and longer-term plans approved by the Board. These reflect the long-term ambitions of the Group and business units, in the context of anticipated market conditions.

For market-based performance conditions (eg relative TSR) the Committee requires that performance is in the upper quartile, relative to Prudential's peer group, for awards to vest in full.

Key differences between Directors' remuneration and the remuneration of other employees

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit's salary increase budget is set with reference to local market conditions. The Remuneration Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

The principles that apply to Executive Directors are cascaded to other employees in their business unit. Senior leaders in the Group participate in annual bonus schemes which have performance conditions that mirror the CEO for their business unit. In addition, they are eligible to receive awards under the long-term incentive plans with performance conditions appropriate for their role.

Legacy payments

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 15 May 2014 (the date the Company's first shareholder-approved Directors' remuneration policy came into effect); (ii) before this policy came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming or having been a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

References to 'shares'

In this report, references to shares include American Depository Receipts (ADRs). Directors may receive awards denominated in ADRs rather than shares, depending on their location.

New Directors' remuneration policy
Continued

Scenarios of total remuneration

The chart below provides an illustration of the future total remuneration for each Executive Director in respect of their remuneration opportunity for 2017. Three scenarios of potential outcome are provided based on underlying assumptions shown in the notes to the chart.

The Committee is satisfied that the maximum potential remuneration of the Executive Directors is appropriate. Prudential's policy is to offer Executive Directors remuneration which reflects the performance and experience of the executive, internal relativities and Group and/or business unit financial performance. In order for the maximum total remuneration to be payable:

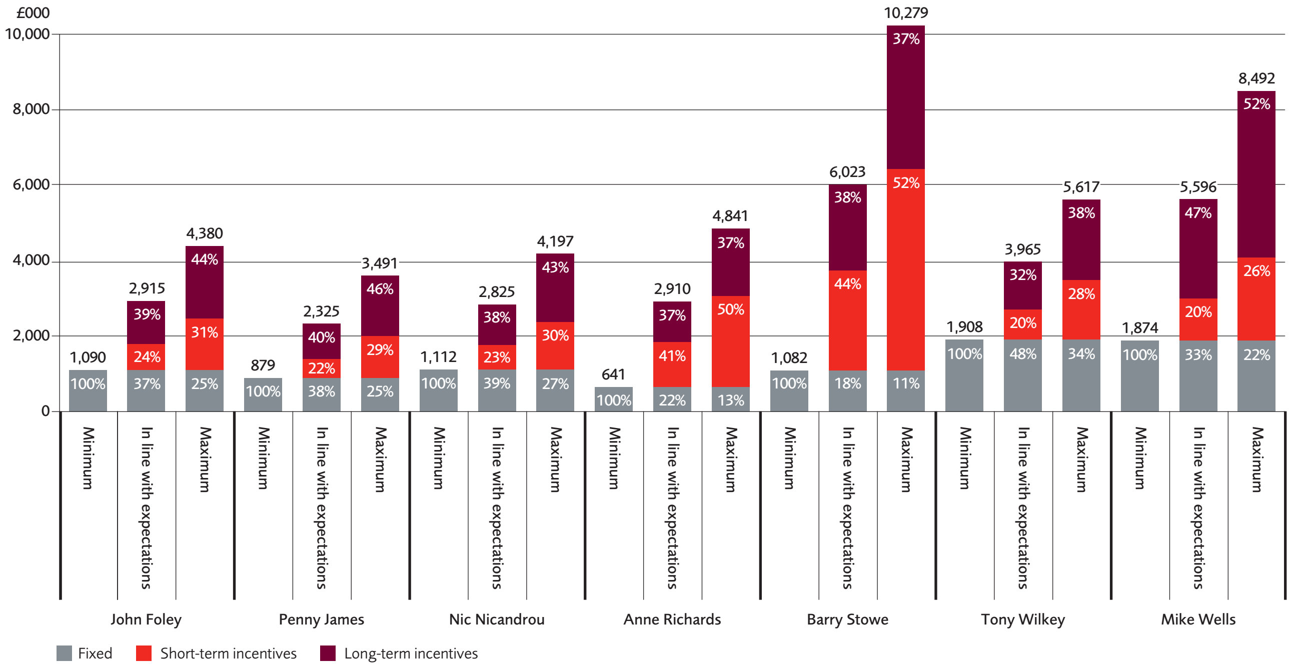
— Financial performance must exceed the Group and/or business unit's stretching business plan;

— Relative TSR must be at or above the upper quartile relative to the peer group;

— The sustainability scorecard, aligned to the Group's strategic priorities, must be fully satisfied;

— Functional and personal performance objectives must be fully met; and

— Performance must be achieved within the Group's and business units' risk framework and appetite.



Notes
The scenarios in the chart above have been calculated on the following assumptions:

	Minimum	**In line with expectations**	**Maximum**
Fixed pay	Base salary at 1 January 2017. Pension allowance at 1 January 2017. Estimated value of benefits based on amounts paid in 2016. Tony Wilkey and Barry Stowe are paid in HK$ and US$ respectively and figures have been converted to GBP for the purposes of this chart.		
Annual bonus	No bonus paid.	50% of maximum AIP. Jackson bonus pool at the average of the last three years.	100% of maximum AIP. Jackson bonus pool at highest of the last three years.
Long-term incentives (excludes share price growth and dividends)	No PLTIP vesting.	59.38% (or 58.75% for the Group Chief Risk Officer) of award under PLTIP (midway between threshold and maximum).	100% of award under PLTIP.

Approach to recruitment remuneration

The table below outlines the approach that Prudential will take when recruiting a new Executive Director. This approach will also apply to internal promotions.

The approach to recruiting a Non-executive Director or a Chairman is outlined on page 148.

Element	Principles	Potential variations
Base pay	The salary for a new Executive Director will be set using the approach set out in the fixed pay policy table on page 135.	
Benefits and pension	The benefits for a new Executive Director will be consistent with those outlined in the fixed pay policy table.	
Variable remuneration opportunity	The variable remuneration opportunities for a new Executive Director would be consistent with the limits and structures outlined in the variable pay policy table.	
Awards and contractual rights forfeited when leaving previous employer	On joining the Board from within the Group, the Committee may allow an executive to retain any outstanding deferred bonus and/or long-term incentive awards and/or other contractual arrangements that they held on their appointment. These awards (which may have been made under plans not listed in this policy) would remain subject to the original rules, performance conditions and vesting schedule applied to them when they were awarded. If a newly-appointed Executive Director forfeits one or more bonuses (including outstanding deferred bonuses) on leaving a previous employer, these payments or awards may be replaced in either cash, Prudential shares or options over Prudential shares with an award of an equivalent value. Replacement awards will normally be released on the same schedule as the foregone bonuses. If a newly-appointed Executive Director forfeits one or more long-term incentive awards on leaving a previous employer, these may be replaced with Prudential awards with an equivalent value. Replacement awards will generally be made under the terms of a long-term incentive plan approved by shareholders, and vest on the same schedule as the foregone awards. Where foregone awards were subject to performance conditions, performance conditions will be applied to awards replacing foregone long-term incentive awards; these will be the same as those applied to the long-term incentive awards made to Prudential executives in the year in which the forfeited award was made.	The Committee may consider compensating a newly-appointed executive for other relevant contractual rights forfeited when leaving their previous employer. The use of Listing Rule 9.4.2 to facilitate the recruitment of an Executive Director is now only relevant in 'unusual circumstances.' The Committee does not anticipate using this rule on a routine basis but reserves the right to do so in an exceptional circumstance. For example, this rule may be required if, for any reason, like-for-like replacement awards on recruitment could not be made under existing plans. This provision would only be used to compensate for remuneration forfeited on leaving a previous employer.

New Directors' remuneration policy
Continued

Policy on payment on loss of office

Element	Principle	Potential variations
Notice periods	The Company's policy is that Executive Directors' service contracts will not require the Company to give an executive more than 12 months' notice without prior shareholder approval. A shorter notice period may be offered where this is in line with market practice in an executive's location. The Company is required to give to, and to receive from, each of the current Executive Directors 12 months' notice of termination. An Executive Director whose contract is terminated would be entitled to 12 months' salary and benefits in respect of their notice period. The payment of the salary and benefits would either be phased over the notice period or, alternatively, a payment in lieu of notice may be made. In agreeing the terms of departure for any Executive Director, other than on death or disablement, the Company will have regard to the need to mitigate the costs for the Company.	If an Executive Director is dismissed for cause their contract would be terminated with immediate effect and they would not receive any payments in relation to their notice period. Should an executive die they would not be entitled to receive payments and benefits in respect of their notice period – provisions are made under the Company's life assurance scheme to provide for this circumstance (see 'Benefits' in the policy table). Should an Executive Director step down from the Board but remain employed by the Group, they would not receive any payment in lieu of notice in respect of their service as a Director.
Outstanding deferred bonus awards	The treatment of outstanding deferred bonuses will be decided by the Committee taking into account the circumstances of the departure including the performance of the Executive Director. Deferred bonus awards are normally retained by participants leaving the Company. Awards will vest on the original timetable and will not normally be released early on termination. Prior to release, awards remain subject to the malus terms originally applied to them. The clawback provisions will continue to apply.	Any Executive Director dismissed for cause would forfeit all outstanding deferred bonus awards. Should an executive die, outstanding deferred bonus awards will be released as soon as possible after the date of death. Should an Executive Director step down from the Board but remain employed by the Group, they would retain any outstanding deferred bonus awards. These awards would remain subject to the original rules and vesting schedule applied to them when they were awarded.
Unvested long-term incentive awards	The treatment of unvested long-term incentives will be decided by the Committee taking into account the circumstances of the departure including the performance of the Executive Directors. Executive Directors will normally retain their unvested long-term incentive awards. These awards will ordinarily be pro-rated based on time employed, will vest on the original timescale and will remain subject to the original performance conditions assessed over the entire performance period. Prior to release, awards remain subject to the malus terms and holding periods originally applied to them.	Any Executive Director dismissed for cause would forfeit all unvested long-term incentive awards. On death, disablement and in other exceptional circumstances, the Committee has discretion to release unvested long-term incentive awards earlier than the end of the vesting period. The clawback provisions will continue to apply. Awards made under the M&G Executive LTIP will be released immediately should the Executive Director leave due to disablement or death and would be pro-rated based on time employed. Should an Executive Director step down from the Board but remain employed by the Group, an executive would retain any outstanding long-term incentive awards which they held on their change of role. These awards would remain subject to the original rules, performance conditions and vesting schedule.

Policy on payment on loss of office continued

Element	Principle	Potential variations
Vested long-term incentive awards, subject to the holding period	The treatment of vested long-term incentives will be decided by the Committee taking into account the circumstances of the departure. Executive Directors will normally retain their vested long-term incentive awards that remain subject to the holding period. Normally these awards will be released in accordance with the original timescale and will remain subject to the holding period. Prior to release, awards remain subject to the malus terms originally applied to them.	On death, disablement and in other exceptional circumstances, the Committee has discretion to release vested long-term incentive awards earlier than the end of the holding period. The clawback provisions will continue to apply. Should an Executive Director step down from the Board but remain employed by the Group, they would retain any vested long-term incentive awards that remain subject to the holding period. These awards would remain subject to the original rules and release schedule applied to them when they were awarded (ie the holding period will continue to apply).
Bonus for final year of service	The payment of a bonus for the final year of service will be decided by the Committee giving full consideration to the circumstances of the departure including the performance of the Executive Director. The Committee may award a departing executive a bonus which will usually be pro-rated to reflect the portion of the final financial year in which they served which had elapsed on the last day of their employment. Any such bonus would be calculated with reference to financial, functional and/or personal performance measures in the usual way. The normal portion of any such bonus awarded must be deferred.	Any Executive Director dismissed for cause would not be eligible for any bonus that has not been paid. Should an Executive Director die whilst serving as an employee a time pro-rated bonus may be awarded. In such circumstances, deferral will not be applied and the payment will be made solely in cash. The Committee may decide to award an executive stepping down from the Board but remaining with the Group a bonus pro-rated to reflect the portion of the financial year which had elapsed on the date of their change of role. This would be calculated with reference to financial and personal or functional and personal performance measures in the usual way. The Committee may determine that a portion of such a bonus must be deferred.
Other payments	Consistent with other employees in their business unit, Executive Directors may receive payments to compensate them for the loss of employment rights on termination. Payments may include: — A nominal amount for agreeing to non-solicitation and confidentiality clauses; — Directors and Officers insurance cover for a specified period following the executives' termination date; — Payment for outplacement services; — Reimbursement of legal fees; and — Repatriation assistance. The Committee reserves the right to make additional exit payments where such payments are made in good faith: — In discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or — By way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.	

New Directors' remuneration policy
Continued

Policy on corporate transactions

	Treatment
Deferred Annual Incentive Plan Awards	In the event of a corporate transaction (eg takeover, material merger, winding up etc), the Remuneration Committee will determine whether awards will: — Vest in part or in full; and/or — Continue in accordance with the rules of the plan; and/or — Lapse and, in exchange, the participant will be granted an award under any other share or cash incentive plan which the Remuneration Committee considers to be broadly equivalent to the award; and/or — Be exchanged for replacement awards of equal value.
Prudential Long Term Incentive Plan	In the case of a corporate transaction (eg takeover, material merger, winding up etc), the Remuneration Committee will determine whether awards will: — Be exchanged for replacement awards (either in cash or shares) of equal value unless the Committee and successor company agree that the original award will continue; or — Be released. Where awards are released the Remuneration Committee will have regard to the performance of the Company, the time elapsed between the date of grant and the relevant event and any other matter that the Remuneration Committee considers relevant or appropriate.

Service contracts

Executive Directors' service contracts provide details of the broad types of remuneration to which they are entitled, and about the kinds of plans in which they may be invited to participate. The service contracts offer no certainty as to the value of performance-related reward and confirm that any variable payment will be at the discretion of the Company.

Statement of consideration of conditions elsewhere in the Company

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit's salary increase budget is set with reference to local market conditions. The Remuneration Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

Prudential does not consult with employees when setting the Directors' remuneration policy: Prudential is a global organisation with employees, and agents in multiple business units and geographies. As such, there are practical challenges associated with consulting with employees directly on this matter. The Committee will keep this under review. As many employees are also shareholders, they are able to participate in binding votes on the Directors' remuneration policy and annual votes on the Annual report on remuneration.

Statement of consideration of shareholder views

The Remuneration Committee and the Company undertake regular consultation with key institutional investors on the Directors' remuneration policy and implementation. This engagement is led by the Remuneration Committee Chairman and is an integral part of the Company's investor relations programme. The Committee is grateful to shareholders for the feedback that is provided and takes this into account when determining executive remuneration.

Remuneration policy for Non-executive Directors and the Chairman

	Fees	Benefits	Share ownership guidelines
Non-executive Directors	All Non-executive Directors receive a basic fee for their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of committees or acting as the Senior Independent Director. Fees are paid to Non-executive Directors, subject to the appropriate deductions. The basic and additional fees are reviewed annually by the Board with any changes effective from 1 July. In determining the level of fees the Board considers: — The time commitment and other requirements of the role; — Group financial performance; — Salary increases for all employees; and — Market data. If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees in respect of that year is fair and reasonable. Should a new committee be formed, or the remit of an existing committee be materially expanded, the new or additional fees paid for the chairmanship or membership of the committee will be commensurate with the new or additional responsibilities and time commitment involved. Non-executive Directors are not eligible to participate in annual bonus plans or long-term incentive plans.	Non-executive Directors do not currently receive benefits, a pension allowance or participate in the Group's employee pension schemes. Travel and business expenses for Non-executive Directors are incurred in the normal course of business, for example, in relation to attendance at Board and Committee meetings. The costs associated with these are all met by the Company, including any tax liabilities arising on these business expenses.	It is expected that Non-executive Directors will hold shares with a value equivalent to one times the annual basic fee (excluding additional fees for chairmanship and membership of any committees). Non-executive Directors will be expected to attain this level of share ownership within three years of their date of appointment.

New Directors' remuneration policy
Continued

Remuneration policy for Non-executive Directors and the Chairman continued

	Fees	Benefits	Share ownership guidelines
Chairman	The Chairman receives an annual fee for the performance of their role. This fee is agreed by the Remuneration Committee and is paid to the Chairman in cash, subject to the appropriate deductions. On appointment, the fee may be fixed for a specified period of time. Following the fixed period (if applicable) this fee will be reviewed annually. Changes in the fee are effective from 1 July. In determining the level of the fee for the Chairman the Committee considers: — The time commitment and other requirements of the role; — The performance and experience of the Chairman; — Internal relativities; — Company financial performance; and — Market data. The Chairman is not eligible to participate in annual bonus plans or long-term incentive plans.	The Chairman may be offered benefits including: — Health and wellness benefits; — Protection and security benefits; — Transport benefits; — Reimbursement of business expenses (and any associated tax liabilities) incurred when travelling overseas in performance of duties; and — Relocation and expatriate benefits (where appropriate). The maximum paid will be the cost to the Company of providing these benefits. The Chairman is not eligible to receive a pension allowance or to participate in the Group's employee pension schemes.	The Chairman has a share ownership guideline of one times his annual fee and is expected to attain this level of share ownership within five years of the date of his appointment.

Recruitment of a new Chairman or Non-executive Director

The fees for a new Non-executive Director will be consistent with the current basic fee paid to other Non-executive Directors (as set out in the Annual report on remuneration for that year) and will be reflective of their additional responsibilities as chair and/or members of Board committees.

The fee for a new Chairman will be set with reference to the time commitment and other requirements of the role, the experience of the candidate, as well as internal relativities among the other Executive and Non-executive Directors. To provide context for this decision, data would be sought for suitable market reference point(s).

Notice periods – Non-executive Directors and Chairman

Non-executive Directors are appointed pursuant to letters of appointment with notice periods of six months without liability for compensation. A contractual notice period of 12 months by either party applies for the Chairman. The Chairman would not be entitled to any payments for loss of office.

For information on the terms of appointment for the Chairman and Non-executive Directors please see page 133 of the Corporate governance report.

Additional information: legacy long-term incentive plans for Executive Directors

M&G Executive LTIP

Operation Granting awards	The Chief Executive, M&G received annual awards under the M&G Executive LTIP in the period up to and including 2016. Under this plan an annual award of phantom shares was made with a notional starting share price of £1. The phantom share price at vesting is determined by the performance of M&G over the three-year performance period.
Determining the release of the award	Awards are settled in cash. The Committee has the authority to apply clawback and/or a malus adjustment to all, or a portion of, an M&G Executive LTIP award. More details about clawback and malus are set out above.
Corporate transactions	In the event of a change of control, the Committee may determine that the award will vest immediately or continue until the original vest date. See pages 143 to 145 for details of the Committee's powers in respect of M&G Executive LTIP participants joining or leaving the Group.
Opportunity	The Chief Executive, M&G received an award with an initial value of 300 per cent of salary under the M&G Executive LTIP. The maximum vesting under the M&G Executive LTIP is 100 per cent of the number of phantom shares originally awarded.
Performance measures	The phantom share price at vesting is determined by the increase or decrease in M&G's profitability with profit and investment performance adjustments also applied. Where the investment performance of M&G's funds is in the top two quartiles during the three-year performance period, the value of phantom shares vesting will be enhanced. The value of phantom shares may be doubled if performance is in the top quartile. Investment performance in the bottom quartile will result in awards being forfeited, irrespective of any profit growth. If profits in the third year of the performance period are less than the average annual profit generated over the performance period the award will be reduced, potentially down to zero.

Buy-out award for the Chief Executive, M&G (the Prudential plc 2016 Recruitment Plan)

In line with the announcement made on 1 February 2016, the Company entered into an agreement with Anne Richards to compensate her for unvested share awards that she forfeited as a consequence of joining Prudential.

This arrangement was put in place in accordance with Listing Rule 9.4.2, which allows an individual scheme to be put in place to assist with the recruitment of an Executive Director, and is consistent with the previous Directors' remuneration policy approved by shareholders in 2014. Anne is the sole participant in this arrangement and no further awards will be made to Anne under the arrangement.

Details of this award are set out on page 129 of the Annual report on remuneration.

Changes to Directors' remuneration policy approved at 2014 AGM

Component	Changes to policy approved at 2014 AGM	Reason for changes
Benefits	Under both the current and proposed new policy, benefits included health and wellness benefits, protection and security benefits, transport benefits, family and education benefits, all employee share plans and savings plans and relocation and expatriate benefits. In addition, under the proposed new policy, benefits also include reimbursed business expenses (including any associated tax liability) incurred when travelling overseas in performance of duties.	Reimbursed business expenses, and associated tax liabilities (such as, taxes levied by country revenue services on short-term business travellers eg when overseas-based Directors travel to Board meetings held in the UK) are included as a benefit for the avoidance of doubt. As this tax is incurred in performance of the Directors' duties, and is in addition to the tax paid by the Director in the country in which he or she is resident, the Company pays this tax. The Company does not pay the tax due on salary in the country in which the Director is resident.
Annual cash bonus	The Committee has the power to recover all, or a portion of, deferred bonus awards made since 2015 in specific circumstances and within a defined time frame.	In line with the requirements of the UK Corporate Governance Code, the Committee has had the power to recover (clawback) awards made since 2015 in specific circumstances and within a defined time frame. For clarity, this power is now reflected in the policy.

New Directors' remuneration policy
Continued

Changes to Directors' remuneration policy approved at 2014 AGM continued

Component	Changes to policy approved at 2014 AGM	Reason for changes
Long-term incentives	The Committee has the power to recover all, or a portion of, awards made since 2015 in specific circumstances and within a defined time frame. Executive Directors are required to hold their net of tax vested PLTIP shares, awarded in 2017 and subsequent years, for two years following the end of the three-year performance period, creating a five-year performance and holding period. The M&G Executive LTIP has been replaced with a commensurate PLTIP award for the Chief Executive, M&G.	In line with the requirements of the UK Corporate Governance Code, the Committee has had the power to recover (clawback) awards made since 2015 in specific circumstances and within a defined time frame. For clarity, this power is now reflected in the policy. The two-year holding period is consistent with investor guidance for shares to have at least a five-year performance and holding period. Shareholders are in favour of simplification, in particular, using a single long-term incentive plan for Executive Directors and the Committee shared this view. Delivering more of the Chief Executive, M&G incentive in Prudential shares strengthens her alignment with the Company's shareholders and is consistent with the way in which other Executive Directors are rewarded.
Share ownership guidelines	The share ownership guidelines have been updated as follows: — Increased from 350 per cent of base salary to 400 per cent of base salary for the Chief Executive; and — Increased from 200% of base salary to 250% of base salary for other Executive Directors.	Shareholding guidelines among large listed companies have continued to increase over recent years and the Committee wanted to recognise this and to maximise the Executive Directors' community of interest with the Company's shareholders.
Approach to recruitment remuneration	The policy on replacement awards on recruitment of an Executive Director has been clarified to: — Specifically include options over Prudential shares (in addition to cash and Prudential shares); and — Clarify that performance conditions will be applied where foregone awards were subject to performance conditions.	The updates to the policy are intended to give the Committee a range of approaches which might be used in replacing awards forfeited by a newly-appointed Director on their departure from their previous employer. This is in line with our overriding principle that replacement awards should, as far as possible, reflect the terms of those forfeited.
Policy on payment of loss of office	The policy on payment of loss of office has been clarified to: — Specifically state that should an Executive Director die while serving as a Director, a time pro-rated bonus may be awarded but deferral would not be applied; and — Repatriation assistance may be provided consistent with other employees.	The updates to the policy are intended to clarify the treatment of leavers in specific circumstances.
Corporate transactions	A new section has been added to the policy to cover corporate transactions and the Committee's discretion in these circumstances to: — Allow full or partial vesting or continuation or lapse and exchange of deferred bonus awards; and — Exchange or release (taking into account performance, time elapsed and other relevant matters) of PLTIP awards.	This new section has been added in response to a request from shareholders to set out the Committee's discretion on corporate transactions. These provisions appear in the Rules of the PLTIP which were approved by shareholders in 2013 but are now included in the policy for completeness.
Policy for Non-executive Directors	The policy on Non-executive Directors' fees has been clarified to permit new or additional fees should a new committee be formed or the remit of an existing committee expanded.	The updates to the policy are intended to clarify how it would be applied should the number or remit of Committees of the Board change.

Statement of implementation in 2017

Executive Directors

Executive Directors' remuneration packages were reviewed in 2016 with changes effective from 1 January 2017. When the Committee took these decisions, it considered the salary increases awarded to other employees in 2016 and the expected increases in 2017. The external market reference points used to provide context to the Committee were identical to those used for 2016 salaries.

All Executive Directors, other than the Chief Executive, M&G and the Group Chief Risk Officer, received a salary increase of 2 per cent. The Chief Executive, M&G received no salary increase and the Group Chief Risk Officer received a salary increase of 5 per cent. The 2017 salary increase budgets for other employees across the Group's business units were between 2.5 per cent and 6 per cent. No changes have been made to executives' maximum opportunities under either the annual incentive or the long-term incentive plans.

In 2017, the AIP performance measures have been simplified from seven to four measures and Executive Directors' 2017 bonuses will be determined by the achievement of IFRS operating profit, operating free surplus, NBP EEV profit and cash flow, which are aligned to the Group's growth and cash generation focus. This reflected the Committee's objective to simplify the AIP metrics.

As part of the continuing implementation of Solvency II, the weightings of Penny James's AIP performance targets (with effect from 2017) have been changed so that her entire AIP outcome relates to a combination of functional and personal measures.

As detailed in the new Directors' remuneration policy, all long-term incentive awards made to Executive Directors in 2017 will be made under the PLTIP. The vesting of these awards will depend on:

— Relative TSR (25 per cent of award);

— Group or business unit IFRS profit (50 per cent of award); and

— Balanced scorecard of strategic measures (25 per cent of award).

As part of the continuing implementation of Solvency II, the weightings of Penny James's LTIP performance targets (with effect from 2017) will be different to the other Executive Directors and will be:

— Relative TSR (50 per cent of award);

— Group IFRS profit (20 per cent of award); and

— Balanced scorecard of strategic measures (30 per cent of award).

Under the Group TSR measure, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. Following a comprehensive review of the peer group, supported by the Remuneration Committee's independent adviser and the Group's Investor Relations team, three companies (Aflac, Munich Re and Swiss Re) have been removed for the 2017 awards because their products and geographic footprints are insufficiently similar to those of the Group.

TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison.

The peer group for the 2017 awards is:

Aegon	Aviva	AIA	AIG
Allianz	Manulife	AXA	Generali
Legal & General	Prudential Financial	MetLife	Sun Life Financial
Old Mutual	Zurich Insurance Group	Standard Life	

Under the IFRS measure, 25 per cent of the award vests for meeting the threshold IFRS profit set at the start of the performance period increasing to full vesting for performance at or above the stretch level.

Under the balanced scorecard, performance is assessed for each of the four measures, at the end of the three year performance period. Each of the measures has equal weighting and these measures are set out below.

Capital measure	Cumulative three-year ECap Group operating capital generation relative to plan, less cost of capital (based on the capital position at the start of the performance period). Vesting basis: 100 per cent vesting for achieving plan, otherwise 0 per cent vesting. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
Capital measure	Cumulative three-year Solvency II Group operating capital generation (as captured in published disclosures) relative to plan. Vesting basis: 100 per cent vesting for achieving plan, otherwise 0 per cent vesting. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
Conduct measure	Through appropriate management action, ensure there are no significant conduct/culture/governance issues which result in significant capital add-ons or material fines. Vesting basis: 100 per cent for achieving the Group's expectations, otherwise 0 per cent vesting.
Diversity measure	Percentage of the Leadership Team that is female at the end of 2019. The target for this metric will be based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female at the end of 2021. For this portion of PLTIP awards made in 2017 to vest, at least 27 per cent of our Leadership Team must be female at the end of 2019. Vesting basis: 100 per cent vesting for achieving the target, otherwise 0 per cent vesting.

Chairman and Non-executive Directors

Fees for the Chairman and Non-executive Directors were reviewed in 2016 with changes effective from 1 July 2016 as set out on page 130. The next review will be effective 1 July 2017.

As referred to in the report of the Nomination and Governance Committee, the appointment of a Chairman of the Board of a material subsidiary (Jackson National Life Insurance Company) has been agreed. The Remuneration Committee has approved a fee of £250,000 per annum, fixed for a period of two years from the date of the appointment. This fee will be payable in US dollars and is the same as the fee agreed for the chairmen of the boards of Prudential Assurance Company Limited, M&G Group Limited and Prudential Corporation Asia Limited. In addition, the Remuneration Committee has approved a basic fee of £70,000 per annum for membership of the boards of these material subsidiaries, a fee for membership of the audit or risk committees of £10,000 per annum and a fee for chairing those committees of £30,000 per annum.

Signed on behalf of the Board of Directors

Anthony Nightingale, CMG SBS JP
Chairman of the Remuneration Committee
13 March 2017

Paul Manduca
Chairman
13 March 2017

Directors' outstanding long-term incentive awards

Share-based long-term incentive awards

	Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2016 (Number of shares)	Conditional awards in 2016 (Number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares (note 3) (Number of shares released)	Rights exercised in 2016	Rights lapsed in 2016	Conditional share awards outstanding at 31 Dec 2016 (Number of shares)	Date of end of performance period
John Foley	PLTIP	2013	131,848		1,203	14,133	131,848		–	31 Dec 15
	PLTIP	2014	125,776		1,317				125,776	31 Dec 16
	PLTIP	2014	29,556		1,342				29,556	31 Dec 16
	PLTIP	2015	122,808		1,672				122,808	31 Dec 17
	PLTIP	2016		144,340	1,279				144,340	31 Dec 18
			409,988	**144,340**		**14,133**	**131,848**	**–**	**422,480**	
Penny James	PLTIP	2013	25,181		1,203	2,697	25,181		–	31 Dec 15
	PLTIP	2014	30,279		1,317				30,279	31 Dec 16
	PLTIP	2015	24,348		1,672				24,348	31 Dec 17
	PLTIP	2016		116,628	1,279				116,628	31 Dec 18
			79,808	**116,628**		**2,697**	**25,181**	**–**	**171,255**	
Nic Nicandrou	PLTIP	2013	122,554		1,203	13,136	122,554		–	31 Dec 15
	PLTIP	2014	132,375		1,317				132,375	31 Dec 16
	PLTIP	2015	104,117		1,672				104,117	31 Dec 17
	PLTIP	2016		136,836	1,279				136,836	31 Dec 18
			359,046	**136,836**		**13,136**	**122,554**	**–**	**373,328**	
Anne Richards	PLTIP	2016		45,906	1,358.5				45,906	31 Dec 18
				45,906		**–**	**–**	**–**	**45,906**	
Barry Stowe[1]	PLTIP	2013	131,266		1,203	13,794	127,984	3,282	–	31 Dec 15
	PLTIP	2014	114,824		1,317				114,824	31 Dec 16
	PLTIP	2015	113,940		1,672				113,940	31 Dec 17
	PLTIP	2015	50,668		1,611.5				50,668	31 Dec 17
	PLTIP	2016		274,100	1,279				274,100	31 Dec 18
			410,698	**274,100**		**13,794**	**127,984**	**3,282**	**553,532**	
Mike Wells[2]	PLTIP	2013	273,470		1,203	29,480	273,470		–	31 Dec 15
	PLTIP	2014	238,954		1,317				238,954	31 Dec 16
	PLTIP	2015	209,222		1,672				209,222	31 Dec 17
	PLTIP	2015	30,132		1,611.5				30,132	31 Dec 17
	PLTIP	2016		332,870	1,279				332,870	31 Dec 18
			751,778	**332,870**		**29,480**	**273,470**		**811,178**	
Tony Wilkey[4]	PLTIP	2013	25,244		1,203	2,636	24,612	632	–	31 Dec 15
	PCA LTIP	2013	55,705		1,203		55,705		–	31 Dec 15
	PCA LTIP	2013	47,182		1,178		47,182		–	31 Dec 15
	PLTIP	2014	22,935		1,317				22,935	31 Dec 16
	PCA LTIP	2014	45,870		1,317				45,870	31 Dec 16
	PCA LTIP	2014	68,806		1,317				68,806	31 Dec 17
	PLTIP	2015	21,091		1,672				21,091	31 Dec 17
	PCA LTIP	2015	42,183		1,672				42,183	31 Dec 17
	PLTIP	2015	29,008		1,611.5				29,008	31 Dec 17
	PLTIP	2016		153,742	1,279				153,742	31 Dec 18
			358,024	**153,742**		**2,636**	**127,499**	**632**	**383,635**	

Notes

1 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

2 The awards in 2013, 2014 and 2015 for Mike Wells were made in ADRs (1 ADR = 2 ordinary shares). The award in 2016 was made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

3 A dividend equivalent was accumulated on these awards.

4 The PCA LTIP is an arrangement for executives and senior management of PCA. Tony Wilkey was a participant of this plan until his appointment to the Board on 1 June 2015 and has not been eligible to new awards since this date. The column above marked 'Date of end of performance period' for the PCA LTIP reflects the end of the vesting period as there are no performance conditions on these awards.

Business-specific cash-based long-term incentive plans

	Year of award	Face value of conditional share awards outstanding at 1 January 2016 £000	Payments made in 2016 £000	Face value of conditional awards outstanding at 31 December 2016 £000	Date of end of performance period
Michael McLintock					
M&G Executive LTIP	2013	1,112	1,991		31 Dec 2015
M&G Executive LTIP	2014	1,146		1,146	31 Dec 2016
M&G Executive LTIP	2015	1,182		1,182	31 Dec 2017
Total payments made in 2016			1,991		
Anne Richards					
M&G Executive LTIP	2016	1,200		1,200	31 Dec 2018

Note
Under the M&G Executive LTIP, the value of each unit at award is £1. The value of units changes based on M&G's profit growth and investment performance over the performance period. For the 2013 award of 1,112,400 units, the unit price at the end of the performance period was £1.79, which resulted in a payment of £1,991,196 to Michael McLintock in 2016. For the 2014 award of 1,146,000 units, the unit price at the end of the performance period was £1.60, which will result in a payment of £1,577,398 to Michael McLintock in 2017.

Other share awards

The table below sets out Executive Directors' deferred bonus share awards.

	Year of grant	Conditional share awards outstanding at 1 Jan 2016 (Number of shares)	Conditionally awarded in 2016 (Number of shares)	Dividends accumulated in 2016[5] (Number of shares)	Shares released in 2016 (Number of shares)	Conditional share awards outstanding at 31 Dec 2016 (Number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
John Foley										
Deferred 2012 annual incentive award	2013	37,396			37,396	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	32,731		1,237		33,968	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	42,062		1,589		43,651	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		63,320	2,393		65,713	31 Dec 18		1,279	
		112,189	63,320	5,219	37,396	143,332				
Penny James[1]										
Deferred 2012 Group deferred bonus plan award	2013	5,677			5,677	–	31 Dec 15	31 Mar 16	1,083	1,301
Deferred 2013 Group deferred bonus plan award	2014	4,880		184		5,064	31 Dec 16		1,317	
Deferred 2014 Group deferred bonus plan award	2015	3,943		148		4,091	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		13,290	501		13,791	31 Dec 18		1,279	
		14,500	13,290	833	5,677	22,946				
Nic Nicandrou										
Deferred 2012 annual incentive award	2013	41,821			41,821	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	36,639		1,385		38,024	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	28,799		1,088		29,887	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		37,683	1,424		39,107	31 Dec 18		1,279	
		107,259	37,683	3,897	41,821	107,018				

	Year of grant	Conditional share awards outstanding at 1 Jan 2016 (Number of shares)	Conditionally awarded in 2016 (Number of shares)	Dividends accumulated in 2016[5] (Number of shares)	Shares released in 2016 (Number of shares)	Conditional share awards outstanding at 31 Dec 2016 (Number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Barry Stowe[2]										
Deferred 2012 annual incentive award	2013	40,646			40,646	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	31,754		1,196		32,950	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	27,992		1,054		29,046	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		107,566	4,052		111,618	31 Dec 18		1,279	
		100,392	107,566	6,302	40,646	173,614				
Mike Wells[3]										
Deferred 2012 annual incentive award	2013	86,586			86,586	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	104,636		3,942		108,578	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	116,304		4,382		120,686	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		103,210	3,902		107,112	31 Dec 18		1,279	
		307,526	103,210	12,226	86,586	336,376				
Tony Wilkey[4]										
Deferred 2013 PCA deferred bonus plan award	2014	70,831			70,831	–	31 Dec 15	31 Mar 16	1,317	1,301
Deferred 2014 PCA deferred bonus plan award	2015	82,290		2,305		84,595	31 Dec 16		1,672	
Deferred 2015 annual incentive award	2016		34,625	1,308		35,933	31 Dec 18		1,279	
		153,121	34,625	3,613	70,831	120,528				

Notes

1 The Group deferred bonus plan is an arrangement for executives and senior management. Penny James was a participant of this plan until her appointment to the Board on 1 September 2015 and has not been eligible to new awards from this date.

2 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

3 The awards for Mike Wells in 2013, 2014 and 2015 were made in ADRs (1 ADR = 2 ordinary shares). The award made in 2016 was made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

4 The PCA deferred bonus plan is an arrangement for executives and senior management of PCA. Tony Wilkey was a participant of this plan until his appointment to the Board on 1 June 2015 and has not been eligible for new awards since this date.

5 A dividend equivalent was accumulated on these awards.

All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive Directors are invited to participate in these plans on the same basis as other staff in their location.

Save As You Earn (SAYE) schemes

UK-based Executive Directors are eligible to participate in the HM Revenue and Customs (HMRC) approved Prudential Savings-Related Share Option Scheme. This scheme allows all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

From 2014 participants could elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and any other option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

Details of Executive Directors' rights under the SAYE scheme are set out in the 'Statement of Directors' shareholdings'.

Share Incentive Plan (SIP)

UK-based Executive Directors are also eligible to participate in the Company's Share Incentive Plan (SIP). From April 2014, all UK-based employees were able to purchase Prudential plc shares up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the SIP together with matching shares (awarded on a 1:4 basis) and dividend shares.

	Year of initial grant	Share Incentive Plan awards held in Trust at 1 Jan 2016 (Number of shares)	Partnership shares accumulated in 2016 (Number of shares)	Matching shares accumulated in 2016 (Number of shares)	Dividend shares accumulated in 2016 (Number of shares)	Share Incentive Plan awards held in Trust at 31 Dec 2016 (Number of shares)
John Foley	2014	255	134	33	11	433
Nic Nicandrou	2010	1,425	133	33	53	1,644
Mike Wells	2015	97	134	34	5	270

Prudential Corporation Asia All Employee Share Purchase Plan (PruSharePlus)

From August 2014, all Asia-based employees were able to purchase Prudential plc shares up to a value of £5,000 per year from their gross salary through the PruSharePlus. For every two shares bought by the employee, one additional matching share is awarded which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the PruSharePlus together with matching shares (awarded on a 1:2 basis) and dividend shares.

	Year of initial grant	PruSharePlus awards held in Trust at 1 Jan 2016 (Number of shares)	Purchased shares accumulated in 2016 (Number of shares)	Matching shares accumulated in 2016 (Number of shares)	Dividend shares accumulated in 2016 (Number of shares)	PruSharePlus awards released from Trust in 2016 (Number of shares)	PruSharePlus awards held in Trust at 31 December 2016 (Number of shares)
Tony Wilkey*	2014	545	–	–	14	559	–

* Following his appointment to the Board, Tony Wilkey is no longer eligible to participate in the PruSharePlus with effect from the anniversary of his joining the plan.

Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out Executive Directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some Executive Directors, please see our Annual report on remuneration.

Dilution

Releases from the Prudential Long Term Incentive Plan are satisfied using new issue shares rather than by purchasing shares in the open market. Shares relating to options granted under all-employee share plans are also satisfied by new issue shares. The combined dilution from all outstanding shares and options at 31 December 2016 was 1 per cent of the total share capital at the time. Deferred bonus awards will continue to be satisfied by the purchase of shares in the open market.

Five highest paid individuals

Of the five individuals with the highest emoluments in 2016, two were Executive Directors whose emoluments are disclosed in this report. The aggregate of the emoluments of the other three individuals for 2016 were as follows:

	2016 £000
Base salaries, allowances and benefits in kind	3,257
Pension contributions	123
Performance related pay	18,952
Total	22,332

Their emoluments were within the following bands:

	Number of five highest paid employees 2016
£6,200,001 – £6,300,000	1
£6,800,001 – £6,900,000	1
£9,200,001 – £9,300,000	1

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Financial statements

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Section A: Background and critical accounting policies

Section B: Earnings performance

Section C: Balance sheet notes

Section D: Other notes

Section E: Further accounting policies

Consolidated income statement

Year ended 31 December	Note	2016 £m	2015 £m
Gross premiums earned		38,981	36,663
Outward reinsurance premiums		(2,020)	(1,157)
Earned premiums, net of reinsurance	B1.4	36,961	35,506
Investment return	B1.4	32,511	3,304
Other income	B1.4	2,370	2,495
Total revenue, net of reinsurance	B1.4	71,842	41,305
Benefits and claims		(60,948)	(30,547)
Outward reinsurers' share of benefit and claims		2,412	1,389
Movement in unallocated surplus of with-profits funds		(830)	(498)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(59,366)	(29,656)
Acquisition costs and other expenditure	B3	(8,848)	(8,208)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(360)	(312)
Remeasurement of carrying value of Korea life business classified as held for sale	D1	(238)	–
Disposal of Japan life business – cumulative exchange loss recycled from other comprehensive income		–	(46)
Total charges, net of reinsurance	B1.4	(68,812)	(38,222)
Share of profits from joint ventures and associates, net of related tax	D6	182	238
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**		3,212	3,321
Less tax charge attributable to policyholders' returns		(937)	(173)
Profit before tax attributable to shareholders	B1.1	2,275	3,148
Total tax charge attributable to policyholders and shareholders	B5	(1,291)	(742)
Adjustment to remove tax charge attributable to policyholders' returns		937	173
Tax charge attributable to shareholders' returns	B5	(354)	(569)
Profit for the year attributable to equity holders of the Company		1,921	2,579

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

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

Consolidated statement of comprehensive income

Year ended 31 December	Note	2016 £m	2015 £m
Profit for the year		1,921	2,579
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year	A1	1,148	68
Cumulative exchange loss of sold Japan life business recycled through profit or loss		–	46
Related tax		13	4
		1,161	118
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding gains (losses) arising during the year		241	(1,256)
Deduct net gains included in the income statement on disposal and impairment		(269)	(49)
Total	C3.2(c)	(28)	(1,305)
Related change in amortisation of deferred acquisition costs	C5 (b)	76	337
Related tax		(17)	339
		31	(629)
Total		1,192	(511)
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Gross		(107)	27
Related tax		14	(5)
		(93)	22
Other comprehensive income (loss) for the year, net of related tax		1,099	(489)
Total comprehensive income for the year attributable to the equity holders of the Company		3,020	2,090

Consolidated statement of changes in equity

		Year ended 31 December 2016 £m							
	Note	**Share capital** note C10	**Share premium** note C10	**Retained earnings**	**Translation reserve**	**Available-for-sale securities reserves**	**Share-holders' equity**	**Non-controlling interests**	**Total equity**
Reserves									
Profit for the year		–	–	1,921	–	–	1,921	–	1,921
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		–	–	–	1,161	–	1,161	–	1,161
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	31	31	–	31
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax		–	–	(93)	–	–	(93)	–	(93)
Total other comprehensive income (loss)		–	–	(93)	1,161	31	1,099	–	1,099
Total comprehensive income for the year		–	–	1,828	1,161	31	3,020	–	3,020
Dividends	B7	–	–	(1,267)	–	–	(1,267)	–	(1,267)
Reserve movements in respect of share-based payments		–	–	(51)	–	–	(51)	–	(51)
Share capital and share premium									
New share capital subscribed	C10	1	12	–	–	–	13	–	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	2	–	–	2	–	2
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	(6)		–	(6)	–	(6)
Net increase in equity		1	12	506	1,161	31	1,711	–	1,711
At beginning of year		128	1,915	10,436	149	327	12,955	1	12,956
At end of year		129	1,927	10,942	1,310	358	14,666	1	14,667

Consolidated statement of changes in equity
Continued

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

Consolidated statement of financial position

31 December	Note	2016 £m	2015 £m
Assets			
Goodwill	C5(a)	1,628	1,648
Deferred acquisition costs and other intangible assets	C5(b)	10,807	8,472
Property, plant and equipment	C13	743	1,197
Reinsurers' share of insurance contract liabilities	C4.1(a)(iv)	10,051	7,903
Deferred tax assets	C8.1	4,315	2,819
Current tax recoverable	C8.2	440	477
Accrued investment income	C1	3,153	2,751
Other debtors	C1	3,019	1,955
Investment properties	C14	14,646	13,422
Investment in joint ventures and associates accounted for using the equity method	D6	1,273	1,034
Loans	C3.3	15,173	12,958
Equity securities and portfolio holdings in unit trusts		198,552	157,453
Debt securities	C3.2	170,458	147,671
Derivative assets	C3.4	3,936	2,958
Other investments		5,465	4,395
Deposits		12,185	12,088
Assets held for sale	D1	4,589	2
Cash and cash equivalents		10,065	7,782
Total assets	C1	470,498	386,985
Equity			
Shareholders' equity		14,666	12,955
Non-controlling interests		1	1
Total equity		14,667	12,956
Liabilities			
Insurance contract liabilities	C4.1	316,436	260,753
Investment contract liabilities with discretionary participation features	C4.1	52,837	42,959
Investment contract liabilities without discretionary participation features	C4.1	19,723	18,806
Unallocated surplus of with-profits funds	C4.1	14,317	13,096
Core structural borrowings of shareholder-financed operations	C6.1	6,798	5,011
Operational borrowings attributable to shareholder-financed operations	C6.2	2,317	1,960
Borrowings attributable to with-profits operations	C6.2	1,349	1,332
Obligations under funding, securities lending and sale and repurchase agreements		5,031	3,765
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		8,687	7,873
Deferred tax liabilities	C8.1	5,370	4,010
Current tax liabilities	C8.2	649	325
Accruals, deferred income and other liabilities		13,825	10,416
Provisions	C11	947	604
Derivative liabilities	C3.4	3,252	3,119
Liabilities held for sale	D1	4,293	–
Total liabilities	C1	455,831	374,029
Total equity and liabilities		470,498	386,985

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,545 million (2015: £5,995 million) of lent securities and assets subject to repurchase agreements.

The consolidated financial statements on pages 161 to 308 were approved by the Board of Directors on 13 March 2017. They were signed on its behalf:

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Nic Nicandrou
Chief Financial Officer

Consolidated statement of cash flows

Year ended 31 December	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)		3,212	3,321
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		(37,824)	(6,814)
Other non-investment and non-cash assets		(2,490)	(1,063)
Policyholder liabilities (including unallocated surplus)		31,135	6,067
Other liabilities (including operational borrowings)		7,861	1,761
Interest income and expense and dividend income included in result before tax		(9,749)	(8,726)
Other non-cash items note (ii)		834	234
Operating cash items:			
Interest receipts		7,886	7,316
Dividend receipts		2,286	1,777
Tax paid note (v)		(950)	(1,340)
Net cash flows from operating activities		2,201	2,533
Cash flows from investing activities			
Purchases of property, plant and equipment	C13	(348)	(256)
Proceeds from disposal of property, plant and equipment		102	30
Acquisition of subsidiaries and intangibles		(303)	(286)
Sale of businesses		–	43
Net cash flows from investing activities		(549)	(469)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations: note (iii)	C6.1		
Issue of subordinated debt, net of costs		1,227	590
Interest paid		(335)	(288)
With-profits operations: note (iv)	C6.2		
Interest paid		(9)	(9)
Equity capital:			
Issues of ordinary share capital		13	7
Dividends paid		(1,267)	(974)
Net cash flows from financing activities		(371)	(674)
Net increase in cash and cash equivalents		1,281	1,390
Cash and cash equivalents at beginning of year		7,782	6,409
Effect of exchange rate changes on cash and cash equivalents		1,002	(17)
Cash and cash equivalents at end of year		10,065	7,782

Notes

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

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

(iii) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(iv) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

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

A Background and critical accounting policies

A1 Basis of preparation and exchange rates

Prudential plc (the Company) together with its subsidiaries (collectively, the Group or Prudential) is an international financial services group. Principal operations are in Asia, the US and the UK. Prudential offers a wide range of retail financial products and services and asset management services throughout these territories. The retail financial products and services primarily include life insurance, pensions and annuities as well as collective investment schemes.

Basis of preparation

These statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS Standards may differ from IFRS Standards issued by the IASB if, at any point in time, new or amended IFRS Standards have not been endorsed by the EU. At 31 December 2016, there were no unendorsed standards effective for the two years ended 31 December 2016 affecting the consolidated financial information of the Group. There were no differences between IFRS Standards endorsed by the EU and IFRS Standards issued by the IASB in terms of their application to the Group. These statements have been prepared on a going concern basis. The parent company statement of financial position prepared in accordance with the UK Generally Accepted Accounting Practice (including Financial Reporting Standard 101 Reduced Disclosure Framework) is presented on page 309.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2015 with the exception of the adoption of the new and amended accounting standards as described in note A2.

Exchange rates

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

	Closing rate at 31 Dec 2016	Average rate for 2016	Closing rate at 31 Dec 2015	Average rate for 2015
Local currency: £				
Hong Kong	9.58	10.52	11.42	11.85
Indonesia	16,647.30	18,026.11	20,317.71	20,476.93
Malaysia	5.54	5.61	6.33	5.97
Singapore	1.79	1.87	2.09	2.1
China	8.59	8.99	9.57	9.61
India	83.86	91.02	97.51	98.08
Vietnam	28,136.99	30,292.79	33,140.64	33,509.21
Thailand	44.25	47.80	53.04	52.38
US	1.24	1.35	1.47	1.53

Certain notes to the financial statements present 2015 comparative information at Constant Exchange Rates (CER), in addition to the reporting at Actual Exchange Rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. CER results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The exchange movement arising during 2016 recognised in other comprehensive income is:

	2016 £m	2015 £m
Asia operations†	785	(5)
US operations	853	238
Unallocated to a segment (central funds)*	(490)	(119)
	1,148	114

* The exchange rate movement unallocated to a segment mainly reflects the translation of currency borrowings that have been designated as a net investment hedge against the currency risk of the investment in Jackson.

† 2015 included the cumulative exchange loss of the Japan life business of £46 million.

A2 Adoption of new accounting pronouncements in 2016

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

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

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

A3 Accounting policies

A3.1 Critical accounting policies, estimates and judgements

This note presents the critical accounting policies, accounting estimates and judgements applied in preparing the Group's consolidated financial statements. Other significant accounting policies are presented in note E1. All accounting policies are applied consistently for all years presented and normally are not subject to changes unless new accounting standards, interpretations or amendments are introduced by the IASB.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets. Below are set out those critical accounting policies the application of which requires the Group to make critical estimates and judgements. Also set out are further critical accounting policies, and other items which require the application of critical estimates and judgements.

(a) Critical accounting policies with linked critical estimates and judgements

Classification of insurance and investment contracts

IFRS 4 requires contracts written by insurers to be classified as either 'insurance' contracts or 'investment' contracts. The classification of the contract determines its accounting. Judgement is applied in the classification of these contracts.

Impacts £410 billion of reported liabilities, requiring classification.

Contracts which transfer significant insurance risk to the Group are classified as insurance contracts. Contracts that transfer financial risk to the Group but not significant insurance risk are termed investment contracts. Furthermore, some contracts, both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that (a) are likely to be a significant portion of the total contract benefits; (b) have amount or timing contractually at the discretion of the insurer; and (c) are contractually based on asset or fund performance, as discussed in IFRS 4. Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4. Investment contracts without discretionary participation features are accounted for as financial instruments.

Business units	Insurance contracts and investment contracts with discretionary participation features	Investment contracts without discretionary participation features
Asia	— With-profits contracts — Non-participating term contracts — Whole life contracts — Unit-linked policies — Accident and health policies	— Minor amounts for a number of small categories of business
US	— Variable annuity contracts — Fixed annuity contracts — Life insurance contracts	— Guaranteed investment contracts (GICs) — Minor amounts of 'annuity certain' contracts
UK	— With-profits contracts — Bulk and individual annuity business — Non-participating term contracts	— Certain unit-linked savings and similar contracts

Measurement of policyholder liabilities and unallocated surplus of with-profits

Due to their significance to the Group's business, the measurement of policyholder liabilities and unallocated surplus of with-profits is a critical accounting policy. The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4 described above. Impacts £410 billion of liabilities	IFRS 4 permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) for insurance contracts and investment contracts with discretionary participating features. A modified statutory basis of reporting was adopted by the Group on first time adoption of IFRS in 2005. This was set out in the Statement of Recommended Practice issued by Association of British Insurers (ABI SORP). An exception was for UK regulated with-profits funds which were measured under FRS 27 as discussed below. FRS 27 and the ABI SORP were withdrawn in the UK for the accounting periods beginning in or after 2015. As used in these consolidated financial statements, the terms 'FRS 27' and the 'ABI SORP' refer to the requirements of these pronouncements prior to their withdrawal. For investment contracts that do not contain discretionary participating features, IAS 39 is applied and, where the contract includes an investment management element, IAS 18, 'Revenue', applies. The policies applied in each business unit are noted below. Additional details are discussed in note C4.2
Measurement of insurance contract liabilities and investment contracts with discretionary participation features liabilities.	
Asia insurance operations	The policyholder liabilities for businesses in Asia are generally determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with the modified statutory basis. Refinements to the local reserving methodology are generally treated as changes in estimates, dependent on their nature. In some operations, including Taiwan, local GAAP is not an appropriate starting point and US GAAP principles are therefore applied. While the basis of valuation of liabilities in this business is in accordance with the requirements of the ABI SORP, it may differ from that determined on the modified statutory basis for UK operations with the same features.
US insurance operations	The policyholder liabilities for Jackson's conventional protection-type policies are determined under US GAAP principles with locked in assumptions for mortality, interest, policy lapses and expenses along with provisions for adverse deviations. For other policies, the policyholder liabilities include the policyholder account balance. For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortised cost model to measure the liability. The US has no investment contracts with discretionary participation features.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Measurement of policyholder liabilities and unallocated surplus of with-profits continued

UK insurance operations	The UK regulated with-profits funds' liabilities are the realistic basis liabilities in accordance with FRS 27. The realistic basis requires the value of liabilities to be calculated as: — A with-profits benefits reserve; plus — Future policy-related liabilities; plus — The realistic current liabilities of the fund. The with-profits benefits reserve is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future policyholder benefits and other outgoings. Asset shares broadly reflect the policyholders' share of the with-profits fund assets attributable to their policies. The future policy-related liabilities must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities. The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. Shareholder's share of profit is recognised in line with the distribution of bonuses to policyholders. For the purposes of local regulations, segregated accounts are established for linked business for which policyholder benefits are wholly or partly determined by reference to specific investments or to an investment-related index. The interest rates used in establishing policyholder benefit provisions for pension annuities in the course of payment are adjusted each year. Mortality rates used in establishing policyholder benefits are based on published mortality tables adjusted to reflect actual experience.
Measurement of investment contracts without discretionary participation features liabilities	Measured in accordance with IAS 39 to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the financial liability balance. Incremental, directly attributable acquisition costs relating to the investment management element of these contracts are capitalised and amortised in line with the related revenue. If the contracts involve up-front charges, this income is also deferred and amortised through the income statement in line with contractual service provision in accordance with IAS 18. Investment contracts without fixed and guaranteed terms are designated as fair value through profit or loss because the resulting liabilities are managed and their performance is evaluated on a fair value basis. Where the contract includes a surrender option its carrying value is subject to a minimum carrying value equal to its surrender value. Further investment contracts are measured at amortised cost.

Measurement of policyholder liabilities and unallocated surplus of with-profits continued

Measurement of unallocated surplus of with-profits funds	Represents the excess of assets over policyholder liabilities for the Group's with-profits funds in the UK, Hong Kong, Malaysia and Singapore that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a charge (credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation on investments.
Liability adequacy test	The Group performs adequacy testing on its insurance liabilities to ensure that the carrying amounts (net of related deferred acquisition costs) and, where relevant, present value of acquired in-force business is sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement. The practical application for Jackson is in the context of the deferred acquisition cost asset and the liabilities for Jackson's insurance contracts being determined in accordance with US GAAP. The liabilities include those in respect of the separate accounts (which reflect separate account assets), policyholder account values, and guarantees measured as described in note C4.2. 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 expected gross profits. Recoverability of the deferred acquisition costs in the balance sheet is tested against the projected value of future profits using current estimates and therefore no additional liability adequacy test is required by IFRS 4. The DAC recoverability test is performed in line with US GAAP requirements which in practice is at a grouped level of those contracts managed together.

(b) Further critical accounting policies

Measurement and presentation of derivatives and debt securities of US insurance operations

Jackson holds a number of derivative instruments and debt securities. The selection of the accounting approach for these items significantly affects the volatility of IFRS profit before tax. £7,616 million of US income statement investment return arises from such derivatives and debt securities	For derivative instruments of Jackson that are entered into to mitigate economic exposures, the Group has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. The key factors considered in this assessment were the complexity of asset and liability matching in Jackson's product range and the difficulty and cost of applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book. The Group has decided that, except for occasional circumstances, applying hedge accounting using IAS 39 to derivative instruments held by Jackson would not improve the relevance or reliability of the financial statements to such an extent that would justify the difficulty and cost of applying these provisions. As a result of this decision, the total income statement results are more volatile as the movements in the fair value of Jackson's derivatives are reflected within it. This volatility is reflected in the level of short-term fluctuations in investment returns, as shown in notes B1.1 and B1.2. Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within other comprehensive income. Impairments are recorded in the income statement.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Presentation of results before tax

Profit before tax is a significant IFRS income statement item. The Group has chosen to present a measure of profit before tax attributable to shareholders which distinguishes between tax attributable to policyholders and unallocated surplus and tax borne by shareholders, to support understanding of the performance of the Group.

Profit before tax attributable to shareholders is £2,275 million and compares to profit before tax of £3,212 million.

The total tax charge for the Group reflects tax that, in addition to relating to shareholders' profits, is also attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. Further detail is provided in note B5. Reported profit before the total tax charge is not representative of pre-tax profits attributable to shareholders. Accordingly, in order to provide a measure of pre-tax profits attributable to shareholders the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes between policyholder and shareholder components.

Segmental analysis of results and earnings attributable to shareholders

The Group uses operating profit based on longer-term investment returns as the segmental measure of its results.

Total segmental operating profit is £4,972 million as shown in note B1.2.

The basis of calculation of operating profit is disclosed in note B1.3.

For shareholder-backed business, with the exception of debt securities held by Jackson and assets classified as loans and receivables at amortised cost, all financial investments and investment property are designated as assets at fair value through profit or loss. Short-term fluctuations in fair value affect the result for the year and the Group provides additional analysis of results before and after the effects of short-term fluctuations in investment returns, together with other items that are of a short-term, volatile or one-off nature. The effects of short-term fluctuations include asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.2.

Short-term fluctuations in investment returns on assets held by with-profits funds in the UK, Hong Kong, Malaysia and Singapore, do not affect directly reported shareholder results. This is because (i) the unallocated surplus of with-profits funds is accounted for as a liability and (ii) excess or deficits of income and expenditure of the funds over the required surplus for distribution are transferred to or from unallocated surplus.

(c) Further critical estimates and judgements

Deferred acquisition costs for insurance contracts

The Group applies judgement and makes estimates in assessing whether adjustments to the carrying value or amortisation profile of deferred acquisition cost assets are necessary.

Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under FRS 27, costs of acquiring new insurance business are accounted for in a way that is consistent with the principles of the ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. In general, this deferral is shown by an explicit carrying value in the balance sheet. However, in some Asia operations the deferral is implicit through the reserving methodology. The recoverability of the deferred acquisition costs is measured and are deemed impaired if the projected margins are less than the carrying value. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value will be necessary.

Deferred acquisition costs for insurance contracts continued

Costs of acquiring new insurance business, principally commissions, marketing and advertising and certain other costs associated with policy insurance and underwriting that are not reimbursed by policy charges, are specifically identified and capitalised as part of deferred acquisition costs. £9,178 billion of deferred acquisition costs as per note C5(b).	
Asia insurance operations	For those territories applying US GAAP to insurance assets and liabilities, as permitted by the ABI SORP, principles similar to those set out in the US insurance operations paragraph below are applied to the deferral and amortisation of acquisition costs. For other territories in Asia, the general principles of the ABI SORP are applied with, as described above, deferral of acquisition costs being either explicit or implicit through the reserving basis.
US insurance operations	The Group's US insurance operations apply FAS ASU 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' and capitalises only those incremental costs directly relating to successfully acquiring a contract. 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 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. 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 Jackson's actual industry experience and future expectations. A detailed analysis of actual mortality, lapse and expenses experience is performed using internally developed experience studies. For US variable annuity business, a key assumption is the long-term investment return from the separate accounts, which is determined using a mean reversion methodology. 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 assumed 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 long-term investment return. For further details, refer to note C7.3(iv). 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. Jackson uses shadow accounting to make adjustments to the deferred acquisition costs which are recognised directly in other comprehensive income. To the extent that recognition of unrealised gains or losses on available-for-sale securities causes adjustments to the carrying value and amortisation patterns of deferred acquisition costs and deferred income, these adjustments are recognised in other comprehensive income to be consistent with the treatment of the gains or losses on the securities. More precisely, shadow DAC adjustments reflect the change in deferred acquisition costs that would have arisen if the assets held in the statement of financial position had been sold, crystallising unrealised gains or losses, and the proceeds reinvested at the yields currently available in the market.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Deferred acquisition costs for insurance contracts continued

UK insurance operations	For UK regulated with-profits funds where FRS 27 is applied, the basis of setting liabilities is such that it would be inappropriate for acquisition costs to be deferred, therefore these costs are expensed as incurred. The majority of the UK shareholder-backed business is individual and group annuity business where the deferral of acquisition costs is negligible.

Financial investments – Valuation

Financial Investments held at fair value represent £349.8 billion of the Group's total assets.

The Group applies valuation techniques to determine the balance recognised for financial investments held at fair value.

Financial investments held at amortised cost represent £12.2 billion of the Group's total assets.

The Group holds the majority of its financial investments at fair value (either through profit and loss or available for sale). Financial Investments held at amortised cost primarily comprise of Loans and Deposits.

Determination of fair value

The Group uses current bid prices to value its investments with quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties as described further in note C3.1.

If the market for a financial investment of the Group is not active, the fair value is determined by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique 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 valuation techniques include the use of 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 and 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 financial investments.

Financial investments measured at fair value are classified into a three level hierarchy as described in note C3.1(b).

Determination of impaired value

In estimating the present value of future cash flows for determining the impaired value of instruments held at amortised cost, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

In estimating any required impairment for US residential mortgage-backed and other asset-backed securities held as available for sale, the expected value of future cash flows is determined using a model, the key assumptions of which include how much of the currently delinquent loans will eventually default and assumed loss severity.

Financial investments – Determining impairment in relation to financial assets

The Group applies estimates and assumptions in determining when an impairment in value has occurred on financial investments classified as 'available-for-sale' or 'at amortised cost'.

If a loss event that will have a detrimental effect on cash flows is identified, an impairment loss is recognised in the income statement. The loss recognised is determined as the difference between the book cost and the fair value of the relevant impaired assets. This loss comprises the effect of the expected loss of contractual cash flows and any additional market-price-driven temporary reductions in values.

Affects £52.8 billion of assets.

Available-for-sale securities

The Group's review of fair value involves several criteria, including economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealised losses currently in equity may be recognised in the income statement in future periods. Additional details on the impairments of the available-for-sale securities of Jackson are described in note C3.2(c).

The majority of the US insurance operation's debt securities portfolio are accounted for on an available-for-sale basis. The consideration of evidence of impairment requires management's judgement. In making this determination a range of market and industry indicators are considered including the severity and duration of the decline in fair value and the financial condition and prospects of the issuer.

For US residential mortgage-backed and other asset-backed securities, all of which are classified as available-for-sale, impairment is estimated using a model of expected future cash flows. Key assumptions used in the model include assumptions about how much of the currently delinquent loans will eventually default and assumed loss severity.

Assets held at amortised cost

Assets held at amortised cost are subject to impairment testing where appropriate under IFRS requirements by comparing estimated future cash flows to the carrying value of the asset. In estimating future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred. In estimating future cash flows, for the purposes of impairment testing for assets held at amortised cost, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

Reversal of impairment losses

If, in subsequent periods, an impaired debt security held on an available-for-sale basis or an impaired loan or receivable recovers in value (in part or in full), and this recovery can be objectively related to an event occurring after the impairment, then the previously recognised impairment loss is reversed through the income statement (in part or in full).

Intangible assets – Carrying value of distribution rights

The Group applies judgement when considering whether indicators of impairment exist for intangible assets representing distribution rights.

Affects £1.5 billion of assets.

Distribution rights relate to fees paid under bancassurance partnership arrangements for bank distribution of products for the term of the contractual agreement with the bank partner. Distribution rights impairment testing is conducted when there is an indication of impairment.

The Group monitors a number of internal and external factors, including indications that the financial performance of the arrangement is likely to be worse than originally expected and changes in relevant legislation and regulatory requirements that could impact the Group's ability to continue to sell new business through the bancassurance channel, to assess for indications of impairment.

A Background and critical accounting policies
Continued

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective in 2016, including those which have not yet been adopted in the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the Group's financial statements are discussed.

Accounting pronouncements endorsed by the EU but not yet effective

IFRS 15, 'Revenue from Contracts with Customers'

This standard effective for annual periods beginning on or after 1 January 2018, provides a single framework to recognise revenue for contacts with different characteristics and overrides the framework provided for such contracts in other standards. The contracts excluded from the scope of this standard include:

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

As a result of the scope exclusion above, this standard is of particular relevance only to the revenue recognition of the Group's asset management contracts and the measurement of the Group's investment contracts that do not contain discretionary participating features where the contracts include an investment management element. The Group does not expect the standard to have a significant impact on the Group's financial statements.

IFRS 9, 'Financial instruments: Classification and measurement'

In July 2014, the IASB published a complete version of IFRS 9 with the exception of macro hedge accounting. The standard becomes mandatorily effective for the annual periods beginning on or after 1 January 2018, with early application permitted and transitional rules apply.

This standard replaces the existing IAS 39, 'Financial Instruments – Recognition and Measurement', and will affect:

- The classification and the measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified under one of the following categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on their contractual cash flow characteristics and/or the business model in which they are held. The existing amortised cost measurement for financial liabilities is largely maintained under IFRS 9 but for financial liabilities designated at FVTPL, changes in fair value due to changes in entity's own credit risk, required by IFRS 13, are to be recognised in other comprehensive income;
- The calculation of the impairment charge relevant for financial assets held at amortised cost or FVOCI. A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model; and
- The hedge accounting requirements which are more closely aligned with the risk management activities of the company.

In September 2016, the IASB published Amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and the new insurance contracts standard. The amendments include an optional temporary exemption from applying IFRS 9 that is available to companies whose predominant activity is to issue insurance contracts. Such a deferral will be available until the new Insurance Contracts Standard (IFRS 17) comes into effect (but it cannot be used after 1 January 2021). The Group meets the criteria and intends to take advantage of the temporary exemption afforded by the amendments to IFRS 4 from applying IFRS 9 until IFRS 17 comes into effect, which is expected to be in 2021. The amendments to IFRS 4 are not yet endorsed by the EU. However, the European Financial Reporting Advisory Group (EFRAG) has provided advice to the European Commission recommending endorsement.

The Group will be assessing the impact of this IFRS 9 in conjunction with the requirements of the IASB's proposals for insurance contracts accounting as they are developed to a final standard. The adoption of the requirements of IFRS 9 may result in reclassification of certain of the Group's financial assets and hence lead to a change in the measurement of these instruments or the performance reporting of value movements. In addition, for any investments classified as FVOCI, as noted above, the impairment provisioning approach is altered from the current IAS 39 approach. The Group does not currently apply hedge accounting for most of its derivative programmes but will reconsider its approach in light of new requirements under the standard on adoption.

Accounting pronouncements not yet endorsed by the EU

IFRS 16, 'Leases'

In January 2016, the IASB published a new standard, IFRS 16 'Leases' effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. For lessee accounting, this has the effect of bringing most of the existing operating leases to be accounted for in a similar manner as finance leases under the existing IAS 17, 'Leases'. Lessor accounting however remains largely unchanged from IAS 17.

This new standard is of particular relevance to the operating leases for major assets where Prudential is a lessee, which relate to leases of properties occupied by the Group's businesses. Under IFRS 16, these leases will be brought on to the statement of financial position with a 'right to use' asset being established and a corresponding liability representing the obligation to make lease payments. The current rental accrual charge in the profit and loss account will be replaced with a depreciation charge for the 'right to use' asset and the interest expense on the lease liability. The Group is currently assessing the impact of this new standard.

Amendments to IAS 12: Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes clarifying the requirements on recognition of deferred tax assets for unrealised losses on a debt instrument measured at fair value. The amendments are effective from 1 January 2017. The Group has assessed the requirements of these amendments and concluded that they do not require any changes to the Group's accounting policy for deferred tax.

Other new accounting pronouncements

In addition to the above, the Group is also assessing the impact of the following new accounting pronouncements but are not expecting them to have a significant impact on the Group's financial statements:

— Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative, issued in January 2016 and effective from 1 January 2017;
— Amendments to IFRS 2: Classification and measurement of share-based payment transactions, issued in June 2016 and effective from 1 January 2018;
— Annual Improvements to IFRS Standards 2014-2016 Cycle, issued in December 2016 and effective from 1 January 2017/1 January 2018;
— IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, issued in December 2016 and effective from 1 January 2018; and
— Amendments to IAS 40, Transfers of Investment Property, issued in December 2016 and effective from 1 January 2018.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

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

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

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

Notes

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

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

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

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

Notes

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

(ii) US insurance operations
The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £565 million as shown in note C5(b) (2015: £93 million) and comprise amounts in respect of the following items:

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

Notes

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

1 The accounting value movements on the variable and fixed index annuity guarantee liabilities. This includes:
   - The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are measured under the US GAAP basis applied for IFRS in a way that is substantially insensitive to the effect of current period equity market and interest rate changes; and
   - The 'not for life' portion of GMWB embedded derivative liabilities which are required to be measured under IAS 39 using a basis under which the projected future growth rate of the account balance is based on current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates.

2 Adjustments in respect of fee assessments and claim payments;
3 Fair value movements on free-standing equity derivatives held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options.
4 Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:
- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP;
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

(b) Other than equity-related derivatives
The fluctuations for this item comprise the net effect of:
- Fair value movements on free-standing, other than equity-related derivatives;
- Accounting effects of the Guaranteed Minimum Income Benefit (GMIB) reinsurance; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above.
The direct GMIB liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled, it is deemed a derivative under IAS 39 which requires fair valuation.
The fluctuations for this item therefore include significant accounting mismatches caused by:
- The fair value movements booked in the income statement on the derivative programme being in respect of the management of interest rate exposures of the variable and fixed index annuity business, as well as the fixed annuity business guarantees and durations within the general account;
- Fair value movements on Jackson's debt securities of the general account which are recorded in other comprehensive income rather than the income statement; and
- The mixed measurement model that applies for the GMIB and its reinsurance.

B1 Analysis of performance by segment continued

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

(c) Short-term fluctuations related to debt securities

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

Note
The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2016 is based on an average annual risk margin reserve of 21 basis points (2015: 23 basis points) on average book values of US$56.4 billion (2015: US$54.6 billion) as shown below:

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

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit for unrealised losses on debt securities classified as available-for-sale net of related change in amortisation of deferred acquisition costs of £48 million (2015: charge for net unrealised losses £(968) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

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

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

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

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

Operating segments

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

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

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

Performance measure

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

- Short-term fluctuations in investment returns on shareholder-backed business. This includes the impact of short-term market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below.
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;
- Loss attaching to the held for sale Korea life business. See note D1 for further details; and
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015.

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

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

(a) General principles

(i) UK style with-profits business

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

(ii) Unit-linked business

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

(iii) US variable annuity and fixed index annuity business

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

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

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

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

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively.

B1 Analysis of performance by segment continued

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

(v) Other shareholder-financed business

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

Except in the case of assets backing liabilities which are directly matched (such as unit-linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

Debt, equity-type securities and loans

Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

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

- Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and
- The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 31 December 2016, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £969 million (2015: £567 million).

Equity-type securities

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

Derivative value movements

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

(b) Asia insurance operations

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

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

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

(ii) Other Asia shareholder-financed business

Debt securities

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

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed operations amounted to £1,405 million as at 31 December 2016 (2015: £840 million). The rates of return applied in 2016 ranged from 3.2 per cent to 13.9 per cent (2015: 3.5 per cent to 13.0 per cent) with the rates applied varying by territory. These rates are broadly stable from period to period but may be different between countries reflecting, for example differing expectations of inflation in each territory. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(c) US Insurance operations

(i) Separate account business

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

(ii) US variable and fixed index annuity business

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

— Fair value movements for equity-based derivatives;
— Fair value movements for embedded derivatives for the 'not for life' portion of GMWB and fixed index annuity business, and GMIB reinsurance (see below);
— Movements in the accounts carrying value of GMDB and the 'for life' portion of GMWB and GMIB liabilities, for which, under the 'grandfathered' US GAAP applied under IFRS for Jackson's insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements;
— A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
— Related amortisation of deferred acquisition costs for each of the above items.

Embedded derivatives for variable annuity guarantee minimum income benefit

The GMIB liability, which is essentially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 944-80 Financial Services – Insurance – Separate Accounts (formerly SOP 03-1) under IFRS using 'grandfathered' US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39, 'Financial Instruments: Recognition and Measurement', and the asset is therefore recognised at fair value. As the GMIB is economically reinsured, the mark-to-market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

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

(iv) Other US shareholder-financed business

Debt securities

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

Equity-type securities

As at 31 December 2016, the equity-type securities for US insurance non-separate account operations amounted to £1,323 million (2015: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

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

B1 Analysis of performance by segment continued

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

(d) UK Insurance operations

(i) Shareholder-backed annuity business

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

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

— The impact on credit risk provisioning of actual upgrades and downgrades during the period;
— Credit experience compared with assumptions; and
— Short-term value movements on assets backing the capital of the business.

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

(ii) Non-linked shareholder-financed business

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

(e) Fund management and other non-insurance businesses

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

B1.4 Segmental income statement

	2016 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations) note (iii)	Group total
Gross premium earned	14,006	14,685	10,290	–	–	–	–	38,981	–	38,981
Outward reinsurance	(648)	(367)	(1,005)	–	–	–	–	(2,020)	–	(2,020)
Earned premiums, net of reinsurance	13,358	14,318	9,285	–	–	–	–	36,961	–	36,961
Other income from external customers note (ii)	77	4	374	972	19	680	176	2,302	68	2,370
Total revenue from external customers	13,435	14,322	9,659	972	19	680	176	39,263	68	39,331
Intra-group revenue	–	–	–	200	37	103	211	551	(551)	–
Interest income note (iv)	873	2,149	4,502	15	47	2	2	7,590	57	7,647
Other investment return B1.5	2,040	5,461	17,577	1	(41)	–	2	25,040	(176)	24,864
Total revenue, net of reinsurance	16,348	21,932	31,738	1,188	62	785	391	72,444	(602)	71,842
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(11,442)	(20,214)	(27,710)	–	–	–	–	(59,366)	–	(59,366)
Interest on core structural borrowings	–	(15)	–	–	(17)	–	–	(32)	(328)	(360)
Acquisition costs and other operating expenditure B3	(3,564)	(1,174)	(2,241)	(768)	(74)	(789)	(304)	(8,914)	66	(8,848)
Remeasurement of carrying value of Korea life business classified as held for sale D1	(238)	–	–	–	–	–	–	(238)	–	(238)
Total charges, net of reinsurance	(15,244)	(21,403)	(29,951)	(768)	(91)	(789)	(304)	(68,550)	(262)	(68,812)
Share of profit from joint ventures and associates, net of related tax	94	–	21	13	–	–	54	182	–	182
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)	1,198	529	1,808	433	(29)	(4)	141	4,076	(864)	3,212
Tax charge attributable to policyholders' returns	(155)	–	(782)	–	–	–	–	(937)	–	(937)
Profit (loss) before tax attributable to shareholders	1,043	529	1,026	433	(29)	(4)	141	3,139	(864)	2,275

B1 Analysis of performance by segment continued

B1.4 Segmental income statement continued

	2016 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations) note (iii)	Group total
Analysis of operating profit										
Operating profit (loss) based on longer-term investment returns	1,503	2,052	828	425	27	(4)	141	4,972	(716)	4,256
Short-term fluctuations in investment returns on shareholder-backed business	(225)	(1,455)	198	8	(56)	–	–	(1,530)	(148)	(1,678)
Amortisation of acquisition accounting adjustments	(8)	(68)	–	–	–	–	–	(76)	–	(76)
Loss attaching to the held for sale Korea life business[D1]	(227)	–	–	–	–	–	–	(227)	–	(227)
Profit (loss) before tax attributable to shareholders	1,043	529	1,026	433	(29)	(4)	141	3,139	(864)	2,275

	2015 £m									
	Insurance operations			**Asset management**						
	Asia	**US**	**UK**	**M&G**	**Prudential Capital**	**US**	**Eastspring Investments**	**Total segment**	**Unallocated to a segment (central operations)** note (iii)	**Group total**
Gross premium earned	10,814	16,887	8,962	–	–	–	–	36,663	–	36,663
Outward reinsurance	(364)	(320)	(473)	–	–	–	–	(1,157)	–	(1,157)
Earned premiums, net of reinsurance	10,450	16,567	8,489	–		–	–	35,506	–	35,506
Other income from external customers note (ii)	64	–	374	1,008	19	760	171	2,396	99	2,495
Total revenue from external customers note (v)	10,514	16,567	8,863	1,008	19	760	171	37,902	99	38,001
Intra-group revenue	–	–	–	194	25	90	178	487	(487)	–
Interest income note (iv)	743	1,921	4,240	18	107	–	2	7,031	(13)	7,018
Other investment return B1.5	(1,042)	(2,703)	132	17	(97)	(7)	1	(3,699)	(15)	(3,714)
Total revenue, net of reinsurance	10,215	15,785	13,235	1,237	54	843	352	41,721	(416)	41,305
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(6,543)	(13,029)	(10,084)	–	–	–	–	(29,656)	–	(29,656)
Interest on core structural borrowings	–	(13)	–	–	(17)	–	–	(30)	(282)	(312)
Acquisition costs and other operating expenditure B3	(2,651)	(1,544)	(2,025)	(810)	(82)	(832)	(278)	(8,222)	14	(8,208)
Disposal of Japan life business: Cumulative exchange loss recycled from other comprehensive income	(46)	–	–	–	–	–	–	(46)	–	(46)
Total charges, net of reinsurance	(9,240)	(14,586)	(12,109)	(810)	(99)	(832)	(278)	(37,954)	(268)	(38,222)
Share of profit from joint ventures and associates, net of related tax	130	–	53	14	–	–	41	238	–	238
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)	1,105	1,199	1,179	441	(45)	11	115	4,005	(684)	3,321
Tax charge attributable to policyholders' returns	(69)	–	(104)	–	–	–	–	(173)	–	(173)
Profit (loss) before tax attributable to shareholders	1,036	1,199	1,075	441	(45)	11	115	3,832	(684)	3,148

B1 Analysis of performance by segment continued

B1.4 Segmental income statement continued

	2015 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations) note (iii)	Group total
Analysis of operating profit										
Operating profit (loss) based on longer-term investment returns	1,171	1,691	1,195	442	19	11	115	4,644	(675)	3,969
Short-term fluctuations in investment returns on shareholder-backed business	(137)	(424)	(120)	(1)	(64)	–	–	(746)	(9)	(755)
Amortisation of acquisition accounting adjustments	(8)	(68)	–	–	–	–	–	(76)	–	(76)
Profit attaching to the held for sale Korea life business	56	–	–	–	–	–	–	56	–	56
Cumulative exchange loss on the sold Japan life business	(46)	–	–	–	–	–	–	(46)	–	(46)
Profit (loss) before tax attributable to shareholders	1,036	1,199	1,075	441	(45)	11	115	3,832	(684)	3,148

Notes
(i) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.
(ii) Other income from external customers includes £8 million (2015: £19 million) relating to financial instruments that are not held at fair value through profit or loss. These fees primarily related to prepayment fees, late fees and syndication fees.
(iii) In addition to the results of the central operations, unallocated to a segment includes intra-group eliminations. This column includes the elimination of the intra-group reinsurance contract between the UK with-profits and Asia with-profits operations.
(iv) Interest income includes £3 million (2015: £3 million) accrued in respect of impaired securities.
(v) In Asia, revenue from external customers from no individual country exceeds 10 per cent of the Group total except for Hong Kong in 2016 (2015: no individual country exceeded 10 per cent). Total revenue from external customers of Hong Kong is £6,313 million (2015: £3,836 million).
(vi) Due to the nature of the business of the Group, there is no reliance on any major customers.

B1.5 Other investment return

	2016 £m	2015 £m
Realised and unrealised gains (losses) and gains (losses) on securities at fair value through profit or loss	28,489	(4,572)
Realised and unrealised (losses) and gains on derivatives at fair value through profit or loss	(7,050)	(1,701)
Realised gains on available-for-sale securities, previously recognised in other comprehensive income*	270	49
Realised gains (losses) on loans	91	(50)
Dividends	2,283	1,791
Other investment income	781	769
Other investment return	24,864	(3,714)

* Including impairment.

Realised gains and losses on the Group's investments for 2016 recognised in the income statement amounted to a net loss of £1.6 billion (2015: a net gain of £3.0 billion).

B2 Profit before tax – asset management operations

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

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

Notes

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

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

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

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

B3 Acquisition costs and other expenditure

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

Total acquisition costs and other expenditure includes:

(a) Total depreciation and amortisation expense of £(242) million (2015: £(755) million) relates primarily to amortisation of deferred acquisition costs of insurance contracts and asset management contracts.
(b) The charge for non-deferred acquisition costs and the amortisation of those costs that are deferred, was £(2,764) million (2015: £(2,844) million). These amounts comprise £(2,734) million and £(30) million for insurance and investment contracts respectively (2015: £(2,817) million and £(27) million respectively).
(c) Movements in amounts attributable to external unit holders are in respect of those OEICs and unit trusts which are required to be consolidated and comprises a charge of £(485) million (2015: £(599) million) for UK insurance operations and a charge of £(77) million (2015: £(19) million) for Asia insurance operations.
(d) There were no fee expenses relating to financial liabilities held at amortised cost included in acquisition costs in 2016 and 2015.
(e) The segmental analysis of other interest expense and depreciation and amortisation included within total acquisition costs and other expenditure was as follows:

	Other interest expense		Depreciation and amortisation	
	2016	2015	2016	2015
Insurance operations				
Asia	–	–	(201)	(175)
US	(56)	(19)	94	(453)
UK	(102)	(93)	(105)	(93)
Asset management				
M&G	–	–	(7)	(8)
Prudential Capital	(5)	(22)	–	–
US	–	–	(3)	(3)
Eastspring Investments	–	–	(2)	(2)
Total segment	(163)	(134)	(224)	(734)
Unallocated to a segment (central operations)	(22)	(13)	(18)	(21)
Group total	(185)	(147)	(242)	(755)

B3.1 Staff and employment costs

The average number of staff employed by the Group during the year was:

	2016	2015
Business operations:		
Asia operations	15,439	15,030
US operations	4,447	4,562
UK operations	6,381	5,920
Total	26,267	25,512

The costs of employment were:

	2016 £m	2015 £m
Business operations:		
Wages and salaries	1,483	1,370
Social security costs	110	101
Pension costs:		
Defined benefit schemes*	213	(63)
Defined contribution schemes	79	67
Total	1,885	1,475

* The charge (credit) incorporates the effect of actuarial gains and losses.

B3.2 Share-based payment

(a) Description of the plans

The Group operates a number of share award and share option plans that provides Prudential plc shares to participants upon vesting. The plans in operation include Prudential Long-Term Incentive Plan (PLTIP), Annual Incentive Plan (AIP), savings-related share option schemes, share purchase plans and deferred bonus plans. Some of these plans are participated in by executive directors, the details of which are described in the directors' remuneration report. In addition, the following information is provided.

Share scheme	Description
Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and on a year-by-year basis determined by Prudential's full year financial results and the employee's contribution to the business. Awards vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are made in Prudential shares, or ADRs, except for countries where share awards are not feasible due to securities and/or tax reasons, where awards will be replaced by the cash value of the shares that would otherwise have been transferred.
Savings-related share option schemes	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC-approved Save As You Earn (SAYE) share option scheme in the UK. Eligible employees participate in the international savings-related share option scheme while eligible agents based in certain regions of Asia can participate in the non-employee savings-related share option scheme.
Share purchase plans	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC-approved UK SIP, which allows the purchase of Prudential plc shares. Staff based in Ireland and Asia are eligible for the Share Participation Plan.
Deferred bonus plans	The Company operates a number of deferred bonus schemes including the Group Deferred Bonus Plan, the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP), the Prudential Capital Deferred Bonus Plan (PruCap DBP) and other arrangements. There are no performance conditions attached to deferred share awards made under these arrangements.
Jackson Long-Term Incentive Plan	Eligible Jackson employees were previously granted share awards under a long-term incentive plan that rewarded the achievement of shareholder value targets. These awards were in the form of a contingent right to receive shares or a conditional allocation of shares. These share awards have vesting periods of four years and are at nil cost to the employee. Award holders do not have any right to dividends or voting rights attaching to the shares. The shares are held in the employee share trust in the form of American Depository Receipts that are tradable on the New York Stock Exchange. The final awards under this arrangement were made in 2012.

B3 Acquisition costs and other expenditure continued

B3.2 Share-based payment continued

(b) Outstanding options and awards

The following table shows movement in outstanding options and awards under the Group's share-based compensation plans at 31 December 2016 and 2015:

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans including conditional options	
	2016		2015		2016	2015
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	
Beginning of year:	8.8	9.44	8.6	8.29	28.4	28.8
Granted	1.4	11.04	2.2	11.11	13.9	9.9
Exercised	(2.0)	7.30	(1.6)	5.72	(10.5)	(7.9)
Forfeited	(0.1)	9.95	(0.2)	8.14	(1.5)	(2.3)
Cancelled	(0.8)	6.45	(0.2)	10.15	(0.1)	–
Lapsed/Expired	(0.2)	9.64	–	7.47	–	(0.1)
End of year	7.1	10.74	8.8	9.44	30.2	28.4
Options immediately exercisable, end of year	0.6	8.53	1.1	5.71		

The weighted average share price of Prudential plc for the year ended 31 December 2016 was £13.56 compared to £15.49 for the year ended 31 December 2015.

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding at 31 December.

	Outstanding						Exercisable			
	Number exercisable (millions)		Weighted average remaining contractual life (years)		Weighted average exercise prices £		Number exercisable (millions)		Weighted average exercise prices £	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Between £2 and £3	–	0.2	–	0.9	–	2.88	–	–	–	–
Between £4 and £5	0.1	0.8	0.4	0.9	4.66	4.64	0.1	0.4	4.66	4.61
Between £5 and £6	–	–	–	–	–	–	–	–	–	–
Between £6 and £7	0.2	1.0	1.4	0.9	6.29	6.29	–	0.7	6.29	6.29
Between £9 and £10	1.1	2.2	1.4	1.9	9.01	9.01	0.5	–	9.01	–
Between £11 and £12	5.7	4.6	2.9	3.6	11.27	11.34	–	–	–	–
	7.1	8.8	2.6	2.6	10.74	9.44	0.6	1.1	8.53	5.71

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

(c) Fair value of options and awards

The fair value amounts estimated on the date of grant relating to all options and awards, were determined by using the following assumptions:

	2016			2015		
	Prudential LTIP (TSR)	SAYE options	Other awards	Prudential LTIP (TSR)	SAYE options	Other awards
Dividend yield (%)	–	3.19	–	–	2.35	–
Expected volatility (%)	29.36	25.41	–	21.48	22.73	–
Risk-free interest rate (%)	0.12	0.15	–	0.88	1.02	–
Expected option life (years)	–	3.70	–	–	3.79	–
Weighted average exercise price (£)	–	11.04	–	–	11.11	–
Weighted average share price (£)	12.82	13.94	–	16.67	13.52	–
Weighted average fair value (£)	4.41	3.05	12.57	7.97	2.95	16.28

The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than the Prudential LTIP (TSR) for which the Group uses a Monte Carlo model in order to allow for the impact of the LTIP (TSR) performance conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

For all options and awards, the expected volatility is based on the market implied volatilities as quoted on Bloomberg. The Prudential specific at-the-money implied volatilities are adjusted to allow for the different terms and discounted exercise price on SAYE options by using information on the volatility surface of the FTSE 100.

Risk-free interest rates are taken from government bond spot rates with projections for two-year, three-year and five-year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over a period of 12 months up to and including the date of grant. For the Prudential LTIP (TSR), volatility and correlation between Prudential and a basket of 18 competitor companies is required. For grants in 2016, the average volatility for the basket of competitors was 24.88 per cent. Correlations for the basket are calculated for each pairing from the log of daily TSR returns for the three years prior to the valuation date. Market implied volatilities are used for both Prudential and the components of the index. Changes to the subjective input assumptions could materially affect the fair value estimate.

(d) Share-based payment expense charged to the income statement

Total expense recognised in the year in the consolidated financial statements relating to share-based compensation is as follows:

	2016 £m	**2015** £m
Share-based compensation expense	126	111
Amount accounted for as equity-settled	127	110
Carrying value at 31 December of liabilities arising from share-based payment transactions	–	6
Intrinsic value of above liabilities for which rights had vested at 31 December	–	6

B3.3 Key management remuneration

Key management constitutes the directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group.

Total key management remuneration is analysed in the following table:

	2016 £m	**2015** £m
Salaries and short-term benefits	20.7	17.1
Post-employment benefits	1.3	1.1
Share-based payments	18.7	15.5
	40.7	33.7

The share-based payments charge comprises £12.9 million (2015: £10.4 million), which is determined in accordance with IFRS 2, 'Share-based Payment' (see note B3.2) and £5.8 million (2015: £5.1 million) of deferred share awards.

Total key management remuneration includes total directors' remuneration of £37.9 million (2015: £42.7 million) less LTIP releases of £10.1 million (2015: £19.4 million) as shown in the directors' remuneration table and related footnotes in the directors' remuneration report. Further information on directors' remuneration is given in the directors' remuneration report.

B3.4 Fees payable to the auditor

	2016 £m	**2015** £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.0	2.0
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	7.5	7.2
Audit-related assurance services	3.9	3.1
Tax compliance services	0.1	0.7
Other assurance services	2.1	2.2
Services relating to corporate finance transactions	–	0.2
All other services	0.6	1.2
Total fees paid to the auditor	16.2	16.6

In addition, there were fees incurred by pension schemes of £0.1 million (2015: £0.1 million) for audit services and £0.1 million (2015: £nil) for other assurance services.

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

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

(a) Asia insurance operations

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

(b) UK insurance operations

Annuity business

Allowance for credit risk

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

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

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

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

Other assumption changes

For the shareholder-backed business, in addition to the movement in the credit risk allowance discussed above, the net effect of routine changes to assumptions in 2016 was a credit of £16 million (2015: credit of £31 million).

Longevity reinsurance and other management actions

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

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

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

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

With-profits sub-fund

For the with-profits sub-fund, the aggregate effect of assumption changes in 2016 was a net charge to unallocated surplus of £78 million (2015: net charge of £114 million).

B5 Tax charge

(a) Total tax charge by nature of expense

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

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

The total tax charge comprises:

	2016 £m	2015 £m
Current tax expense:		
Corporation tax	(1,464)	(782)
Adjustments in respect of prior years	87	48
Total current tax	(1,377)	(734)
Deferred tax arising from:		
Origination and reversal of temporary differences	64	(40)
Impact of changes in local statutory tax rates	6	22
Credit in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	16	10
Total deferred tax credit (charge)	86	(8)
Total tax charge	(1,291)	(742)

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

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

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

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in realised and unrealised gains on equity and bond investments in the with-profits fund of the main UK insurance business. The principal reason for the decrease in the tax charge attributable to shareholders' returns is a deferred tax credit on derivative fair value movements in the US insurance operations. The main elements of the deferred tax credit shown in the table below are a charge of £437 million relating to unrealised gains and losses on investments reflecting an increase in unrealised gains on investments in the Group's insurance operations and a credit of £573 million relating to short-term temporary differences reflecting deferred tax assets on derivative fair value movements in the US insurance operations.

The total deferred tax credit (charge) arises as follows:

	2016 £m	2015 £m
Unrealised gains and losses on investments	(437)	272
Balances relating to investment and insurance contracts	(90)	(55)
Short-term temporary differences	573	(200)
Capital allowances	4	1
Unused tax losses	36	(26)
Deferred tax credit (charge)	86	(8)

In 2016, a deferred tax credit of £22 million (2015: credit of £333 million) has been taken through other comprehensive income.

(b) Reconciliation of effective tax rate

In the reconciliation below, the expected tax rates reflect the corporate income tax rates that are expected to apply to the taxable profit of the relevant business. Where there are profits of more than one jurisdiction the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit contributing to the aggregate business result. In the column 'Attributable to policyholders', the 100 per cent expected tax rate is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after tax basis, the effect of which leaves the profit equal to the tax charge.

B5 Tax charge continued

(b) *Reconciliation of effective tax rate* continued

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

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

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

The more significant reconciling items are explained below:

Asia insurance operations

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

The £20 million reconciling item 'items related to taxation of life insurance businesses' reflects where the basis of tax is not the accounting profits, primarily in:

- Hong Kong where the taxable profit is based on the net insurance premiums; and
- Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

There is no significant movement in the reconciling items from 2015.

The £29 million reconciling item 'effect of results of the joint ventures and associates' arises from the accounting requirement for inclusion in the profit before tax of Prudential's share of the profits after tax from the joint ventures and associates, with no equivalent item included in Prudential's tax charge. The decrease reflects a lower profit from joint ventures and associates in 2016.

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

US insurance operations

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

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

UK insurance operations

There are no significant reconciling items or significant movements from 2015.

B Earnings performance
Continued

B5 Tax charge continued

(b) *Reconciliation of effective tax rate* continued

Other operations

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

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

B6 Earnings per share

		2016				
	Note	Before tax B1.1 £m	Tax B5 £m	Net of tax £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns		4,256	(894)	3,362	131.3p	131.2p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,678)	519	(1,159)	(45.3)p	(45.2)p
Loss attaching to held for sale Korea life business	D1	(227)	(4)	(231)	(9.0)p	(9.0)p
Amortisation of acquisition accounting adjustments		(76)	25	(51)	(2.0)p	(2.0)p
Based on profit for the year		2,275	(354)	1,921	75.0p	75.0p

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

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

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

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

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

B Earnings performance
Continued

B7 Dividends

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

Dividend per share

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

The second interim ordinary dividend for the year ended 31 December 2016 of 30.57 pence per share will be paid on 19 May 2017 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm (BST) on 31 March 2017 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 26 May 2017. The second interim ordinary dividend will be paid on or about 26 May 2017 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 13 March 2017. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore dollars, will be determined by CDP.

Shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

C1 Analysis of Group statement of financial position by segment

(a) Position as at 31 December 2016

		2016 £m									
		Insurance operations			Asset management						
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	M&G	Prudential Capital	US	Eastspring Investments	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	Group total
Assets											
Goodwill	C5(a)	245	–	153	1,153	–	16	61	–	–	1,628
Deferred acquisition costs and other intangible assets	C5(b)	2,316	8,323	107	8	–	4	3	46	–	10,807
Property, plant and equipment		121	237	343	5	–	10	3	24	–	743
Reinsurers' share of insurance contract liabilities		1,539	7,224	2,590	–	–	–	–	–	(1,302)	10,051
Deferred tax assets	C8.1	98	3,861	146	23	8	118	9	52	–	4,315
Current tax recoverable	C8.2	29	95	283	25	2	6	–	–	–	440
Accrued investment income note (i)		521	549	1,915	6	20	79	28	35	–	3,153
Other debtors note (i)		2,633	295	2,447	880	788	293	53	5,620	(9,990)	3,019
Investment properties		5	6	14,635	–	–	–	–	–	–	14,646
Investment in joint ventures and associates accounted for using the equity method	D6	688	–	409	39	–	–	137	–	–	1,273
Loans	C3.3	1,303	9,735	3,572	–	563	–	–	–	–	15,173
Equity securities and portfolio holdings in unit trusts		23,581	120,747	54,037	140	–	–	18	29	–	198,552
Debt securities	C3.2	36,546	40,745	90,796	–	2,359	–	–	12	–	170,458
Derivative assets		47	834	2,927	–	124	–	–	4	–	3,936
Other investments		–	987	4,449	24	–	5	–	–	–	5,465
Deposits		1,379	–	10,705	–	–	49	46	6	–	12,185
Assets held for sale	D1	3,863	–	726	–	–	–	–	–	–	4,589
Cash and cash equivalents note (ii)		1,995	1,054	4,703	354	1,451	81	162	265	–	10,065
Total assets		76,909	194,692	194,943	2,657	5,315	661	520	6,093	(11,292)	470,498

C Balance sheet notes
Continued

C1 Analysis of Group statement of financial position by segment continued

(a) Position as at 31 December 2016 continued

		2016 £m									
		Insurance operations			Asset management						
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	M&G	Prudential Capital	US	Eastspring Investments	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	Group total
Equity and liabilities											
Total equity		4,993	5,204	5,999	1,820	22	204	383	(3,958)	–	14,667
Liabilities											
Insurance contract liabilities	C4.1	54,417	174,328	88,993	–	–	–	–	–	(1,302)	316,436
Investment contract liabilities with discretionary participation features	C4.1	347	–	52,490	–	–	–	–	–	–	52,837
Investment contract liabilities without discretionary participation features	C4.1	254	3,298	16,171	–	–	–	–	–	–	19,723
Unallocated surplus of with-profits funds	C4.1	2,667	–	11,650	–	–	–	–	–	–	14,317
Core structural borrowings of shareholder-financed operations	C6.1	–	202	–	–	275	–	–	6,321	–	6,798
Operational borrowings attributable to shareholder-financed operations note (iv)	C6.2(a)	19	480	167	–	–	–	–	1,651	–	2,317
Borrowings attributable to with-profits operations	C6.2(b)	4	–	1,345	–	–	–	–	–	–	1,349
Obligations under funding, securities lending and sale and repurchase agreements		–	3,534	1,497	–	–	–	–	–	–	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,093	–	5,594	–	–	–	–	–	–	8,687
Deferred tax liabilities	C8.1	935	2,831	1,577	15	–	1	–	11	–	5,370
Current tax liabilities	C8.2	113	–	447	64	7	–	12	6	–	649
Accruals, deferred income and other liabilities note (iii)		5,887	4,749	6,176	553	4,396	455	53	1,546	(9,990)	13,825
Provisions	C11	157	2	442	205	–	1	72	68	–	947
Derivative liabilities	C3.4	265	64	1,860	–	615	–	–	448	–	3,252
Liabilities held for sale	D1	3,758	–	535	–	–	–	–	–	–	4,293
Total liabilities		71,916	189,488	188,944	837	5,293	457	137	10,051	(11,292)	455,831
Total equity and liabilities		76,909	194,692	194,943	2,657	5,315	661	520	6,093	(11,292)	470,498

(b) Position as at 31 December 2015

		2015 £m									
		Insurance operations			Asset management						
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	M&G	Prudential Capital	US	Eastspring Invest-ments	Unallo-cated to a segment (central opera-tions)	Elimin-ation of intra-group debtors and creditors	Group total
Assets											
Goodwill	C5	233	–	185	1,153	–	16	61	–	–	1,648
Deferred acquisition costs and other intangible assets		2,145	6,168	91	16	–	3	2	47	–	8,472
Property, plant and equipment		73	192	798	7	–	9	3	115	–	1,197
Reinsurers' share of insurance contract liabilities		797	6,211	2,156	–	–	–	–	–	(1,261)	7,903
Deferred tax assets	C8.1	66	2,448	132	30	8	95	7	33	–	2,819
Current tax recoverable		34	307	135	–	1	3	–	(3)	–	477
Accrued investment income note (i)		505	473	1,622	6	28	66	20	31	–	2,751
Other debtors note (i)		2,212	22	2,498	672	577	63	49	4,743	(8,881)	1,955
Investment properties		5	5	13,412	–	–	–	–	–	–	13,422
Investment in joint ventures and associates accounted for using the equity method		475	–	434	29	–	–	96	–	–	1,034
Loans		1,084	7,418	3,571	–	885	–	–	–	–	12,958
Equity securities and portfolio holdings in unit trusts		18,532	91,216	47,593	70	–	–	15	27	–	157,453
Debt securities		28,292	34,071	83,101	–	2,204	–	–	3	–	147,671
Derivative assets		57	905	1,930	–	65	–	–	1	–	2,958
Other investments		–	810	3,556	15	9	5	–	–	–	4,395
Deposits		773	–	11,226	–	–	50	39	–	–	12,088
Assets held for sale		–	–	2	–	–	–	–	–	–	2
Cash and cash equivalents note (ii)		2,064	1,405	2,880	430	415	79	130	379	–	7,782
Total assets		57,347	151,651	175,322	2,428	4,192	389	422	5,376	(10,142)	386,985

C1 Analysis of Group statement of financial position by segment continued

(b) Position as at 31 December 2015 continued

		2015 £m									
		Insurance operations			Asset management						
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	M&G	Prudential Capital	US	Eastspring Invest-ments	Unallo-cated to a segment (central opera-tions)	Elimin-ation of intra-group debtors and creditors	Group total
Equity and liabilities											
Total equity		3,957	4,154	5,140	1,774	70	182	306	(2,627)	–	12,956
Liabilities											
Insurance contract liabilities		42,084	136,129	83,801	–	–	–	–	–	(1,261)	260,753
Investment contract liabilities with discretionary participation features		251	–	42,708	–	–	–	–	–	–	42,959
Investment contract liabilities without discretionary participation features		181	2,784	15,841	–	–	–	–	–	–	18,806
Unallocated surplus of with-profits funds		2,553	–	10,543	–	–	–	–	–	–	13,096
Core structural borrowings of shareholder-financed operations		–	169	–	–	275	–	–	4,567	–	5,011
Operational borrowings attributable to shareholder-financed operations		–	66	179	10	–	–	–	1,705	–	1,960
Borrowings attributable to with-profits operations		–	–	1,332	–	–	–	–	–	–	1,332
Obligations under funding, securities lending and sale and repurchase agreements		–	1,914	1,651	–	200	–	–	–	–	3,765
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,802	22	5,049	–	–	–	–	–	–	7,873
Deferred tax liabilities		734	2,086	1,162	15	–	2	–	11	–	4,010
Current tax liabilities		50	3	203	34	4	–	12	19	–	325
Accruals, deferred income and other liabilities note (iii)		4,476	4,069	5,430	404	3,361	204	51	1,302	(8,881)	10,416
Provisions		119	6	158	190	–	1	53	77	–	604
Derivative liabilities		140	249	2,125	1	282	–	–	322	–	3,119
Total liabilities		53,390	147,497	170,182	654	4,122	207	116	8,003	(10,142)	374,029
Total equity and liabilities		57,347	151,651	175,322	2,428	4,192	389	422	5,376	(10,142)	386,985

Notes

(i) Accrued investment income and other debtors

	2016 £m	2015 £m
Interest receivable	1,975	1,895
Other	1,178	856
Total accrued investment income	3,153	2,751
Other debtors comprises:		
Amounts due from		
Policyholders	403	332
Intermediaries	6	14
Reinsurers	90	82
Other	2,520	1,527
Total other debtors	3,019	1,955
Total accrued investment income and other debtors	6,172	4,706
Analysed as:		
Expected to be settled within one year	5,548	4,273
Expected to be settled after one year	624	433
Total accrued investment income and other debtors	6,172	4,706

(ii) Cash and cash equivalents

	2016 £m	2015 £m
Cash	5,581	5,030
Cash equivalents	4,484	2,752
Total cash and cash equivalents	10,065	7,782
Analysed as:		
Held centrally and available for general use by the Group	247	365
Other funds not available for general use by the Group, including funds held for the benefit of policyholders	9,818	7,417
Total cash and cash equivalents	10,065	7,782

The Group's cash and cash equivalents are held in the following currencies: pounds sterling 38 per cent, US dollars 25 per cent, Euro 20 per cent and other currencies 17 per cent (2015: pounds sterling 30 per cent, US dollars 36 per cent, Euro 12 per cent and other currencies 22 per cent).

(iii) Accruals, deferred income and other liabilities

	2016 £m	2015 £m
Accruals and deferred income	1,150	952
Other creditors	6,788	4,876
Creditors arising from direct insurance and reinsurance operations	2,520	1,828
Interest payable	90	70
Funds withheld under reinsurance of the REALIC business	2,851	2,347
Other items	426	343
Total other liabilities	13,825	10,416

(iv) Central operations borrowings, in respect of Prudential Capital's short-term fixed income security programme

	2016 £m	2015 £m
Commercial paper	1,052	1,107
Medium Term Notes	599	598
Total intra-group debt represented by operational borrowings at Group level	1,651	1,705

C2 Analysis of segment statement of financial position by business type

C2.1 Asia insurance operations

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

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

C2.2 US insurance operations

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

C2 Analysis of segment statement of financial position by business type continued

C2.3 UK insurance operations

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

Notes

(i) Includes the Scottish Amicable Insurance Fund which, at 31 December 2016, have total assets and liabilities of £6,101 million (2015: £6,230 million). The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The PAC with-profits fund includes £11.2 billion (2015: £10.8 billion) of non-profits annuities liabilities.

(ii) The assets and liabilities held for sale for the UK insurance operations at 31 December 2016 comprise the investment properties and consolidated venture investments of the PAC with-profits fund, for which the sales had been agreed but not yet completed at the year end.

C3 Assets and liabilities

C3.1 Group assets and liabilities – measurement

(a) Determination of fair value

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

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

The loans and receivables have been shown net of provisions for impairment. The fair value of loans have been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest where applicable.

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

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

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

(b) Fair value measurement hierarchy of Group assets and liabilities

Assets and liabilities carried at fair value on the statement of financial position

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

C Balance sheet notes
Continued

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

Financial instruments at fair value

	31 Dec 2016 £m			
	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	–	–	27	27
Equity securities and portfolio holdings in unit trusts	45,181	3,669	690	49,540
Debt securities	26,227	43,880	690	70,797
Other investments (including derivative assets)	58	3,357	3,443	6,858
Derivative liabilities	(51)	(1,025)	–	(1,076)
Total financial investments, net of derivative liabilities	71,415	49,881	4,850	126,146
Percentage of total	56%	40%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	146,637	374	22	147,033
Debt securities	5,136	4,462	–	9,598
Other investments (including derivative assets)	6	8	5	19
Derivative liabilities	(4)	(24)	–	(28)
Total financial investments, net of derivative liabilities	151,775	4,820	27	156,622
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	–	276	2,672	2,948
Equity securities and portfolio holdings in unit trusts	1,966	3	10	1,979
Debt securities	21,896	67,915	252	90,063
Other investments (including derivative assets)	–	1,492	1,032	2,524
Derivative liabilities	(9)	(1,623)	(516)	(2,148)
Total financial investments, net of derivative liabilities	23,853	68,063	3,450	95,366
Percentage of total	25%	71%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	276	2,699	2,975
Equity securities and portfolio holdings in unit trusts	193,784	4,046	722	198,552
Debt securities	53,259	116,257	942	170,458
Other investments (including derivative assets)	64	4,857	4,480	9,401
Derivative liabilities	(64)	(2,672)	(516)	(3,252)
Total financial investments, net of derivative liabilities	247,043	122,764	8,327	378,134
Investment contract liabilities without discretionary participation features held at fair value	–	(16,425)	–	(16,425)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(4,217)	(3,587)	(883)	(8,687)
Other financial liabilities held at fair value	–	(385)	(2,851)	(3,236)
Total financial instruments at fair value	242,826	102,367	4,593	349,786
Percentage of total	70%	29%	1%	100%

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £40,645 million (2015: £33,984 million) of debt securities classified as available-for-sale.

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

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

Investment properties at fair value

	31 December £m			
	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
2016	–	–	14,646	14,646
2015	–	–	13,422	13,422

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

Assets and liabilities at amortised cost for which fair value is disclosed

The table below shows the assets and liabilities carried at amortised cost on the statement of financial position but for which fair value is disclosed in the financial statements. The assets and liabilities that are carried at amortised cost but where the carrying value approximates the fair value, are excluded from the analysis below.

	31 Dec 2016 £m				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs		
Assets					
Loans note (i)	–	4,062	8,846	12,908	12,198
Liabilities					
Investment contract liabilities without discretionary participation features	–	–	(3,333)	(3,333)	(3,298)
Core structural borrowings of shareholder-financed operations note (ii)	–	(7,220)	–	(7,220)	(6,798)
Operational borrowings attributable to shareholder-financed operations	–	(2,313)	(4)	(2,317)	(2,317)
Borrowings attributable to the with-profits funds	–	(1,220)	(133)	(1,353)	(1,349)
Obligations under funding, securities lending and sale and repurchase agreements	–	(1,926)	(3,140)	(5,066)	(5,031)

	31 Dec 2015 £m				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs		
Assets					
Loans note (i)	–	3,423	7,621	11,044	10,520
Liabilities					
Investment contract liabilities without discretionary participation features	–	–	(2,820)	(2,820)	(2,784)
Core structural borrowings of shareholder-financed operations note (ii)	–	(5,419)	–	(5,419)	(5,011)
Operational borrowings attributable to shareholder-financed operations	–	(1,956)	(4)	(1,960)	(1,960)
Borrowings attributable to the with-profits funds	–	(1,270)	(74)	(1,344)	(1,332)
Obligations under funding, securities lending and sale and repurchase agreements	–	(2,040)	(1,735)	(3,775)	(3,765)

Notes

(i) Loans and receivables are reported net of allowance for loan losses of £15 million (2015: £10 million).

(ii) As at 31 December 2016, £306 million (2015: £481 million) of convertible bonds were included in debt securities and £1,455 million (2015: £1,217 million) were included in borrowings.

The fair value of the assets and liabilities in the table above, with the exception of the subordinated and senior debt issued by the parent company, has been estimated from the discounted cash flows expected to be received or paid. Where appropriate, the observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities.

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

(c) Valuation approach for level 2 fair valued assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

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

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

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

Of the total level 2 debt securities of £116,257 million at 31 December 2016 (2015: £104,464 million), £12,708 million are valued internally (2015: £10,331 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

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

Reconciliation of movements in level 3 assets and liabilities measured at fair value

The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2016 to that presented at 31 December 2016.

Financial instruments at fair value

	£m									
	At 1 Jan	Total gains/ losses in income statement	Total gains/ losses recorded as other compre-hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 Dec
2016										
Loans	2,183	2	427	–	–	(123)	210	–	–	2,699
Equity securities and portfolio holdings in unit trusts	607	59	(20)	153	(133)	(9)	–	65	–	722
Debt securities	778	85	11	185	(75)	(37)	–	–	(5)	942
Other investments (including derivative assets)	4,276	359	443	720	(1,002)	–	–	73	(389)	4,480
Derivative liabilities	(353)	(163)	–	–	–	–	–	–	–	(516)
Total financial investments, net of derivative liabilities	7,491	342	861	1,058	(1,210)	(169)	210	138	(394)	8,327
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,036)	(18)	(2)	–	24	271	(122)	–	–	(883)
Other financial liabilities	(2,347)	(4)	(457)	–	–	259	(302)	–	–	(2,851)
Total financial instruments at fair value	4,108	320	402	1,058	(1,186)	361	(214)	138	(394)	4,593
2015										
Loans	2,025	2	119	–	–	(168)	205	–	–	2,183
Equity securities and portfolio holdings in unit trusts	747	52	3	32	(143)	–	–	4	(88)	607
Debt securities	790	(75)	1	243	(259)	–	–	82	(4)	778
Other investments (including derivative assets)	4,028	213	68	547	(700)	–	–	120	–	4,276
Derivative liabilities	(338)	(15)	–	–	–	–	–	–	–	(353)
Total financial investments, net of derivative liabilities	7,252	177	191	822	(1,102)	(168)	205	206	(92)	7,491
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,291)	(160)	(1)	(5)	9	412	–	–	–	(1,036)
Other financial liabilities	(2,201)	(3)	(128)	–	–	218	(233)	–	–	(2,347)
Total financial instruments at fair value	3,760	14	62	817	(1,093)	462	(28)	206	(92)	4,108

Of the total net gains and losses in the income statement of £320 million (2015: £14 million), £242 million (2015: £67 million) relates to net unrealised gains of financial instruments still held at the end of the year, which can be analysed as follows:

	2016 £m	**2015** £m
Equity securities	8	94
Debt securities	71	(12)
Other investments	182	160
Derivative liabilities	–	(15)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(18)	(160)
Other financial liabilities	(1)	–
Total	242	67

Other assets at fair value – investment properties

	£m							
	At 1 Jan	**Total gains/ losses in income statement**	**Total gains/ losses in other compre-hensive income**	**Purchases**	**Sales**	**Transfers into level 3**	**Transfers out of level 3**	**At 31 Dec**
2016	13,422	273	97	1,527	(632)	–	(41)	14,646
2015	12,764	537	21	757	(662)	5	–	13,422

Of the total net gains and losses in the income statement of £273 million (2015: £537 million), £286 million (2015: £505 million) relates to net unrealised gains of investment properties still held at the end of the year.

Valuation approach for level 3 fair valued assets and liabilities

Financial instruments at fair value

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

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

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

At 31 December 2016, the Group held £4,593 million (2015: £4,108 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2015: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

Included within these amounts were loans of £2,672 million at 31 December 2016 (2015: £2,183 million), measured as the loan outstanding balance, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,851 million at 31 December 2016 (2015: £2,347 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(179) million (2015: £(164) million), the level 3 fair valued financial assets net of financial liabilities were £4,772 million (2015: £4,272 million). Of this amount, a net asset of £72 million (2015: net liability of £(77) million) was internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2015: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within the internally valued net asset/liability were:

(a) Debt securities of £422 million (2015: £381 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
(b) Private equity and venture investments of £956 million (2015: £852 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
(c) Liabilities of £(883) million (2015: £(1,013) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, that are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
(d) Derivative liabilities of £(516) million (2015: £(353) million) which are valued internally using standard market practices but are subject to independent assessment against external counterparties' valuations.
(e) Other sundry individual financial investments of £93 million (2015: £56 million).

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

(a) A net asset of £315 million (2015: £29 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.
(b) A net liability of £(243) million (2015: £(106) million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £24 million (2015: £11 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £24 million (2015: a decrease of £10 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and no impact (2015: a decrease of £1 million) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Other assets at fair value – investment properties

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

(e) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

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

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

(f) Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by business unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions.

C3.2 Debt securities

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

(a) Credit rating

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

	2016 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	3,183	8,522	3,560	2,996	1,887	1,713	21,861
Unit-linked	448	112	525	1,321	494	421	3,321
Non-linked shareholder-backed	1,082	2,435	2,864	2,388	1,680	915	11,364
US							
Non-linked shareholder-backed	445	7,932	10,609	13,950	1,009	6,800	40,745
UK							
With-profits	5,740	9,746	10,679	12,798	3,289	6,684	48,936
Unit-linked	461	2,660	1,158	1,699	212	87	6,277
Non-linked shareholder-backed	4,238	10,371	10,558	4,515	397	5,504	35,583
Other operations	830	1,190	242	97	10	2	2,371
Total debt securities	16,427	42,968	40,195	39,764	8,978	22,126	170,458

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

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

C3 Assets and liabilities continued

C3.2 Debt securities continued

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

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

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

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

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

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

(b) Additional analysis of US insurance operations debt securities

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

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.
† Debt securities for US operations included in the statement of financial position comprise:

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

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

(c) Movements in unrealised gains and losses on Jackson available-for-sale securities

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

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

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

	2016 £m	Foreign exchange translation	Changes in unrealised appreciation†	2015 £m
US Treasuries				
Book value*	5,486			3,477
Net unrealised (loss) gain	(412)	(30)	(436)	54
Fair value	5,074			3,531
Other debt securities				
Book value*	34,483			29,915
Net unrealised gain	1,088	142	408	538
Fair value	35,571			30,453
Total debt securities				
Book value*	39,969			33,392
Net unrealised gain	676	112	(28)	592
Fair value	40,645			33,984

* Book value represents cost/amortised cost of the debt securities.
† Translated at the average rate of US$1.3546: £1.00.

C3 Assets and liabilities continued

C3.2 Debt securities continued

(d) US debt securities classified as available-for-sale in an unrealised loss position

(i) Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

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

(ii) Unrealised losses by maturity of security

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

(iii) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

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

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

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

(e) Asset-backed securities

The Group's holdings in Asset-Backed Securities (ABS), which comprise Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Collateralised Debt Obligations (CDO) funds and other asset-backed securities, at 31 December are as follows:

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

Notes

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

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

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

(iii) UK insurance operations
The majority of holdings of the shareholder-backed business are UK securities and relate to PAC's annuity business. Of the holdings of the with-profits operations, £1,623 million (2015: £1,140 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

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

(f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 31 December are analysed as follows:

Exposure to sovereign debts

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

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

C3 Assets and liabilities continued

C3.2 Debt securities continued

Exposure to bank debt securities

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

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

(g) Impairment of US available-for-sale debt securities and other financial assets

In accordance with the Group's accounting policy set out in note A3.1, impairment reviews were performed for available-for-sale securities and loans and receivables.

During the year ended 31 December 2016, net impairment charges of £(44) million (2015: £(35) million) were recognised for available-for-sale securities and loans and receivables analysed as follows:

	2016 £m	2015 £m
Available-for-sale debt securities held by Jackson	(20)	(19)
Loans and receivables*	(24)	(16)
Net charge for impairment net of reversals	(44)	(35)

* The impairment charges relate to loans held by the UK with-profits fund and mortgage loans held by Jackson.

Jackson's portfolio of debt securities is managed proactively with credit analysts closely monitoring and reporting on the credit quality of its holdings. Jackson continues to review its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment. In addition, investments in structured securities are subject to a rigorous review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments (both interest and principal). Impairment charges are recorded on structured securities when the Company forecasts a contractual payment shortfall. Situations where such a shortfall would not lead to a recognition of a loss are rare. However, some structured securities do not have a single determined set of future cash flows and instead, there can be a reasonable range of estimates that could potentially emerge. With this variability, there could be instances where the projected cash flow shortfall under management's base case set of assumptions is so minor that relatively small and justifiable changes to the base case assumptions would eliminate the need for an impairment loss to be recognised. The impairment loss reflects the difference between the fair value and book value.

In 2016, the Group realised gross losses on sales of available-for-sale securities of £152 million (2015: £85 million) with 59 per cent (2015: 57 per cent) of these losses related to the disposal of fixed maturity securities of the top 10 individual issuers, which were disposed of as part of risk reduction programmes intended to limit future credit loss exposure. Of the £152 million (2015: £ 85 million), £94 million (2015: £54 million) relates to losses on sales of impaired and deteriorating securities.

The effect of changes in the key assumptions that underpin the assessment of whether impairment has taken place depends on the factors described in note A3.1. A key indicator of whether such impairment may arise in future, and the potential amounts at risk, is the profile of gross unrealised losses for fixed maturity securities accounted for on an available-for-sale basis by reference to the time periods by which the securities have been held continuously in an unrealised loss position and by reference to the maturity date of the securities concerned.

For 2016, the amount of gross unrealised losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealised loss position was £675 million (2015: £673 million). Note B1.2 provides further details on the impairment charges and unrealised losses of Jackson's available-for-sale securities.

C3.3 Loans portfolio

(a) Overview of loans portfolio

Loans are accounted for at amortised cost net of impairment except for:

- Certain mortgage loans that have been designated at fair value through profit or loss of the UK insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and
- Certain policy loans of the US insurance operations that are held to back liabilities for funds withheld under reinsurance arrangements and are also accounted on a fair value basis.

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

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

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

† In the US, £2,672 million (2015: £2,183 million) policy loans are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

‡ Other loans held in UK with-profits funds are commercial loans and comprise mainly syndicated loans. The majority of other loans in shareholder-backed business in Asia are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

C3 Assets and liabilities continued

C3.3 Loans portfolio continued

(b) Additional information on US loans

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

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

(c) Loans held by asset management operations

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

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

C3.4 Financial instruments – additional information

(a) Financial risk

(i) Liquidity analysis

Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts that are separately presented. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

	2016 £m								
	Total carrying value	**1 year or less**	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**No stated maturity**	**Total**
Financial liabilities									
Core structural borrowings of shareholder-financed operations C6.1	6,798	474	778	1,205	1,202	1,011	3,439	3,662	11,771
Operational borrowings attributable to shareholder-financed operations C6.2	2,317	1,657	607	69	–	–	–	–	2,333
Borrowings attributable to with-profits funds C6.2	1,349	475	748	32	20	10	60	144	1,489
Obligations under funding, securities lending and sale and repurchase agreements	5,031	5,031	–	–	–	–	–	–	5,031
Accruals, deferred income and other liabilities	13,825	9,873	320	61	80	103	322	3,272	14,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	8,687	8,687	–	–	–	–	–	–	8,687
	38,007	26,197	2,453	1,367	1,302	1,124	3,821	7,078	43,342

	2015 £m								
	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total
Financial liabilities									
Core structural borrowings of shareholder-financed operations C6.1	5,011	197	1,046	1,210	1,197	1,037	3,555	1,900	10,142
Operational borrowings attributable to shareholder-financed operations C6.2	1,960	1,301	616	69	–	–	–	–	1,986
Borrowings attributable to with-profits funds C6.2	1,332	256	813	175	53	11	62	157	1,527
Obligations under funding, securities lending and sale and repurchase agreements	3,765	3,765	–	–	–	–	–	–	3,765
Accruals, deferred income and other liabilities	10,416	7,583	99	51	74	100	344	2,440	10,691
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	7,873	7,873	–	–	–	–	–	–	7,873
	30,357	20,975	2,574	1,505	1,324	1,148	3,961	4,497	35,984

Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with a maturity profile of the net derivative position:

	Carrying value of net derivatives £m			Maturity profile of net derivative position £m				
	Derivative assets	Derivative liabilities	Net derivative position	1 year or less	After 1 year to 3 years	After 3 years to 5 years	After 5 years	Total
2016	**3,936**	**(3,252)**	**684**	**1,009**	**(14)**	**(7)**	**18**	**1,006**
2015	2,958	(3,119)	(161)	15	(10)	(7)	45	43

The majority of derivative assets and liabilities have been included at fair value within the one year or less column, representing the basis on which they are managed (ie to manage principally asset or liability value exposures). The Group has no cash flow hedges and in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments. The only exception is certain identified interest rate swaps which are fully expected to be held until maturity solely for the purposes of matching cash flows on separately held assets and liabilities. For these instruments, the undiscounted cash flows (including contractual interest amounts) due to be paid under the swap contract, assuming conditions are consistent with those at year end, are included in the column relating to the contractual maturity of the derivative.

Maturity analysis of investment contracts

The table below shows the maturity profile for investment contracts on undiscounted cash flow projections of expected benefit payments.

	£bn							
	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undis-counted value	Total carrying value
2016	**6**	**24**	**23**	**16**	**11**	**9**	**89**	**73**
2015	6	21	19	14	10	9	79	62

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but in reality the additional charges and term of the contracts mean these are unlikely to be exercised in practice and the more useful information is to present information on expected payment.

The maturity profile above excludes certain corporate unit-linked business with gross policyholder liabilities of £11 billion (2015: £11 billion) which have no stated maturity but which are repayable on demand.

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information continued

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long term. Much of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets.

For the reasons provided above, an analysis of the Group's assets by contractual maturity is not considered appropriate to evaluate the nature and extent of the Group's liquidity risk.

(ii) Credit risk

The Group's maximum exposure to credit risk of financial instruments before any allowance for collateral or allocation of losses to policyholders is represented by the carrying value of financial instruments on the balance sheet that have exposures to credit risk comprising cash and cash equivalents, deposits, debt securities, loans and derivative assets, and other debtors, the carrying value of which are disclosed at the start of this note and note C3.4(b) below for derivative assets. The collateral in place in relation to derivatives is described in note C3.4(c) below. Note C3.3 describes the security for these loans held by the Group.

Of the total loans and receivables held, £27 million (2015: £27 million) are past their due date but are not impaired. Of the total past due but not impaired, £20 million are less than one year past their due date (2015: £22 million). The Group expects full recovery of these loans and receivables.

No further analysis has been provided of the element of loans and receivables that was neither past due nor impaired for the total portfolio on the grounds of immateriality of the difference between the neither past due nor impaired elements and the total portfolio.

Financial assets that would have been past due or impaired had the terms not been renegotiated amounted to £27 million (2015: £16 million).

In addition, during 2016 and 2015, the Group did not take possession of any other collateral held as security.

Further details of collateral and pledges are provided in note C3.4(c) below.

(iii) Foreign exchange risk

As at 31 December 2016, the Group held 23 per cent (2015: 22 per cent) and 12 per cent (2015: 11 per cent) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and Euro, other than the functional currency of the relevant business unit.

Of these financial assets, 52 per cent (2015: 53 per cent) are held by the PAC with-profits fund, allowing the fund to obtain exposure to foreign equity markets.

Of these financial liabilities, 28 per cent (2015: 40 per cent) are held by the PAC with-profits fund, mainly relating to foreign currency borrowings.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts (note 3.4(b) below).

The amount of exchange gain recognised in the income statement in 2016, except for those arising on financial instruments measured at fair value through profit or loss, is £1,005 million (2015: £138 million gain). This constitutes £0.4 million gain (2015: £1 million loss) on Medium Term Notes liabilities and £1,005 million of net gain (2015: £139 million net gain), mainly arising on investments of the PAC with-profits fund. The gains/losses on Medium Term Notes liabilities are fully offset by value movements on cross-currency swaps, which are measured at fair value through profit or loss.

(b) Derivatives and hedging

Derivatives

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of some Asia transactions, are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

Derivatives are used for efficient portfolio management to obtain cost effective and efficient management of exposure to various markets in accordance with the Group's investment strategies and to manage exposure to interest rate, currency, credit and other business risks. The Group also uses interest rate derivatives to reduce exposure to interest rate volatility. In particular:

- UK with-profits funds use derivatives for efficient portfolio management or reduction in investment risks. For UK annuity business derivatives are used to assist with asset and liability cash flow matching;
- US operations and some of the UK operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. These businesses have purchased some swaptions to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets; and
- Some products, especially in the US, have guarantee features linked to equity indices. A mismatch between guaranteed product liabilities and the performance of the underlying assets exposes the Group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to better match asset performance with liabilities under equity-indexed products.

Hedging

The Group has formally assessed and documented the effectiveness of the following net investment hedges under IAS 39: At 31 December 2016, the Group has designated perpetual subordinated capital securities totalling US$4.5 billion (2015: US$2.8 billion) as a net investment hedge to hedge the currency risks related to the net investment in Jackson. The carrying value of the subordinated capital securities was £3,644 million as at 31 December 2016 (2015: £1,895 million). The foreign exchange loss of £389 million (2015: loss of £104 million) on translation of the borrowings to pounds sterling at the statement of financial position date is recognised in the translation reserve in shareholders' equity. This net investment hedge was 100 per cent effective.

The Group has no cash flow hedges or fair value hedges in place.

(c) Derecognition, collateral and offsetting

Securities lending and reverse repurchase agreements

The Group has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. Typically, the value of collateral assets granted to the Group in these transactions is in excess of the value of securities lent, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The loaned securities are not removed from the Group's consolidated statement of financial position, rather they are retained within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit.

At 31 December 2016, the Group has £8,545 million (2015: £5,995 million) of lent securities and assets subject to repurchase agreements, of which £8,113 million (2015: £4,687 million) related to the PAC with-profits fund. The cash and securities collateral held or pledged under such agreements were £9,086 million (2015: £6,542 million) of which £8,653 million (2015: £5,002 million) was held by the PAC with-profits fund.

At 31 December 2016, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £9,319 million (2015: £10,076 million).

Collateral and pledges under derivative transactions

At 31 December 2016, the Group had pledged £1,853 million (2015: £1,622 million) for liabilities and held collateral of £2,788 million (2015: £1,865 million) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the consolidated balance sheets.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

	31 Dec 2016 £m				
	Gross amount presented in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	Net amount
Financial assets:					
Derivative assets	3,869	(1,053)	(1,895)	(733)	188
Reverse repurchase agreements	9,132	–	–	(9,132)	–
Total financial assets	13,001	(1,053)	(1,895)	(9,865)	188
Financial liabilities:					
Derivative liabilities	(2,874)	1,053	698	1,028	(95)
Securities lending and repurchase agreements	(1,927)	–	97	1,830	–
Total financial liabilities	(4,801)	1,053	795	2,858	(95)

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information continued

	31 Dec 2015 £m				
	Gross amount presented in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			Net amount
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	
Financial assets:					
Derivative assets	2,835	(1,071)	(1,122)	(591)	51
Reverse repurchase agreements	8,591	–	–	(8,591)	–
Total financial assets	11,426	(1,071)	(1,122)	(9,182)	51
Financial liabilities:					
Derivative liabilities	(2,879)	1,071	764	809	(235)
Securities lending and repurchase agreements	(1,979)	–	199	1,780	–
Total financial liabilities	(4,858)	1,071	963	2,589	(235)

Notes
(i) The Group has not offset any of the amounts presented in the consolidated statement of financial position.
(ii) Represents the amount that could be offset under master netting or similar arrangements where Group does not satisfy the full criteria to offset on the consolidated statement of financial position.
(iii) Excludes initial margin amounts for exchange-traded derivatives.

In the tables above, the amounts of assets or liabilities presented in the consolidated statement of financial position are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables.

C4 Policyholder liabilities and unallocated surplus

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

C4.1 Movement and duration of liabilities

C4.1(a) Group overview

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

	Insurance operations £m			
	Asia note C4.1(b)	**US** note C4.1(c)	**UK** note C4.1(d)	**Total**
At 1 January 2015	45,022	126,746	154,436	326,204
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	38,705	126,746	144,088	309,539
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	–	10,348	12,450
– Group's share of policyholder liabilities of joint ventures and associate‡	4,215	–	–	4,215
Net flows:				
Premiums	7,784	16,699	9,692	34,175
Surrenders	(2,550)	(6,759)	(6,363)	(15,672)
Maturities/deaths	(1,265)	(1,464)	(6,991)	(9,720)
Net flows	3,969	8,476	(3,662)	8,783
Shareholders' transfers post-tax	(43)	–	(214)	(257)
Investment-related items and other movements	(364)	(3,824)	2,319	(1,869)
Foreign exchange translation differences	194	7,515	14	7,723
As at 31 December 2015/1 January 2016	**48,778**	**138,913**	**152,893**	**340,584**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	**41,255**	**138,913**	**142,350**	**322,518**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,553**	**–**	**10,543**	**13,096**
– Group's share of policyholder liabilities of joint ventures and associate‡	**4,970**	**–**	**–**	**4,970**
Reclassification of Korea life business as held for sale*	**(2,812)**	**–**	**–**	**(2,812)**
Net flows:				
Premiums	**9,639**	**14,766**	**11,129**	**35,534**
Surrenders	**(2,299)**	**(7,872)**	**(6,821)**	**(16,992)**
Maturities/deaths	**(1,558)**	**(1,696)**	**(6,835)**	**(10,089)**
Net flows	**5,782**	**5,198**	**(2,527)**	**8,453**
Shareholders' transfers post-tax	**(44)**	**–**	**(215)**	**(259)**
Investment-related items and other movements	**2,005**	**5,690**	**18,626**	**26,321**
Foreign exchange translation differences	**9,075**	**27,825**	**527**	**37,427**
At 31 December 2016	**62,784**	**177,626**	**169,304**	**409,714**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position§	**53,716**	**177,626**	**157,654**	**388,996**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,667**	**–**	**11,650**	**14,317**
– Group's share of policyholder liabilities of joint ventures and associate‡	**6,401**	**–**	**–**	**6,401**
Average policyholder liability balances†				
2016	**51,765**	**158,270**	**150,003**	**360,038**
2015	44,573	132,830	143,219	320,622

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

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

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

§ The policyholder liabilities of the Asia insurance operations of £53,716 million (2015: £41,255 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,302 million (2015: £1,261 million) to the Hong Kong with-profits business. Including this amount, total Asia policyholder liabilities are £55,018 million (2015: £42,516 million).

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year. The items above are shown gross of external reinsurance.

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

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Shareholder-backed business £m			
	Asia	**US**	**UK**	**Total**
At 1 January 2015	26,410	126,746	55,009	208,165
Net flows:				
Premiums	4,793	16,699	3,146	24,638
Surrenders	(2,308)	(6,759)	(3,227)	(12,294)
Maturities/deaths	(618)	(1,464)	(2,613)	(4,695)
Net flows[note (a)]	1,867	8,476	(2,694)	7,649
Investment-related items and other movements	(121)	(3,824)	509	(3,436)
Foreign exchange translation differences	(312)	7,515	–	7,203
At 31 December 2015/1 January 2016	27,844	138,913	52,824	219,581
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	22,874	138,913	52,824	214,611
– Group's share of policyholder liabilities relating to joint ventures	4,970	–	–	4,970
At 1 January 2016	27,844	138,913	52,824	219,581
Reclassification of Korea life business as held for sale*	(2,812)	–	–	(2,812)
Net flows:				
Premiums	4,749	14,766	1,842	21,357
Surrenders	(1,931)	(7,872)	(2,967)	(12,770)
Maturities/deaths	(732)	(1,696)	(2,521)	(4,949)
Net flows[note (a)]	2,086	5,198	(3,646)	3,638
Investment-related items and other movements	1,116	5,690	6,980	13,786
Foreign exchange translation differences	4,617	27,825	–	32,442
At 31 December 2016	32,851	177,626	56,158	266,635
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	26,450	177,626	56,158	260,234
– Group's share of policyholder liabilities relating to joint ventures	6,401	–	–	6,401

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

Note

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

(iii) Movement in insurance contract liabilities and unallocated surplus of with-profits funds

Further analysis of the movement in the year of the Group's insurance contract liabilities, gross and reinsurance share, and unallocated surplus of with-profits funds is provided below:

	Insurance contract liabilities		Unallocated surplus of with-profits funds
	Gross £m	Reinsurers' share £m	£m
At 1 January 2015	250,038	6,315	12,450
Income and expense included in the income statement and other comprehensive income	3,456	342	522
Foreign exchange translation differences	7,259	335	124
At 31 December 2015/1 January 2016	260,753	6,992	13,096
Income and expense included in the income statement and other comprehensive income	20,210	752	768
Foreign exchange translation differences	35,472	1,221	453
At 31 December 2016	316,435	8,965	14,317

(iv) Reinsurers' share of insurance contract liabilities

	Asia	US	UK	2016 £m	2015 £m
Insurance contract liabilities	1,460	6,374	1,131	8,965	6,992
Claims outstanding	79	850	157	1,086	911
	1,539	7,224	1,288	10,051	7,903

The Group cedes certain business to other insurance companies. Although the ceding of insurance does not relieve the Group from its liability to its policyholders, the Group participates in such agreements for the purpose of managing its loss exposure. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk from similar geographic regions, activities or economic characteristics of the reinsurers to minimise its exposure from reinsurer insolvencies. Of the reinsurers' share of insurance contract liabilities balance of £10,051 million at 31 December 2016 (2015: £7,903 million), 85 per cent (2015: 90 per cent) were ceded by the Group's UK and US operations, of which 96 per cent (2015: 96 per cent) of the balance were from reinsurers with Standard & Poor's rating A- and above.

The reinsurance asset for Jackson, as shown in the table above, primarily relates to certain fully collateralised former REALIC business retained by Swiss Re through 100 per cent reinsurance agreements. Apart from the reinsurance of REALIC business, the principal reinsurance ceded by Jackson outside the Group is on term life insurance, direct and assumed accident and health business and GMIB variable annuity guarantees. Net commissions received on ceded business and claims incurred ceded to external reinsurers totalled £38 million and £500 million respectively during 2016 (2015: £41 million and £442 million respectively). There were no deferred gains or losses on reinsurance contracts in either 2016 or 2015.

In each of 2016 and 2015, the Group's UK insurance business entered into longevity reinsurance transactions on certain aspects of the UK's annuity liabilities. Further information on these transactions is provided in note B4(b). The gains and losses recognised in profit and loss for the other reinsurance contracts written in the year were immaterial.

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

C4.1(b) Asia insurance operations

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

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

	With-profits business £m	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2015	18,612	16,209	10,201	45,022
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	16,510	13,874	8,321	38,705
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	–	–	2,102
– Group's share of policyholder liabilities relating to joint ventures and associate‡	–	2,335	1,880	4,215
Premiums				
New business	812	1,322	781	2,915
In-force	2,179	1,496	1,194	4,869
	2,991	2,818	1,975	7,784
Surrenders note (c)	(242)	(2,043)	(265)	(2,550)
Maturities/deaths	(647)	(88)	(530)	(1,265)
Net flows note (b)	2,102	687	1,180	3,969
Shareholders' transfers post-tax	(43)	–	–	(43)
Investment-related items and other movements	(243)	(536)	415	(364)
Foreign exchange translation differences note (a)	506	(394)	82	194
At 31 December 2015/1 January 2016	**20,934**	**15,966**	**11,878**	**48,778**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	**18,381**	**13,355**	**9,519**	**41,255**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,553**	**–**	**–**	**2,553**
– Group's share of policyholder liabilities relating to joint ventures and associate‡	**–**	**2,611**	**2,359**	**4,970**
Reclassification of Korea life business as held for sale*	**–**	**(2,187)**	**(625)**	**(2,812)**
Premiums				
New business	**1,701**	**921**	**767**	**3,389**
In-force	**3,189**	**1,447**	**1,614**	**6,250**
	4,890	**2,368**	**2,381**	**9,639**
Surrenders note (c)	**(368)**	**(1,641)**	**(290)**	**(2,299)**
Maturities/deaths	**(826)**	**(78)**	**(654)**	**(1,558)**
Net flows note (b)	**3,696**	**649**	**1,437**	**5,782**
Shareholders' transfers post-tax	**(44)**	**–**	**–**	**(44)**
Investment-related items and other movements note (d)	**889**	**621**	**495**	**2,005**
Foreign exchange translation differences note (a)	**4,458**	**2,458**	**2,159**	**9,075**
At 31 December 2016 note (b)	**29,933**	**17,507**	**15,344**	**62,784**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position§	**27,266**	**14,289**	**12,161**	**53,716**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,667**	**–**	**–**	**2,667**
– Group's share of policyholder liabilities relating to joint ventures and associate‡	**–**	**3,218**	**3,183**	**6,401**
Average policyholder liability balances†				
2016	**22,823**	**15,643**	**13,299**	**51,765**
2015	17,446	16,088	11,039	44,573

* The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea. If Korea life business had been excluded from the 2015 figures, the average policyholder liability balance for 2015 would have been £41,814 million in total allocated £17,446 million, £13,940 million and £10,428 million for its with-profits business, unit-linked business and other business, respectively.
† Averages have been based on opening and closing balances and adjusted for acquisitions and disposals in the year and exclude unallocated surplus of with-profits funds.
‡ The Group's investment in joint ventures and associate are accounted for on an equity method basis and the Group's share of the policyholder liabilities, as shown above, relate to the life businesses in China, India and of the Takaful business in Malaysia.
§ The policyholder liabilities of the with-profits business of £27,266 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,302 million to the Hong Kong with-profits business (2015: £1,261 million). Including this amount, the Asia with-profits policyholder liabilities are £28,568 million.

Notes

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

(b) Net flows have increased by £1,860 million to £5,782 million in 2016, after excluding Korea 2015 net inflows of £47 million from the comparative period reflecting increased flows from new business and growth in the in-force books.

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

(d) Investment-related items and other movements for 2016 principally represent realised gains on equity markets and bonds during the year. The gains were mixed across the region with the greatest impact on with-profits and unit-linked business.

(ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis for 2016 and 2015, taking account of expected future premiums and investment returns:

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

(iii) Summary policyholder liabilities (net of reinsurance) and unallocated surplus

At 31 December 2016, the policyholder liabilities and unallocated surplus for Asia operations of £56.4 billion (2015: £43.8 billion), net of reinsurance of £1,539 million (2015: £798 million), excluding joint ventures, comprised the following:

	2016 £m	**2015** £m
Hong Kong	23,852	16,234
Indonesia	3,405	2,361
Korea*	–	2,810
Malaysia	4,332	3,492
Singapore	15,324	12,022
Taiwan	3,504	2,724
Other countries	4,427	3,367
Total Asia operations	54,844	43,010

* The Korea life business was accounted for as held for sale at 31 December 2016 (see note D1).

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

C4.1(c) US insurance operations

(i) Analysis of movements in policyholder liabilities

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

US insurance operations

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2015	81,741	45,005	126,746
Premiums	12,899	3,800	16,699
Surrenders	(4,357)	(2,402)	(6,759)
Maturities/deaths	(655)	(809)	(1,464)
Net flows note (b)	7,887	589	8,476
Transfers from general to separate account	847	(847)	–
Investment-related items and other movements	(4,351)	527	(3,824)
Foreign exchange translation differences note (a)	4,898	2,617	7,515
At 31 December 2015/1 January 2016	**91,022**	**47,891**	**138,913**
Premiums	**10,232**	**4,534**	**14,766**
Surrenders	**(5,036)**	**(2,836)**	**(7,872)**
Maturities/deaths	**(803)**	**(893)**	**(1,696)**
Net flows note (b)	**4,393**	**805**	**5,198**
Transfers from general to separate account	**1,164**	**(1,164)**	**–**
Investment-related items and other movements note (c)	**5,246**	**444**	**5,690**
Foreign exchange translation differences note (a)	**18,586**	**9,239**	**27,825**
At 31 December 2016	**120,411**	**57,215**	**177,626**
Average policyholder liability balances*			
2016	**105,717**	**52,553**	**158,270**
2015	86,382	46,448	132,830

* Averages have been based on opening and closing balances.

Notes

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

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

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

(ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis for 2016 and 2015:

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

(iii) Aggregate account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index), the fixed account portion of variable annuities, and interest-sensitive life business within the range of minimum guaranteed interest rates as described above as at 31 December 2016 and 2015:

	Fixed annuities and the fixed account portion of variable annuities £m		**Interest-sensitive life business** £m	
Minimum guaranteed interest rate	**2016**	**2015**	**2016**	**2015**
> 0% – 1.00%	7,765	5,563	–	–
> 1.0% – 2.0%	8,718	7,670	–	–
> 2.0% – 3.0%	11,249	9,586	243	204
> 3.0% – 4.0%	1,456	1,263	2,675	2,322
> 4.0% – 5.0%	1,954	1,639	2,333	2,023
> 5.0% – 6.0%	247	212	1,839	1,574
Total	31,389	25,933	7,090	6,123

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

C4.1(d) UK insurance operations

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

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

		Shareholder-backed funds and subsidiaries		
	With-profits sub-funds† £m	Unit-linked liabilities £m	Annuity and other long-term business £m	Total £m
At 1 January 2015	99,427	23,300	31,709	154,436
Comprising:				
– Policyholder liabilities	89,079	23,300	31,709	144,088
– Unallocated surplus of with-profits funds	10,348	–	–	10,348
Premiums	6,546	1,115	2,031	9,692
Surrenders	(3,136)	(3,168)	(59)	(6,363)
Maturities/deaths	(4,378)	(573)	(2,040)	(6,991)
Net flows note (a)	(968)	(2,626)	(68)	(3,662)
Shareholders' transfers post-tax	(214)	–	–	(214)
Switches	(189)	189	–	–
Investment-related items and other movements	1,999	579	(259)	2,319
Foreign exchange translation differences	14	–	–	14
At 31 December 2015/1 January 2016	**100,069**	**21,442**	**31,382**	**152,893**
Comprising:				
– Policyholder liabilities	**89,526**	**21,442**	**31,382**	**142,350**
– Unallocated surplus of with-profits funds	**10,543**	**–**	**–**	**10,543**
Premiums	**9,287**	**1,227**	**615**	**11,129**
Surrenders	**(3,854)**	**(2,889)**	**(78)**	**(6,821)**
Maturities/deaths	**(4,314)**	**(583)**	**(1,938)**	**(6,835)**
Net flows note (a)	**1,119**	**(2,245)**	**(1,401)**	**(2,527)**
Shareholders' transfers post-tax	**(215)**	**–**	**–**	**(215)**
Switches	**(152)**	**152**	**–**	**–**
Investment-related items and other movements note (b)	**11,798**	**2,770**	**4,058**	**18,626**
Foreign exchange translation differences	**527**	**–**	**–**	**527**
At 31 December 2016	**113,146**	**22,119**	**34,039**	**169,304**
Comprising:				
– Policyholder liabilities	**101,496**	**22,119**	**34,039**	**157,654**
– Unallocated surplus of with-profits funds	**11,650**	**–**	**–**	**11,650**
Average policyholder liability balances*				
2016	**95,511**	**21,781**	**32,711**	**150,003**
2015	89,303	22,371	31,545	143,219

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

Notes
(a) Net outflows improved from £3,662 million in 2015 to £2,527 million in 2016, due primarily to higher premium flows into our with-profits funds following increased sales into with-profits savings and retirement products. This has been offset by lower premiums into our annuity business following our staged withdrawal from this market in the UK.
(b) Investment-related items and other movements of £18,626 million mainly reflects investment return earned in the year, attributable to policyholders. Gains on shareholder-backed annuity business reflects a fall in bond yields over 2016.

(ii) Duration of liabilities

With the exception of most unitised with-profits bonds and other whole of life contracts, the majority of the contracts of the UK insurance operations have a contract term. In effect, the maturity term of the other contracts reflects the earlier of death, maturity, or the policy lapsing. In addition, as described in note A3.1, with-profits contract liabilities include projected future bonuses based on current investment values. The actual amounts payable will vary with future investment performance of SAIF and the WPSF.

The following tables show the carrying value of the policyholder liabilities and the maturity profile of the cash flows, on a discounted basis for 2016 and 2015:

	2016 £m									
	With-profits business			Annuity business (insurance contracts)			Other			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investment contracts	Total	
Policyholder liabilities	37,848	52,495	90,343	11,153	33,881	45,034	6,111	16,166	22,277	157,654
	2016 %									
Expected maturity:										
0 to 5 years	37	37	37	29	25	26	40	34	37	34
5 to 10 years	23	29	26	24	22	23	23	23	23	25
10 to 15 years	15	16	16	18	18	18	12	17	15	17
15 to 20 years	9	10	10	12	14	13	7	12	10	11
20 to 25 years	7	4	5	7	9	9	4	7	6	6
over 25 years	9	4	6	10	12	11	14	7	9	7

	2015 £m									
Policyholder liabilities	35,962	42,736	78,698	10,828	30,983	41,811	6,028	15,813	21,841	142,350
	2015 %									
Expected maturity:										
0 to 5 years	40	40	40	33	26	27	42	36	39	36
5 to 10 years	23	27	25	25	22	23	26	23	24	24
10 to 15 years	14	17	16	18	18	18	13	17	15	16
15 to 20 years	9	10	10	11	13	13	7	12	10	11
20 to 25 years	6	4	5	6	9	9	4	6	5	6
over 25 years	8	2	4	7	12	10	8	6	7	7

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

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Movement and duration of liabilities continued

(iii) Annuitant mortality

For annuities in payment, the Continuous Mortality Investigation (CMI) tables used are adjusted to reflect anticipated mortality improvements. The tables and range of percentages used are set out in the table below:

	CMI model, with calibration to reflect future mortality improvements		Non-profit annuities within the WPSF		PRIL	
			Males	Females	Males	Females
2016	CMI 2014	For males: with a long-term improvement rate of 2.25% pa* For females: with a long-term improvement rate of 1.50% pa*	97% – 98% PCMA00	92% – 103% PCFA00	94% – 95% PCMA00	83% – 96% PCFA00
2015	CMI 2014	For males: with a long-term improvement rate of 2.25% pa* For females: with a long-term improvement rate of 1.50% pa*	95% – 97% PCMA00	91% – 103% PCFA00	93% PCMA00	83% – 96% PCFA00

* For both males and females, the initial rates of mortality improvement in the CMI Model are uplifted by 0.25% per annum.

For annuities in deferment, the tables used by both the non-profit annuities within the WPSF and PRIL were AM92 – four years (males) and AF92 – four years (females) for 2015.

C4.2 Products and determining contract liabilities

C4.2(a) Asia

Contract type	Description	Material features	Determination of liabilities
With-profits and participating contracts	Provides savings and/or protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the Company.	Participating products often offer a guaranteed maturity or surrender value. Declared regular bonus are guaranteed once vested. Future bonus rates and cash dividends are not guaranteed. Market value adjustments and surrender penalties are used for certain products where the law permits such adjustments. Guarantees are predominantly supported by segregated life funds and their estates.	With-profits contracts are predominantly sold in Hong Kong, Malaysia and Singapore. The total value of the with-profits funds is driven by the underlying asset valuation with movements reflected principally in the accounting value of policyholder liabilities and unallocated surplus. In Taiwan and India, US GAAP is applied for measuring insurance assets and liabilities. The other Asia operations principally adopt a gross premium valuation method.

C4.2(a) Asia continued

Contract type	Description	Material features	Determination of liabilities
Term, whole life and endowment assurance	Non-participating savings and/or protection where the benefits are guaranteed, or determined by a set of defined market-related parameters.	These products often offer a guaranteed maturity and surrender value. It is common in Asia for regulations or market-driven demand and competition to provide some form of capital value protection and minimum crediting interest rate guarantees. This is reflected within the guaranteed maturity and surrender values. Guarantees are borne by shareholders.	The approach to determining the contract liabilities is generally driven by the local solvency basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions. In applying this approach, an overlay constraint to the method is applied such that no negative reserves are derived at an individual policyholder level. In Vietnam, the Company uses an estimation basis aligned substantially to that used by the countries applying the gross premium valuation method. For India and Taiwan, US GAAP is applied for measuring insurance assets and liabilities. For these countries, the future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claims expenses. Rates of interest used in establishing the policyholder benefit provisions vary by operation depending on the circumstances attaching to each block of business. The other Asia operations principally adopt a net premium valuation method to determine the future policyholder benefit provisions.
Unit-linked	Combines savings with protection, the cash value of the policy depends on the value of the underlying unitised funds.		The attaching liabilities reflect the unit value obligation driven by the value of the investments of the unit fund.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(a) Asia continued

Contract type	Description	Material features	Determination of liabilities
Health and protection	Health and protection features are offered as supplements to the products listed above or sold as stand-alone products. Protection covers mortality or morbidity benefits including health, disability, critical illness and accident coverage.		The determination of the liabilities of health and protection contracts are driven by the local solvency basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions. In applying this approach, an overlay constraint to the method is applied such that no negative reserves are derived at an individual policyholder level.

C4.2(b) US

Contract type	Description	Material features	Determination of liabilities
Fixed interest rate annuities	Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. At 31 December 2016, fixed interest rate annuities accounted for 8 per cent (2015: 9 per cent) of policy and contract liabilities of Jackson. The policyholder of a fixed interest rate annuity pays Jackson a premium, which is credited to the policyholder's account. Periodically, interest is credited to the policyholder's account and in some cases administrative charges are deducted from the policyholder's account. Jackson makes benefit payments at a future date as specified in the policy based on the value of the policyholder's account at that date. The policy provides that at Jackson's discretion it may reset the interest rate, subject to a guaranteed minimum.	Guaranteed minimum interest rate. At 31 December 2016, Jackson had fixed interest rate annuities totalling £14.2 billion (2015: £12.1 billion) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 2.96 per cent average guaranteed rate (2015: 1.0 per cent to 5.5 per cent and a 3.00 per cent average guaranteed rate).	As explained in note A3.1 all of Jackson's insurance liabilities are based on US GAAP. An overview of the deferral and amortisation of acquisition costs for Jackson is provided in note C5(b). With minor exceptions the following is applied to most of Jackson's contracts. Contracts are accounted for as investment contracts as defined for US GAAP purposes by applying a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by: — Any amounts that have been assessed to compensate the insurer for services to be performed over future periods (ie deferred income); — Any amounts previously assessed against policyholders that are refundable on termination of the contract; and — Any probable future loss on the contract (ie premium deficiency).

C4.2(b) US continued

Contract type	Description	Material features	Determination of liabilities
Fixed interest rate annuities continued	Approximately 62 per cent (2015: 62 per cent) of the fixed interest rate annuities Jackson wrote in 2016 provide for a (positive or negative) market value adjustment ('MVA') on surrender. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move.		Capitalised acquisition costs and deferred income for these contracts are amortised over the life of the book of contracts. The present value of the estimated gross profits is computed using the rate of interest that accrues to policyholder balances (sometimes referred to as the contract rate). Estimated gross profits include estimates of the following, each of which will be determined based on the best estimate of amounts over the life of the book of contracts without provision for adverse deviation: — Amounts expected to be assessed for mortality less benefit claims in excess of related policyholder balances; — Amounts expected to be assessed for contract administration less costs incurred for contract administration; — Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances; — Amounts expected to be assessed against policyholder balances upon termination of contracts (sometimes referred to as surrender charges); and — Other expected assessments and credits. The interest guarantees are not explicitly valued but are reflected as they are earned in the current account liability value.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(b) US continued

Contract type	Description	Material features	Determination of liabilities
Fixed index annuities	Fixed index annuities vary in structure but are generally deferred annuities that enable policyholders to obtain a portion of an equity-linked return (based on participation rates and caps), and provide a guaranteed minimum return. Fixed index annuities accounted for 6 per cent (2015: 6 per cent) of Jackson's policy and contract liabilities at 31 December 2016. Jackson hedges the equity return risk on fixed index products using offsetting equity exposure in the variable annuity product. The cost of hedging is taken into account in setting the index participation rates or caps.	Guaranteed minimum rates are generally set at 1.0 to 3.0 per cent. At 31 December 2016, Jackson had fixed index annuities allocated to indexed funds totalling £7.3 billion (2015: £6.4 billion) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.77 per cent average guaranteed rate (2015: 1.0 per cent to 3.0 per cent and a 1.79 per cent average guaranteed rate). Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2016, fixed interest accounts of fixed index annuities totalled £2.6 billion (2015: £1.9 billion) in account value. Minimum guaranteed rates on fixed interest accounts range from 1.0 per cent to 3.0 per cent and a 2.55 per cent average guaranteed rate (2015: 1.0 per cent to 3.0 per cent and a 2.52 per cent average guaranteed rate).	The liability for policyholder benefits that represent the guaranteed minimum return is determined similarly to the liabilities of the fixed interest annuity above. The equity-linked return option within the contract is treated as an embedded liability under IAS 39 and therefore this element of the liability is recognised at fair value.
Variable annuities	Variable annuities are deferred annuities that have the same tax advantages and payout options as fixed interest rates and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement. At 31 December 2016, variable annuities accounted for 74 per cent (2015: 70 per cent) of Jackson's policy and contract liabilities. The rate of return depends upon the performance of the selected fund portfolio. Policyholders may allocate their investment to either the fixed account or a selection of variable accounts. Investment risk on the variable account is borne by the policyholder, while investment risk on the fixed account is borne by Jackson through guaranteed minimum fixed rates of return. At 31 December 2016, 6 per cent (2015: 6 per cent) of variable annuity funds were in fixed accounts.	Jackson had variable annuity funds in fixed accounts totalling £7.3 billion (2015: £5.5 billion) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 1.64 per cent average guaranteed rate (2015: 1.0 per cent to 3.0 per cent and a 1.70 per cent average guaranteed rate). Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which can be elected for additional fees. These guaranteed benefits might be expressed as the return of either: (a) 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 that contract anniversary.	The general principles for fixed annuity and fixed index annuity also apply to variable annuities. The impact of any fixed account interest guarantees is reflected as they are earned in the current account value.

C4.2(b) US continued

Contract type	Description	Material features	Determination of liabilities
Variable annuities continued		Jackson hedges these risks using equity options and futures contracts as described in note C7.3. The benefit guarantee types are set out below:	Jackson regularly evaluates estimates used and adjusts the benefit guarantee liability balances, with a related charge or credit to benefit expense if actual experience or other evidence suggests that earlier assumptions should be revised.
		Benefits that are payable in the event of death (guaranteed minimum death benefit).	Determined each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess ratably over the life of the contract based on total expected assessments. At 31 December 2016, these liabilities were valued using a series of stochastic investment performance scenarios, a mean investment return of 7.4 per cent (2015: 7.4 per cent) net of external fund management fees, and assumptions for policyholder behaviour, mortality and expense that are similar to those used in amortising the capitalised acquisition costs.
		Benefits that are payable upon the depletion of funds (guaranteed minimum withdrawal benefit).	The liability for the GMWB 'for life' portion is determined similarly to GMDB above. GMWB 'not for life' features are treated as embedded derivatives under IAS 39. Therefore, provisions for these benefits are recognised at fair value. Non-performance risk is incorporated into the fair value calculation through the use of discount interest rates sourced from an AA corporate credit curve as a proxy for Jackson's own credit risk. Other risk margins, particularly for policyholder behaviour and long-term volatility, are also incorporated into the model through the use of explicitly conservative assumptions. On a periodic basis, Jackson validates the resulting fair values based on comparisons to other models and market movements.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(b) US continued

Contract type	Description	Material features	Determination of liabilities
Variable annuities continued		Benefits that are payable at annuitisation (guaranteed minimum income benefit) This feature is no longer offered and existing coverage is substantially reinsured.	The direct GMIB liability is determined by estimating the expected value of the annuitisation benefits in excess of the projected account balance at the date of annuitisation and recognising the excess ratably over the accumulation period based on total expected assessments. GMIB are essentially fully reinsured, subject to a deductible and annual claim limits. As this reinsurance benefit is net settled, it is considered to be a derivative under IAS 39, and is therefore recognised at fair value with the change in fair value included as a component of short-term fluctuations. Volatility and non-performance risk is considered as per GMWB above.
		Benefits that are payable at the end of a specified period (guaranteed minimum accumulation benefit). This feature is no longer offered.	GMAB is treated as embedded derivatives under IAS 39. Therefore, provisions for these benefits are recognised at fair value. Volatility and non-performance risk is considered as per GMWB above.

C4.2(b) US continued

Contract type	Description	Material features	Determination of liabilities
Life insurance	Life products include term life and interest-sensitive life (universal life and variable universal life). Life insurance products accounted for 10 per cent (2015: 11 per cent) of Jackson's policy and contract liabilities at 31 December 2016. Jackson discontinued new sales of life insurance products in 2012. Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the policyholder account to be invested in separate account funds. For certain fixed universal life plans, additional provisions are held to reflect the existence of guarantees offered in the past that are no longer supported by earnings on the existing asset portfolio, or for situations where future mortality charges are not expected to be sufficient to provide for future mortality costs.	Excluding the business that is subject to the retrocession treaties at 31 December 2016, Jackson had interest sensitive life business in force with total account value of £7.1 billion (2015: £6.1 billion), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.66 per cent average guaranteed rate (2015: 2.5 per cent to 6.0 per cent with a 4.66 per cent average guaranteed rate).	For traditional life insurance contracts, provisions for future policy benefits are determined under US GAAP using the net level premium method and assumptions as the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation. For universal life and variable universal life a retrospective deposit method is used to determine the liability for policyholder benefits. This is then augmented by additional liabilities to account for no-lapse guarantees, profits followed by losses, contract features such as persistency bonuses, and cost of interest rate guarantees.
Institutional products	Institutional products are: guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank programme) and Medium Term Note funding agreements. At 31 December 2016 institutional products accounted for 1% of contract liabilities (2015: 3%).	GICs feature a lump sum policyholder deposit on which interest is paid at a rate fixed at inception. Market value adjustments are made to the value of any early withdrawals. Funding agreements feature either lump sum or periodic policyholder deposits. Interest is paid at a fixed or index linked rate. Funding agreements have a duration of between one and 30 years. In 2016 and 2015, there were no funding agreements terminable by the policyholder with less than 90 days notice.	Institutional products are classified as investment contracts, and are accounted for as financial liabilities. The currency risk on contracts that represent currency obligations other than US dollars are hedged using cross-currency swaps.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(c) UK

Contract type	Description	Material features	Determination of liabilities
With-profits contracts in WPSF	With-profits contracts provide returns to policyholders through bonuses that are 'smoothed'. There are two types of bonuses: 'regular' and 'final'. Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers. In normal investment conditions, PAC expects changes in regular bonus rates to be gradual over time. However, PAC retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change. A final bonus which is normally declared annually, may be added when a claim is paid or when units of a unitised product are realised. The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares for the sample policies but subject to the smoothing approach as explained below.	Regular bonuses are declared once a year, and once credited, are guaranteed in accordance with the terms of the particular product. Final bonus rates are guaranteed only until the next bonus declaration.	The policyholder liabilities reported for the WPSF are primarily for two broad types of business. These are accumulating and conventional with-profits contracts. The policyholder liabilities of the WPSF are accounted for in accordance with the requirements of FRS 27. For with-profits business a market consistent valuation is performed. Additional assumptions required are for persistency and the management actions under which the fund is managed. Assumptions used for a market-consistent valuation typically do not contain margins, whereas those used for the valuation of other classes of business do. The provisions have been determined on a basis consistent with the detailed methodology included in regulations contained in the PRA's previously issued rules for the determination of reserves on the PRA's 'realistic' Peak 2 basis. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4. In aggregate, the regime has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances. These contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4. The PRA's Peak 2 calculation under the realistic regime requirement is explained further in note A3.1 under the UK regulated with-profits section. Mortality assumptions are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business.

C4.2(c) UK continued

Contract type	Description	Material features	Determination of liabilities
With-profits contracts in WPSF continued			Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model. The contract liabilities for with-profits business also require assumptions for persistency. These are set based on the results of recent experience analysis.
SAIF with-profits	SAIF is a ring-fenced with-profits sub-fund of PAC. No new business is written in SAIF, although regular premiums are still being paid on in-force policies. 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. The process for determining policyholder bonuses of SAIF with-profits policies, is similar to that for the with-profits policies of the WPSF. However, in addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.	Provision is made for the risks attaching to some SAIF unitised with-profits policies that have (Market Value Reduction) MVR-free dates and for those SAIF products which have a guaranteed minimum benefit on death or maturity of premiums accumulated at 4 per cent per annum. The Group's main exposure to guaranteed annuities in the UK is through SAIF and a provision of £571 million was held in SAIF at 31 December 2016 (2015: £412 million) to honour the guarantees. As SAIF is a separate sub-fund solely for the benefit of policyholders of SAIF, this provision has no impact on the financial position of the Group's shareholders' equity.	The process of determining policyholder liabilities of SAIF is similar to that for the with-profits policies of the WPSF.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

C4.2(c) UK continued

Contract type	Description	Material features	Determination of liabilities
Annuities – level, fixed increase and inflation linked annuities	**Level** Provide a fixed annuity payment over the policyholders life. **Fixed increase** Provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life. **Inflation-linked** Provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK RPI. **With-profits** Written in the WPSF, these combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the WPSF's equity shares, property and other investment categories over time.	As per with-profits products. (With-profits only)	Annuity liabilities are calculated as the expected future value of future annuity payments discounted by a valuation interest rate. Key assumptions include: *Mortality* The mortality assumptions are set in light of recent population and internal experience. The assumptions used are percentages of standard actuarial mortality tables with an allowance for future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives an additional age adjustment is made. The percentages of the standard table used are selected according to the source of business. New mortality projection models are released annually by the Continuous Mortality Investigation (CMI). The CMI 2014 model was used to produce the 2016 results calibrated to reflect an appropriate view of future mortality improvements. For annuities in payment, the tables and range of percentages used are set out in C4.1(d)(iii). *Expense* Maintenance expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model. A margin for adverse deviation is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.

C4.2(c) UK continued

Contract type	Description	Material features	Determination of liabilities
Annuities – level, fixed increase and inflation linked annuities continued			*Valuation interest rates* Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the technical provisions. For fixed interest securities the internal rate of return of the assets backing the liabilities is used. Properties are valued using the lower of the rental yield and the redemption yield, and for equities it is the greater of the dividend yield and the average of the dividend yield and the earnings yield. An adjustment is made to the yield on non-risk-free fixed-interest securities and property to reflect credit risk. *Credit risk* For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk on fixed-interest securities. Further details on credit risk allowance are provided in note B4(b).
Unit-linked	Prudential UK insurance operations also have an extensive book of unit-linked policies.	There are no guaranteed maturity values or guaranteed annuity options on unit-linked policies except for minor amounts for certain policies linked to cash units within SAIF.	For unit-linked contracts the attaching liability reflects the unit value obligation and provision for expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile. For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability and acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Acquisition costs and deferred income are recognised consistent with the level of service provision in line with the requirements of IAS 18. To calculate the non-unit reserves for linked business, assumptions have been set for the gross unit growth rate and the rate of inflation of maintenance expenses, as well as for the valuation interest rate as described in the annuities section above.

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Products and determining contract liabilities continued

Operation of the UK with-profits sub-funds

The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The WPSF's profits, apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution, are determined via the annual actuarial valuation.

Application of significant judgement

Determining bonuses using the table described in the material features table above requires the PAC board to apply significant judgement in many respects, including in particular the following:

- Determining what constitutes fair treatment of customers;
- Smoothing of investment returns; and
- Determining at what level to set bonuses to ensure that they are competitive.

Key assumptions

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. Prudential determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business. As such, it is not possible to specifically quantify the effects of each of these assumptions, or of reasonably likely changes in these assumptions.

Prudential's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent conceptually with the approach adopted by other firms that manage a with-profits business and is also consistent with the requirements of the Principles and Practices of Financial Management (PPFM) that are applied in the management of their with-profits funds.

In accordance with industry-wide regulatory requirements, the PAC board has appointed:

- A Chief Actuary who provides the PAC board with all actuarial advice;
- A With-Profits Actuary whose specific duty is to advise the PAC board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the Principles and Practices of Financial Management and the manner in which any conflicting interests have been addressed; and
- A With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting rights have been addressed.

Smoothing of investment return

In determining bonus rates for the UK with-profits policies, smoothing is applied to the allocation of the overall earnings of the UK with-profits fund of which the investment return is a significant element.

The degree of smoothing is illustrated numerically by comparing in the following table the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution, with the more volatile movement in investment return and other items of income and expenditure of the UK component of the PAC with-profits fund for each year presented.

	2016 £m	2015 £m
Net income of the fund:		
Investment return	13,185	3,130
Claims incurred	(7,410)	(6,745)
Movement in policyholder liabilities	(11,824)	(1,307)
Add back policyholder bonuses for the year (as shown below)	1,934	1,943
Claims incurred and movement in policyholder liabilities (including charge for provision for asset shares and excluding policyholder bonuses)	(17,300)	(6,109)
Earned premiums, net of reinsurance	9,261	6,507
Other income	177	210
Acquisition costs and other expenditure	(1,288)	(1,318)
Share of profits from investment joint ventures	22	53
Tax charge	(739)	(148)
Net income of the fund before movement in unallocated surplus	3,318	2,325
Movement in unallocated surplus	(1,169)	(168)
Surplus for distribution	2,149	2,157
Surplus for distribution allocated as follows:		
– 90% policyholders' bonus (as shown above)	1,934	1,943
– 10% shareholders' transfers	215	214
	2,149	2,157

C5 Intangible assets

(a) Goodwill

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

Goodwill comprises:

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

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

Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

Assessment of whether goodwill may be impaired

Goodwill is tested for impairment by comparing the cash-generating units' carrying amount, including any goodwill, with its recoverable amount.

With the exception of M&G, the goodwill attributable to shareholders mainly relates to acquired life businesses. The Company routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of acquired life business with the value of the current in-force business as determined using the EEV methodology. Any excess of IFRS over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS statement of financial position may be impaired. The methodology and assumptions underpinning the Group's EEV basis of reporting are included in the EEV basis supplementary information in this Annual Report.

Goodwill for venture fund investments is tested for impairment by comparing the business's carrying value, including goodwill to its recoverable amount (fair value less costs to sell).

M&G

The recoverable amount for the M&G cash-generating units has been determined by calculating its value in use. This has been calculated by aggregating the present value of future cash flows expected to be derived from the M&G operating segment (based upon management projections).

The discounted cash flow valuation has been based on a three-year plan prepared by M&G, and approved by management, and cash flow projections for later years.

The value in use is particularly sensitive to a number of key assumptions as follows:

i The set of economic, market and business assumptions used to derive the three-year plan. The direct and secondary effects of recent developments, eg changes in global equity markets, are considered by management in arriving at the expectations for the financial projections for the plan;

ii The assumed growth rate on forecast cash flows beyond the terminal year of the plan. A growth rate of 2.0 per cent (2015: 2.5 per cent) has been used to extrapolate beyond the plan period representing management's best estimate view of the long-term growth rate of the business after considering the future and past growth rates and external sources of data;

C5 Intangible assets continued

iii The risk discount rate. Differing discount rates have been applied in accordance with the nature of the individual component businesses. For retail and institutional business, a risk discount rate of 12 per cent (2015: 12 per cent) has been applied to post-tax cash flows. The pre-tax risk discount rate was 16 per cent (2015: 16 per cent). Management have determined the risk discount rate by reference to an average implied discount rate for comparable UK listed asset managers calculated by reference to risk-free rates, equity risk premiums of 4.25 per cent and an average 'beta' factor for relative market risk of comparable UK listed asset managers. A similar approach has been applied for the other component businesses of M&G; and

iv That asset management contracts continue on similar terms. Management believes that any reasonable change in the key assumptions would not cause the recoverable amount of M&G to fall below its carrying amount.

(b) Deferred acquisition costs and other intangible assets

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

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

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

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

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

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

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

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

US insurance operations

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

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

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

Sensitivity of amortisation charge

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

(i) A core amount that reflects a relatively stable proportion of underlying premiums or profit; and
(ii) An element of acceleration or deceleration arising from market movements differing from expectations.

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

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

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

The application of the mean reversion formula, (described in note A3.1) has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. In 2017, it would take approximate movements in separate account values of more than either negative 19 per cent or positive 63 per cent for the mean reversion assumption to move outside the corridor.

Deferred acquisition costs and other intangible assets attributable to with-profits funds

Other intangible assets in the Group consolidated statement of financial position attributable to with-profits funds consist of:

	2016 £m	**2015** £m
Deferred acquisition costs related to insurance contracts attributable to the PAC with-profits fund	**2**	3
Distribution rights attributable to with-profits funds of the Asia insurance operations	**–**	27
Computer software and other intangibles attributable to with-profits funds	**50**	20
	52	50

C5 Intangible assets continued

(i) Deferred acquisition costs related to insurance and investment contracts

The movements in deferred acquisition costs relating to insurance and investment contracts are as follows:

	2016 £m		2015 £m	
	Insurance contracts	Investment management note (i)	Insurance contracts	Investment management note (i)
DAC at 1 January	6,948	74	5,840	87
Additions	954	3	1,007	3
Amortisation	(21)	(13)	(566)	(16)
Exchange differences	1,408	–	330	–
Disposals and transfers	(251)	–	–	–
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	76	–	337	–
DAC at 31 December	9,114	64	6,948	74

Note

(i) All of the additions are through internal development. The carrying amount of the balance comprises the following gross and accumulated amortisation amounts:

	2016 £m	2015 £m
Gross amount	145	144
Accumulated amortisation	(81)	(70)
Net book amount	64	74

(ii) Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders

	2016 £m				2015 £m			
		Other intangibles				Other intangibles		
	PVIF note (i)	Distribution rights note (ii)	Other intangibles (including software) note (iii)	Total	PVIF note (i)	Distribution rights note (ii)	Other intangibles (including software) note (iii)	Total
At 1 January								
Cost	209	1,387	278	1,874	222	1,269	238	1,729
Accumulated amortisation	(164)	(129)	(181)	(474)	(163)	(82)	(150)	(395)
	45	1,258	97	1,400	59	1,187	88	1,334
Additions	–	172	50	222	–	139	42	181
Amortisation charge	(8)	(52)	(35)	(95)	(8)	(50)	(33)	(91)
Disposals and transfers	–	(3)	(14)	(17)	–	(8)	–	(8)
Exchange differences and other movements	6	57	4	67	(6)	(10)	–	(16)
At 31 December	43	1,432	102	1,577	45	1,258	97	1,400
Comprising:								
Cost	226	1,628	321	2,175	209	1,387	278	1,874
Accumulated amortisation	(183)	(196)	(219)	(598)	(164)	(129)	(181)	(474)
	43	1,432	102	1,577	45	1,258	97	1,400

Notes

(i) All of the PVIF balances relate to insurance contracts. The PVIF attaching to investment contracts have been fully amortised. Amortisation is charged over the period of provision of asset management services as those profits emerge.

(ii) Distribution rights relate to fees paid in relation to the bancassurance partnership arrangements for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised over the term of the distribution contracts.

(iii) Software is amortised over its useful economic life, which generally represents the licence period of the software acquired.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2016 £m	2015 £m
Holding company operations: note (i)		
US$1,000m 6.5% Notes (Tier 2)	809	678
US$250m 6.75% Notes (Tier 1) note (vi)	202	170
US$300m 6.5% Notes (Tier 1) note (vi)	243	203
US$700m 5.25% Notes (Tier 2) note (vi)	565	472
US$550m 7.75% Notes (Tier 1) note (vi)	445	372
US$1,000m 5.25% Notes (Tier 2) note (iv)	800	–
US$725m 4.375% Notes (Tier 2) note (v)	580	–
Perpetual Subordinated Capital Securities	3,644	1,895
€20m Medium Term Notes 2023 (Tier 2) note (vii)	17	15
£435m 6.125% Notes 2031 (Tier 2)	430	430
£400m 11.375% Notes 2039 (Tier 2)	395	393
£600m 5% Notes 2055 (Tier 2)	590	590
£700m 5.7% Notes 2063 (Tier 2)	696	695
Subordinated Notes	2,128	2,123
Subordinated debt total	5,772	4,018
Senior debt: note (ii)		
£300m 6.875% Bonds 2023	300	300
£250m 5.875% Bonds 2029	249	249
Holding company total	6,321	4,567
Prudential Capital bank loan note (iii)	275	275
Jackson US$250m 8.15% Surplus Notes 2027 note (viii)	202	169
Total (per consolidated statement of financial position)	6,798	5,011

Notes

(i) These debt tier classifications (including those noted for the comparative balances) are consistent with the treatment of capital for regulatory purposes under the Solvency II regime.
The Group has designated all US$4.5 billion (2015: US$2.8 billion) of its US dollar denominated subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.

(ii) The senior debt ranks above subordinated debt in the event of liquidation.

(iii) The Prudential Capital bank loan of £275 million is drawn at a cost of 12 month GBP LIBOR plus 0.4 per cent and matures on 20 December 2017.

(iv) In June 2016, the Company issued core structural borrowings of US$1,000 million 5.25 per cent Tier 2 perpetual subordinated notes. The proceeds, net of costs, were £681 million.

(v) In September 2016, the Company issued core structural borrowings of US$725 million 4.38 per cent Tier 2 perpetual subordinated notes. The proceeds, net of costs, were £546 million.

(vi) These borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date, into one or more series of Prudential preference shares.

(vii) The €20 million borrowings were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three-month £LIBOR plus 1.2 per cent.

(viii) Jackson's borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

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

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

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

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

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

C6 Borrowings continued

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2016 £m	2015 £m
Commercial Paper	1,052	1,107
Medium Term Notes 2018 note (i)	599	598
Borrowings in respect of short-term fixed income securities programmes note (i)	1,651	1,705
Bank loans and overdrafts	19	10
Obligations under finance leases	5	4
Other borrowings note (ii)	642	241
Other borrowings	666	255
Total note (iii)	2,317	1,960

Notes

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

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

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

(b) Borrowings attributable to with-profits operations

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

* In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds.
† The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

C6.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's borrowings as recognised in the statement of financial position:

	Shareholder-financed operations				With-profits operations	
	Core structural borrowings		Operational borrowings		Borrowings	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Less than 1 year	275	–	1,636	1,293	118	137
1 to 2 years	–	275	599	–	48	226
2 to 3 years	–	–	–	598	108	168
3 to 4 years	–	–	1	–	8	36
4 to 5 years	–	–	1	–	146	32
Over 5 years	6,523	4,736	80	69	921	733
Total	6,798	5,011	2,317	1,960	1,349	1,332

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 audited sections of the Group Chief Risk Officer's report on the risks facing our business and how these are managed.

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

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

Type of business	**Market and credit risk**			**Insurance and lapse risk**
	Investments/derivatives	**Liabilities/unallocated surplus**	**Other exposure**	
Asia insurance operations (see also section C7.2)				
All business	Currency risk			Mortality and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	
Non-participating business	Asset/liability mismatch risk			
	Credit risk	Interest 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

C7 Risk and sensitivity analysis continued

C7.1 Group overview continued

Type of business	Market and credit risk			Insurance and lapse risk
	Investments/derivatives	**Liabilities/unallocated surplus**	**Other exposure**	
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
Shareholder-backed annuity business	Asset/liability mismatch risk			
	Credit risk for assets covering liabilities and shareholder capital			Mortality experience and assumptions for longevity
	Interest rate risk for assets in excess of liabilities ie assets representing shareholder capital			

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

Impact of diversification on risk exposure

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

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

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

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

C7.2 Asia insurance operations

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

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

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

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

i Sensitivity to risks other than foreign exchange risk

Interest rate risk

Excluding its with-profits and unit-linked businesses, the results of the Asia business are sensitive to the vagaries of routine movements in interest rates.

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

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

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

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

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

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

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

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

Equity price risk

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

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

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

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

C7 Risk and sensitivity analysis continued

C7.2 Asia insurance operations continued

Insurance risk

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

ii Sensitivity to foreign exchange risk

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

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

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

C7.3 US insurance operations

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

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

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

Jackson is exposed primarily to the following risks:

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

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

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

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

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

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

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

C7 Risk and sensitivity analysis continued

C7.3 US insurance operations continued

i Sensitivity to equity risk

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

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

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

* Amounts shown for GMWB comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).
† Ranges shown based on simple interest. The upper limits of 5 per cent or 8 per cent simple interest are approximately equal to 4.1 per cent and 6 per cent respectively, on a compound interest basis over a typical 10-year bonus period. For example 1 + 10 x 0.05 is similar to 1.04 growing at a compound rate of 4 per cent for a further nine years.
‡ The GMIB reinsurance guarantees are essentially fully reinsured.

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

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

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

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

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

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

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

Note

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

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

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

C7 Risk and sensitivity analysis continued

C7.3 US insurance operations continued

ii Sensitivity to interest rate risk

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

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

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

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

iii Sensitivity to foreign exchange risk

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

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

iv Other sensitivities

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

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

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

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

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

— Through the projected expected gross profits that are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail in note A3.1 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 the PAC non-profit sub-fund. Further details are described below.

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

With-profits business

With-profits sub-fund business

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

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

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

C7 Risk and sensitivity analysis continued

C7.4 UK insurance operations continued

Shareholder-backed annuity business

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

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

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

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

Unit-linked and other business

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

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

Sensitivity to interest rate risk and other market risk

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

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

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

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

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

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

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

C7.5 Asset management and other operations

a Asset management

i Sensitivities to foreign exchange risk

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

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

ii Sensitivities to other financial risks for asset management operations

The principal sensitivities to other financial risk of asset management operations are credit risk on the bridging loan portfolio of the Prudential Capital operation and the indirect effect of changes to market values of funds under management. Due to the nature of the asset management operations there is limited direct sensitivity to movements in interest rates. Total debt securities held at 31 December 2016 by asset management operations were £2,359 million (2015: £2,204 million), the majority of which are held by the Prudential Capital 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	
	2016 £m	**2015** £m	**2016** £m	**2015** £m
Unrealised losses or gains on investments	23	21	(1,534)	(1,036)
Balances relating to investment and insurance contracts	1	1	(730)	(543)
Short-term temporary differences	4,196	2,752	(3,071)	(2,400)
Capital allowances	16	10	(35)	(31)
Unused tax losses	79	35	–	–
Total	4,315	2,819	(5,370)	(4,010)

Of the short-term temporary differences of £4,196 million, £3,843 million relating to the US insurance operations is expected to be recovered in line with the run-off of the in-force book, and the remaining balances of the £353 million are expected to be recovered within 10 years.

The deferred tax asset at 31 December 2016 and 2015 arises in the following parts of the Group:

	2016 £m	**2015** £m
Asia insurance operations	98	66
US insurance operations	3,861	2,448
UK insurance operations	146	132
Other operations	210	173
Total	4,315	2,819

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

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

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

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

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

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

C8.2 Current tax

Of the £440 million (2015: £477 million) current tax recoverable, the majority is expected to be recovered in one year or less. The current tax recoverable includes £112 million in relation to the ongoing litigation relating to the historic tax treatment of dividends received from overseas portfolio investments of life insurance companies. PAC is the test case for this litigation. In April 2016, the UK Court of Appeal found in PAC's favour on all substantive points in the litigation. HM Revenue & Customs have been granted permission to appeal the Court of Appeal's judgment to the Supreme Court. The Supreme Court hearing has not yet been scheduled. However, it is expected to be at some time in 2018.

The current tax liability increased to £649 million (2015: £325 million) due to positive market movements in the UK insurance operations.

C9 Defined benefit pension schemes

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

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

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

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

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

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

Notes

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

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

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

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

C9 Defined benefit pension schemes continued

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

Triennial actuarial valuations

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

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

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

For PSPS, the market value of the scheme assets as at the 5 April 2014 valuation was £6,165 million. The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the purposes of the 2014 valuation were as follows:

	%
Rate of increase in salaries	Nil
Rate of inflation:	
Retail Prices Index (RPI)	3.5
Consumer Prices Index (CPI)	2.8
Rate of increase of pensions in payment for inflation:	
Guaranteed (maximum 5%)	2.8
Guaranteed (maximum 2.5%)	2.5
Discretionary	Nil
Expected returns on plan assets	3.3

Mortality assumptions:

The tables used for PSPS pensions in payment at 5 April 2014 were:

Base post-retirement mortality

For current male (female) pensioners 113 per cent (108 per cent) of the mortality rates of the 2000 series mortality tables (PNMA00/PNFA00), published by the Continuous Mortality Investigation Bureau (CMI).

For male (female) non-pensioners 107 per cent (92 per cent) of the 2000 series rates (PNMA00/PNFA00).

Allowance for future improvements to post-retirement mortality

For males (females) up to 2009 100 per cent (75 per cent) of Medium Cohort subject to a minimum rate of improvement of 2.00 per cent per annum (1.25 per cent per annum) up to age 90, decreasing linearly to zero by age 120. From 2010 onwards, in line with the CMI's 2009 projection model with a long-term rate of 1.75 per cent per annum (1.50 per cent per annum), and minor scheme-specific calibrations.

Risks to which the defined benefit schemes expose the Group

Responsibility of making good of any deficit that may arise in the schemes lies with the employers of the schemes, which are subsidiaries of the Group. Accordingly, the pension schemes expose the Group to a number of risks, the most significant of which are interest rate and investment risk, inflation risk and mortality risk.

Corporate governance

The Group's UK pension schemes are regulated by 'The Pension Regulator' in accordance with the Pension Act 1995. Trustees have been appointed for each pension scheme and they have the ultimate responsibility to ensure that the scheme is managed in accordance with the Trust Deed & Rules.

All of the three Group's UK defined benefit pension schemes (the PSPS, SASPS and M&GGPS) are final salary schemes, which are closed to new entrants.

The Trustee of each scheme sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realisation of specific investments to the Investment Managers. The Trustee consults the Principal Employer (eg The Prudential Assurance Company for PSPS), on the investment principles, but the ultimate responsibility for the investment of the assets of the scheme lies with the Trustee.

The Trustee of each of the schemes manages the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return, in the hope of reducing the contributions required or providing additional benefits to members.

The PSPS scheme has entered into a derivatives-based strategy to match the duration and inflation profile of its liabilities. This involved a reallocation from other investments to other assets with an interest and inflation swap overlay. As at 31 December 2016, the nominal value of the interest and inflation-linked swaps amounted to £0.8 billion (2015: £0.7 billion) and £5.0 billion (2015: £3.4 billion) respectively. The SASPS and M&GGPS use very limited or no derivatives to manage their risks.

(b) Assumptions

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

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

* The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities.

† The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.

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

(c) Estimated pension scheme surpluses and deficits

This section illustrates the financial position of the Group's defined benefit pension schemes on an economic basis and the IAS 19 basis.

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

C9 Defined benefit pension schemes continued

(c) Estimated pension scheme surpluses and deficits continued

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

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

Underlying investments of the schemes

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

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

* 93 per cent of the bonds are investment graded (2015: 93 per cent).
† 98 per cent of the total value of the scheme assets are derived from quoted prices in an active market (2015: 98 per cent). None of the scheme assets included shares in Prudential plc or property occupied by the Prudential Group. The IAS 19 basis plan assets at 31 December 2016 of £8,872 million (2015: £7,617 million) is different from the economic basis plan assets of £9,006 million (2015: £7,819 million) as shown above due to the exclusion of investment in Prudential insurance policies, which are eliminated on consolidation of £134 million (2015: £202 million) comprising £134 million for the M&G scheme (2015: £77 million) and nil for PSPS (2015: £125 million).

The movements in the IAS 19 pension schemes' surplus and deficit between scheme assets and liabilities as consolidated in the financial statements were:

Attributable to policyholders and shareholders

	Plan assets	Present value of benefit obligations note (i)	Net surplus (deficit) (without the effect of IFRIC 14)	Effect of IFRIC 14 for derecognition of PSPS surplus	Economic basis net surplus (deficit)	Other adjustments including for investments in Prudential insurance policies note (ii)	IAS 19 basis net deficit
2016 £m							
Net surplus (deficit), beginning of year	7,819	(6,858)	961	(800)	161	(77)	84
Current service cost		(34)	(34)		(34)		(34)
Net interest on net defined benefit liability (asset)	292	(254)	38	(32)	6	(3)	3
Administration expenses	(5)		(5)		(5)		(5)
Benefit payments	(350)	350	–		–		–
Employers' contributions note (iii)	45		45		45		45
Employees' contributions	2	(2)	–		–		–
Actuarial gains and losses note (iv)	1,203	(1,645)	(442)	274	(168)	(13)	(181)
Transfer into investment in Prudential insurance policies	–	–	–	–	–	(41)	(41)
Net surplus (deficit), end of year	9,006	(8,443)	563	(558)	5	(134)	(129)
2015 £m							
Net deficit, beginning of year	8,067	(7,312)	755	(710)	45	(132)	(87)
Current service cost		(36)	(36)		(36)		(36)
Negative past service cost		48	48		48		48
Net interest on net defined benefit liability (asset)	278	(250)	28	(26)	2	(5)	(3)
Administration expenses	(5)		(5)		(5)		(5)
Benefit payments	(301)	301	–		–		–
Employers' contributions note (iii)	56		56		56		56
Employees' contributions	2	(2)	–		–		–
Actuarial gains and losses note (iv)	(278)	393	115	(64)	51	6	57
Transfer out of investment in Prudential insurance policies	–	–	–	–	–	54	54
Net surplus (deficit), end of year	7,819	(6,858)	961	(800)	161	(77)	84

C9 Defined benefit pension schemes continued

(c) Estimated pension scheme surpluses and deficits continued

Notes

(i) Maturity profile of the benefit obligations

The weighted average duration of the benefit obligations of the schemes is 19.5 years (2015: 18.2 years).

The following table provides an expected maturity analysis of the benefit obligations as at 31 December:

	All schemes £m						
	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total
2016	243	1,090	1,585	1,694	1,704	8,508	14,824
2015	240	1,045	1,554	1,688	1,711	8,791	15,029

(ii) The adjustments for investments in Prudential insurance policies are consolidation adjustments for intra-group assets and liabilities with no impact to operating results.

(iii) Total employer contributions expected to be paid into the Group defined benefit schemes for the year ending 31 December 2017 amount to £45 million (2016: £45 million).

(iv) The actuarial gains and losses attributable to policyholders and shareholders as shown in the table above are analysed as follows:

	2016 £m	2015 £m
Actuarial gains and losses		
Return on the scheme assets less amount included in interest income	1,203	(278)
Losses on changes in demographic assumptions	(18)	(3)
(Losses)/gains on changes in financial assumptions	(1,733)	371
Experience gains on scheme liabilities	106	25
	(442)	115
Effect of derecognition of PSPS surplus	274	(64)
Consolidation adjustment for investments in Prudential insurance policies and other adjustments	(13)	6
	(181)	57

The losses of £1,733 million in 2016 on change in financial assumptions primarily reflect the effect of the decrease in the discount rate used in determining the scheme liabilities from 3.8 per cent in 2015 to 2.6 per cent in 2016. These losses were partially offset by the increase in the return on the scheme assets, which was greater than the amount included in interest income by £1,203 million.

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

C10 Share capital, share premium and own shares

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

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

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

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

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

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

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

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

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

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

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

C Balance sheet notes
Continued

C11 Provisions

	2016 £m	2015 £m
Provision in respect of defined benefit pension schemes: C9	288	85
Other provisions (see below)	659	519
Total provisions	947	604

Analysis of other provisions:

	2016 £m				2015 £m			
	Legal provisions	Restructuring provisions note (i)	Other provisions note (ii)	Total	Legal provisions	Restructuring provisions note (i)	Other provisions note (ii)	Total
At 1 January	12	13	494	519	9	11	487	507
Charged to income statement:								
Additional provisions	5	–	376	381	6	10	341	357
Unused amounts released	(4)	(5)	(44)	(53)	(1)	(1)	(53)	(55)
Used during the year	(7)	(1)	(214)	(222)	(3)	(7)	(275)	(285)
Exchange differences	1	–	33	34	1	–	(6)	(5)
Total at 31 December	7	7	645	659	12	13	494	519

Notes

(i) Restructuring provisions primarily relate to restructuring activities of UK insurance operations. The provisions pertain to property liabilities resulting from the closure of regional sales centres and branches and staff terminations and other transformation costs to enable streamlining of operations.

(ii) Other provisions comprise staff benefits provisions of £415 million (2015: £384 million) that are generally expected to be paid out within the next three years, provisions for onerous contracts of £20 million (2015: £31 million), other provisions of £35 million (2015: £79 million) and a provision for review of past annuity sales of £175 million (2015: £nil). Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The review is expected to commence in 2017 and last a period of three years. A provision of £175 million has been established at 31 December 2016 to cover the costs of undertaking the review and any potential redress. The ultimate amount that will be expended by the Group on the review remains uncertain. Although the Group's professional indemnity insurance may mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored in the provision, in accordance with the requirements of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'.

C12 Capital

(a) Group objectives, policies and processes for managing capital

(i) Capital measure

The Group manages its Group Solvency II own funds as its measure of capital. At 31 December 2016, estimated Group Solvency II Own Funds were £24.8 billion.

(ii) External capital requirements

From 1 January 2016, Solvency II is the Group's consolidated capital regime. Solvency II is a risk-based solvency framework required under the European Solvency II Directive as implemented by the Prudential Regulatory Authority in the UK. The Solvency II surplus represents the aggregated capital held by the Group less solvency capital requirements.

(iii) Meeting of capital management objectives

The Group solvency capital requirement has been met during 2016.

As well as holding sufficient capital to meet Solvency II requirements at Group level, the Group also closely manages the cash it holds within its central holding companies so that it can:

a) Maintain flexibility, fund new opportunities and absorb shock events
b) Fund dividends
c) Cover central costs and debt payments

More details on holding company cash flows and balances are given in the section II(a) of the additional unaudited financial information.

While the Group at a consolidated level is subject to the Solvency II requirements, at a business unit level capital is defined by local capital regulations and local business needs.

Each of the Group's long-term business operations is capitalised to a sufficiently strong level for its individual circumstances.

The Group manages its assets, liabilities and capital locally, in accordance with local regulatory requirements and reflecting the different types of liabilities in each business. As a result of the diversity of products offered by Prudential and the different regulatory regimes under which it operates, the Group employs differing methods of asset/liability and capital management, depending on the business concerned.

Stochastic modelling of assets and liabilities is undertaken in the UK, US and Asia to assess the economic capital requirements. A stochastic approach models the inter-relationship between asset and liability movements, taking into account asset correlation, management actions and policyholder behaviour under a large number of alternative economic scenarios.

In addition, reserve adequacy testing under a range of scenarios and dynamic solvency testing is carried out, including under certain scenarios mandated by the UK, US and Asian regulators.

The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this conditions the approach to asset/liability management.

(b) Local capital regulations

The most significant local capital requirements are:

(i) Asia insurance operations

The estimated capital position for Asia life insurance operations with reconciliation to shareholders equity is shown below:

	2016 £m	2015 £m
Group IFRS shareholders' equity	4,993	3,956
Adjustments to regulatory basis		
Unallocated surplus of with-profits funds	2,667	2,553
Deferred acquisition costs, distribution rights and goodwill of non-participating business not recognised for regulatory reporting	(1,365)	(1,301)
Other adjustments	1,627	(31)
Total adjustments	2,929	1,221
Total available capital resources of life assurance businesses on local regulatory bases	7,922	5,177

The capital requirements of material territories are:

Hong Kong

The capital requirement varies by underlying risk and duration of liabilities, but is generally determined as 4 per cent of mathematical reserves plus 0.3 per cent of the capital at risk. Mathematical reserves are based on a best estimate basis with prudent margins for adverse deviations, discounted at a valuation interest rate based on a blend between the risk-adjusted portfolio yield and reinvestment rate.

Indonesia

Solvency capital is determined using a risk-based capital approach. Insurance companies in Indonesia are expected to maintain the level of net assets above 120 per cent of solvency capital.

Malaysia

A risk-based capital framework applies in Malaysia. The local regulator has set a Supervisory Target Capital Level of 130 per cent below which supervisory actions of increasing intensity will be taken. Each insurer is also required to set its own Individual Target Capital Level to reflect its own risk profile and this is expected to be higher than the Supervisory Target Capital Level.

Singapore

A risk-based capital framework applies in Singapore. A registered insurer incorporated in Singapore is required at all times to maintain a minimum level of paid-up ordinary share capital and to ensure that its financial resources are not less than the greater of (i) the total risk requirement arising from the assets and liabilities of the insurer, calculated in accordance with the Singapore Insurance Act; or (ii) a minimum amount of 5 million Singapore Dollars. The regulator also has the authority to direct that the insurer satisfy additional capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if it considers such additional requirements appropriate.

C12 Capital continued

(b) Local capital regulations continued

(ii) US insurance operations

The estimated capital position for Jackson with reconciliation to shareholders equity is shown below:

	2016 £m	2015 £m
Group IFRS shareholders' equity	5,204	4,154
Adjustments to regulatory basis		
Deferred acquisition costs, distribution rights and goodwill of non-participating business not recognised for regulatory reporting	(8,303)	(6,148)
Jackson surplus notes	202	169
Investment and policyholder liabilities valuation differences between IFRS and regulatory basis for Jackson	6,657	4,927
Other adjustments	535	364
Total adjustments	(909)	(688)
Total available capital resources of life assurance businesses on local regulatory bases	4,295	3,466

The regulatory framework for Jackson is governed by the requirements of the US NAIC approved Risk-Based Capital standards. Under these requirements life insurance companies report using a formula-based capital standard which includes components calculated by applying factors to various asset, premium and reserve items and a separate model-based component for market risk associated primarily with variable annuity products.

At 31 December 2016, Jackson had a permitted practice in effect as granted by the local regulator allowing Jackson to carry certain interest rate swaps at book value, as if statutory hedge accounting were in place, instead of at fair value as would have been otherwise required. Jackson is required to demonstrate the effectiveness of its interest rate swap programme pursuant to the Michigan Insurance Code. The total effect of this permitted practice, net of tax, was to decrease statutory surplus by £334 million at 31 December 2016.

Under the equivalence provisions of Solvency II, Jackson is incorporated into the Group's Solvency II position at a level equal to available capital in excess of 250 per cent of the US local risk-based capital requirement.

(iii) UK insurance operations

From 1 January 2016, UK insurance operations are subject to Solvency II capital requirements on an individual basis. The UK solvency capital requirement has been met during 2016.

(iv) Asset management operations – regulatory and other surplus

Certain asset management subsidiaries of the Group are subject to regulatory requirements. The movement in the year of the surplus regulatory capital position of those subsidiaries, combined with the movement in the IFRS basis shareholders' funds for unregulated asset management operations, is as follows:

	Asset management operations					
	2016 £m					2015 £m
	M&G	US	Prudential Capital	Eastspring Investments	Total	Total
Regulatory and other surplus						
Beginning of year	402	182	70	149	803	534
Gains (losses) during the year	339	8	(23)	122	446	392
Movement in capital requirement	(46)	–	–	(8)	(54)	36
Capital injection	–	–	–	–	–	4
Distributions made to the parent company	(290)	(18)	(45)	(79)	(432)	(262)
Exchange and other movements	–	33	20	20	73	99
End of year	405	205	22	204	836	803

(c) Transferability of available capital

In the UK, the Solvency II regime became effective on 1 January 2016. PAC is required to meet the Solvency II capital requirements as a company as a whole, ie covering both its ring-fenced with-profits funds and non-profit funds. Further, the surplus of the with-profits funds is ring-fenced from the shareholder balance sheet with restrictions as to its distribution. Distributions from the with-profits funds to shareholders continue to reflect the shareholders' one-ninth share of the cost of declared policyholders' bonuses.

For Jackson, capital retention is maintained at a level consistent with an appropriate rating by Standard & Poor's. Currently, Jackson is rated AA. Jackson can pay dividends on its capital stock only out of earned surplus unless prior regulatory approval is obtained. Furthermore, dividends which exceed the greater of statutory net gain from operations less net realised investments losses for the prior year or 10 per cent of Jackson's prior year end statutory surplus, excluding any increase arising from the application of permitted practices, require prior regulatory approval.

For Asia subsidiaries, the amounts retained within the companies are at levels that provide an appropriate level of capital strength in excess of the local regulatory minimum. For ring-fenced with-profits funds, the excess of assets over liabilities is retained with distribution tied to the shareholders' share of bonuses through declaration of actuarially determined surplus. The businesses in Asia may, in general, remit dividends to the UK, provided the statutory insurance fund meets the local regulatory solvency targets.

Available capital of the non-insurance business units is transferable to the life assurance businesses after taking account of an appropriate level of operating capital, based on local regulatory solvency targets, over and above basis liabilities.

C13 Property, plant and equipment

Property, plant and equipment comprise Group occupied properties and tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the year is as follows:

	2016 £m			2015 £m		
	Group occupied property	Tangible assets	Total	Group occupied property	Tangible assets	Total
At 1 January						
Cost	480	1,387	1,867	390	1,165	1,555
Accumulated depreciation	(69)	(601)	(670)	(58)	(519)	(577)
Net book amount	411	786	1,197	332	646	978
Year ended 31 December						
Opening net book amount	411	786	1,197	332	646	978
Exchange differences	50	52	102	(2)	(10)	(12)
Depreciation charge	(15)	(144)	(159)	(11)	(118)	(129)
Additions	15	333	348	40	216	256
Arising on acquisitions of subsidiaries*	–	–	–	52	84	136
Disposals and transfers	(110)	(635)	(745)	–	(32)	(32)
Closing net book amount	351	392	743	411	786	1,197
At 31 December						
Cost	439	1,077	1,516	480	1,387	1,867
Accumulated depreciation	(88)	(685)	(773)	(69)	(601)	(670)
Net book amount	351	392	743	411	786	1,197

* Arising on an acquisition made for venture fund purposes by the PAC with-profits fund.

Tangible assets

Of the £392 million of tangible assets, £247 million were held by the Group's with-profits operations, primarily by the consolidated subsidiaries for venture fund and other investment purposes of the PAC with-profits fund.

Capital expenditure: property, plant and equipment by segment

The capital expenditure of £333 million (2015: £216 million) arose as follows: £244 million in UK, £17 million in US and £61 million in Asia in insurance operations with the remaining balance of £11 million arising from asset management operations and unallocated corporate expenditure (2015: £143 million in UK, £20 million in US and £35 million in Asia in insurance operations with the remaining balance of £18 million arising from asset management operations and unallocated corporate expenditure).

C14 Investment properties

Investment properties principally relate to the PAC with-profits fund and are carried at fair value. A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

	2016 £m	2015 £m
At 1 January	13,422	12,764
Additions:		
Resulting from property acquisitions	1,338	680
Resulting from expenditure capitalised	189	77
Disposals	(632)	(662)
Net gain from fair value adjustments	273	537
Net foreign exchange differences	97	21
Transfers (to) from held for sale assets	(41)	5
At 31 December	14,646	13,422

The 2016 income statement includes rental income from investment properties of £781 million (2015: £769 million) and direct operating expenses including repairs and maintenance arising from these properties of £67 million (2015: £42 million).

Investment properties of £6,020 million (2015: £5,468 million) are held under finance leases. The present value of minimum lease payments under these leases is £49 million (2015: £78 million) and 76 per cent (2015: 77 per cent) of lease payments are due in over five years.

The Group's policy is to let investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Group's freehold investment properties are receivable in the following periods:

	2016 £m	2015 £m
Less than 1 year	314	309
1 to 5 years	1,077	1,091
Over 5 years	2,634	2,595
Total	4,025	3,995

The total minimum future rentals to be received on non-cancellable sub-leases for the Group's investment properties held under finance leases at 31 December 2016 are £2,238 million (2015: £2,888 million).

D Other notes

D1 Held for sale Korea life business

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

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

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

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

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

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

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

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

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

D2 Contingencies and related obligations

Litigation and regulatory matters

In addition to the matters set out in note C11 in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in various litigation and regulatory issues. These may from time to time include class actions involving Jackson. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

Unclaimed Property Provision

Jackson had previously received regulatory enquiries on an industry-wide matter regarding claims settlement practices and compliance with unclaimed property laws. During 2015, Jackson reached agreements to settle issues related to these enquiries. At 31 December 2016, Jackson has accrued £13 million (2015: £16 million) to cover any such liability.

Guarantees

Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The estimated reserve for future guarantee fund assessments is not significant. The directors believe that the reserve is adequate for all anticipated payments for known insolvencies.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the Company does not consider that the amounts involved are significant.

Support for with-profits sub-funds by shareholders' funds

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

Matters relating to with-profits sub-funds:

- Pension mis-selling review – The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Offers to all cases were made by 30 June 2002. Costs arising from this review are met by the excess assets of the PAC with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. Prudential has given an assurance that these deductions from excess assets will not impact its bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, Prudential has stated it would make available support to the sub-fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged.
- Scottish Amicable Insurance sub-fund – Policies within this sub-fund (a with-profits sub-fund closed to new business) contain minimum levels of guaranteed benefit to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the PAC with-profits sub-fund would be liable to cover any such deficiency in the first instance.

  In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £571 million was held within the sub-fund (2015: £412 million).
- Guaranteed annuities – A provision for guaranteed annuity products of £62 million was held (2015: £47 million) in the PAC with-profits sub-fund.

Intra-group capital support arrangements

Prudential and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential. While Prudential considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

In addition, Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries regarding their solvency levels.

D3 Post balance sheet events

Dividends

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

D4 Related party transactions

Transactions between the Company and its subsidiaries are eliminated on consolidation.

The Company has transactions and outstanding balances with certain unit trusts, Open-Ended Investment Companies (OEICs), collateralised debt obligations and similar entities which are not consolidated and where a Group company acts as manager which are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's statement of financial position at fair value or amortised cost in accordance with their IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and paid in respect of the periodic charge and administration fee.

In addition, there are no material transactions between the Group's joint ventures which are accounted for on an equity method basis and other Group companies.

Executive officers and directors of the Company may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In 2016 and 2015, other transactions with directors were not deemed to be significant both by virtue of their size and in the context of the directors' financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

Apart from these transactions with directors, no director had interests in shares, transactions or arrangements that require disclosure, other than those given in the directors' remuneration report. Key management remuneration is disclosed in note B3.3.

D5 Commitments

Operating leases and capital commitments

The Group leases various offices to conduct its business. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

	2016 £m	**2015** £m
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:		
Not later than 1 year	107	98
Later than 1 year and not later than 5 years	209	231
Later than 5 years	96	116
Future minimum sub-lease rentals received for non-cancellable operating leases for land and buildings	60	66
Minimum lease rental payments included in consolidated income statement	115	105

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment properties at 31 December 2016 were £458 million (2015: £409 million).

At 31 December 2016, Jackson has unfunded commitments of £465 million (2015: £299 million) related to its investments in limited partnerships and £201 million (2015: £64 million) related to commercial mortgage loans and other fixed maturities. These commitments were entered into in the normal course of business and a material adverse impact on the operations is not expected to arise from them.

At 31 December 2016, UK insurance operations had unfunded commitments of £2,269 million (2015: £2,034 million) to private equity and infrastructure funds. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

D6 Investments in subsidiary undertakings, joint ventures and associates

(a) Dividend restrictions and minimum capital requirements

Certain Group subsidiaries and joint ventures are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to the parent company.

Under UK company law, UK companies can only declare dividends if they have sufficient distributable reserves. Further, UK insurance companies are required to maintain solvency margins in accordance with the rules of the Prudential Regulation Authority. The Group UK asset management company, M&G Investment Management Ltd is also required to maintain capital in accordance with regulatory requirements before making any distribution to the parent company.

Jackson is subject to state laws that limit the dividends payable to its parent company based on statutory capital and surplus and prior year earnings. Dividends in excess of these limitations require prior regulatory approval.

The Group's subsidiaries, joint ventures and associates in Asia may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations and has sufficient distributable reserves. For further details on local capital regulations in Asia please refer to note C12(b).

(b) Investments in joint ventures and associates

Joint ventures represent arrangements where the controlling parties through contractual or other agreement have the rights to the net assets of the arrangements. The Group has shareholder-backed joint venture insurance and asset management businesses in China with CITIC Group, and until September 2016 in India with ICICI Bank (see below). In addition, there is an asset management joint venture in Hong Kong with Bank of China International Holdings Limited (BOCI) and Takaful general and life insurance joint venture in Malaysia.

The Group has various joint ventures relating to property investments held by the PAC with-profits fund. The results of these joint ventures are reflected in the movement in the unallocated surplus of the PAC with-profits funds and therefore do not affect shareholders' results.

For the Group's joint ventures that are accounted for by using the equity method, the net of tax results of these operations are included in the Group's profit before tax.

The investments in these joint ventures have the same accounting year end as the Group.

The Group's associates, which are also accounted for under the equity method, include PPM South Africa and from September 2016 the Indian insurance entity, see below. In addition, the Group has investments in Open-Ended Investment Companies (OEICs), unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the PAC with-profits funds where the Group has significant influence. As allowed under IAS 28, these investments are accounted for on a fair value through profit or loss basis. The aggregate fair value of associates accounted for at fair value through profit or loss, where there are published price quotations, is approximately £3.5 billion at 31 December 2016 (2015: £1.4 billion).

During the period, following its listing and consequent amendments to the shareholder agreement, the Group ceased to exercise joint control over the insurance business in India, therefore the investment has been re-classified as an associate, and continues to be accounted for using the equity method.

The Group's share of the profits (including short-term fluctuations in investment returns), net of related tax, and carrying amount of interest in joint ventures and associates, which are equity accounted as shown in the consolidated income statement comprises the following:

	Joint ventures and associates	
	2016 £m	**2015** £m
Shareholder-backed business	161	185
PAC with-profits fund (prior to offsetting effect in movement in unallocated surplus)	21	53
Total	182	238

	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations)	Group total
2016										
Share of profits from joint ventures and associates, net of related tax	94	–	21	13	–	–	54	182	–	182
2015										
Share of profits from joint ventures and associates, net of related tax	130	–	53	14	–	–	41	238	–	238

There is no other comprehensive income in the joint ventures and associates. There has been no unrecognised share of losses of a joint venture or associate that the Group has stopped recognising in the total income.

The joint ventures have no significant contingent liabilities or capital commitments to which the Group is exposed nor does the Group have any significant contingent liabilities or capital commitments in relation to its interests in the joint ventures.

(c) Related undertakings

In accordance with Section 409 of the Companies Act 2006 a list of Prudential Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent) along with the classes of shares held, the registered office address and the country of incorporation, and the effective percentage of equity owned at 31 December 2016 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. The Group's consolidation policy is described in note A3.1(b).

Direct subsidiary undertakings of the parent company, Prudential plc (shares held directly or via nominees):

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential (US Holdco1) Limited	Ordinary shares	100.00%	
Prudential Capital Holding Company Limited	Ordinary shares	100.00%	
Prudential Corporation Asia Limited	Ordinary shares	100.00%	13/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Financial Services Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Group Holdings Limited	Ordinary shares	100.00%	
Prudential Property Services Limited	Ordinary shares	100.00%	
Prudential US Limited (In liquidation)	Ordinary shares	100.00%	
The Prudential Assurance Company Limited	Ordinary shares	100.00%	

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees:

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Allied Life Brokerage Agency, Inc	Ordinary shares	100.00%	400 East Court Avenue, Des Moines Iowa, 50309, USA
BOCHK Aggressive Growth Fund	Ordinary shares	54.69%	27th Floor, Bank of China Tower, Central and Western District, Hong Kong
BOCHK Balanced Growth Fund	Ordinary shares	39.05%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai, Hong Kong
BOCHK China Equity Fund	Ordinary shares	64.15%	
BOCHK Conservative Growth Fund	Ordinary shares	43.44%	
BOCI - Prudential Asset Management Limited	Ordinary shares	36.00%	27/F, Bank of China Tower, 1 Garden Road, Hong Kong
BOCI - Prudential Trustee Limited	Ordinary shares	36.00%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai, Hong Kong
Brier Capital LLC	Limited liability company	100.00%	1 Corporate Way, Lansing, Michigan 48951, USA
Brooke (Holdco 1) Inc	Ordinary shares	100.00%	1105 N Market Street, Suite 1300, Wilmington, DE 19801, USA
Brooke Holdings (UK) Ltd (In liquidation)	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Brooke Holdings LLC	Ordinary shares	100.00%	1105 N Market Street, Suite 1300, Wilmington, DE 19801, USA
Brooke Life Insurance Company	Ordinary shares	100.00%	1 Corporate Way, Lansing, Michigan 48951, USA
BWAT Retail Nominee (1) Limited	Ordinary shares	50.00%	Laurence Pountney Hill, London EC4R 0HH, UK
BWAT Retail Nominee (2) Limited	Ordinary shares	50.00%	
Calera Capital Partners IV - A AIV I, LP	Limited partnership interest	32.87%	Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801, USA

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Calvin F1 GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
Calvin F2 GP Limited	Ordinary shares	100.00%	
Canada Property (Trustee) No 1 Limited	Ordinary shares	100.00%	Lime Grove House, Green Street, St Helier, Jersey JE1 2ST
Canada Property Holdings Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Canada Property Jersey No. 2 Trust	Units	100.00%	Lime Grove House, Green Street, St Helier, Jersey JE1 2ST
Canada Property Jersey Trust	Units	100.00%	
Cardinal Distribution Park Management Limited	Ordinary shares	66.00%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham B2 5PP, UK
Carraway Guildford (Nominee A) Limited	Ordinary shares	100.00%	13 Castle Street, St Helier, Jersey JE4 5UT
Carraway Guildford (Nominee B) Limited	Ordinary shares	100.00%	
Carraway Guildford General Partner Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Carraway Guildford Investments Unit Trust	Units	100.00%	13 Castle Street, St Helier, Jersey JE4 5UT
Carraway Guildford Limited Partnership	Limited partnership interest	100.00%	Lloyds Chambers, 1 Portsoken Street, London E1 8HZ, UK
Centaurus Retail LLP	Limited partnership interest	50.00%	40 Broadway, London SW1H 0BU, UK
Central Square Leeds Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Centre Capital Non-Qualified Investors IV AIV Orion, L.P.	Limited partnership interest	76.75%	2711 Centerville Road, Ste 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	Limited partnership interest	76.53%	
Centre Capital Non-Qualified Investors IV AIV-RA, L.P.	Limited partnership interest	71.43%	
Centre Capital Non-Qualified Investors IV, L.P.	Limited partnership interest	75.47%	
Centre Capital Non-Qualified Investors V AIV-ELS LP	Limited partnership interest	73.16%	
Centre Capital Non-Qualified Investors V L.P.	Limited partnership interest	67.47%	
CEP IV-A Chicago AIV Limited Partnership	Limited partnership interest	31.92%	615 S Dupont Hwy, Dover, DE 19901, USA
CEP IV-A CWV AIV Limited Partnership	Limited partnership interest	31.92%	850 New Burton Road, Ste. 201, Dover, DE 19904, USA
CEP IV-A Davenport AIV Limited Partnership	Limited partnership interest	31.92%	615 S Dupont Hwy, Dover, DE 19901, USA
CEP IV-A Indy AIV Limited Partnership	Limited partnership interest	31.92%	
CEP IV-A NMR AIV Limited Partnership	Limited partnership interest	31.92%	
CEP IV-A WBCT AIV Limited Partnership	Limited partnership interest	31.91%	

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
CF Prudential European QIS Fund	Ordinary shares	97.72%	17 Rochester Row, London SW1P 1QT, UK
CF Prudential Japanese QIS Fund	Ordinary shares	97.93%	
CF Prudential North American QIS Fund	Ordinary shares	97.90%	135 Bishopsgate, London EC2M 3UR, UK
CF Prudential Pacific Markets Trust Fund	Ordinary shares	97.91%	Laurence Pountney Hill, London EC4R 0HH, UK
CF Prudential UK Growth QIS Fund	Ordinary shares	98.60%	17 Rochester Row, London SW1P 1QT, UK
CITIC-Prudential Life Insurance Company Limited	Ownership interest	50.00%	East Tower, World Financial Centre, No.1 East Third Ring Middle Road, Chaoyang District, Beijing, China 100020
CITIC-CP Asset Management Co., Ltd.	Ownership interest	26.95%	No.128 North Zhangjiabang Road, Pudong District, Shanghai, China
CITIC-Prudential Fund Management Company Limited	Ownership interest	49.00%	Level 9, HSBC Building, Shanghai IFC, 8 Century Avenue, Pudong, Shanghai, China
Clairvest Equity Partners IV-A Limited Partnership	Limited Partnership Interest	31.89%	22 St. Clair Avenue East, Suite 1700, Toronto, ON M4T 2S3 Canada
Cribbs Causeway JV Limited	Ordinary shares	50.00%	40 Broadway, London SW1H 0BU, UK
Cribbs Causeway Merchants Association Ltd	Limited by guarantee	100.00%	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Curian Capital, LLC	Membership interest	100.00%	1 Corporate Way, Lansing, Michigan 48951, USA
Curian Clearing LLC (Michigan)	Membership interest	100.00%	
Eastspring Al-Wara' Investments Berhad	Ordinary shares	100.00%	16th Floor, Wisma Sime Darby, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia
Eastspring Asset Management Korea Co. Ltd.	Ordinary shares	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring China Dragon Fund	Ordinary shares	29.13%	
Eastspring Investments – Cash Reserve Fund	Ordinary shares	100.00%	Prudential Tower 23rd Floor, Jl. Jendral Sudirman Kav.79, Jakarta Selatan 12910, Indonesia
Eastspring Investments – Pan European Fund	Ordinary shares	79.06%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments – US High Yield Bond Fund	Ordinary shares	28.25%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments (Hong Kong) Limited	Ordinary shares	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Eastspring Investments (Luxembourg) S.A.	Ordinary shares	100.00%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments (Singapore) Limited	Ordinary shares	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments Active Quant Securities	Ordinary shares	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments Asia Pacific Equity Fund	Ordinary shares	100.00%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments Asian Bond Fund	Ordinary shares	46.78%	
Eastspring Investments Asian Dynamic Fund	Ordinary shares	96.08%	
Eastspring Investments Asian Equity Fund	Ordinary shares	97.31%	
Eastspring Investments Asian Equity Income Fund	Ordinary shares	82.82%	
Eastspring Investments Asian High Yield Bond Fund	Ordinary shares	48.66%	
Eastspring Investments Asian Infrastructure Equity Fund	Ordinary shares	64.51%	
Eastspring Investments Asian Low Volatility Equity Fund	Ordinary shares	100.00%	
Eastspring Investments Asian Property Securities Fund	Ordinary shares	96.80%	
Eastspring Investments Berhad	Ordinary shares	100.00%	16th Floor, Wisma Sime Darby, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia
Eastspring Investments Best Growth Securities Inv Trust 4	Ordinary shares	97.01%	70, Yeoui-daero, Yeongdeungpo-gu, Seoul, 15/F, Shinhan Investment Tower, Seoul Special City, 07325, Korea
Eastspring Investments China Equity Fund	Ordinary shares	40.42%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments China Securities Baby Investment Trust	Ordinary shares	94.78%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Investments Commodity Smart Choice Special Assets 1	Ordinary shares	100.00%	
Eastspring Investments Dragon Peacock Fund	Ordinary shares	83.12%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments Emerging EMEA Dynamic Fund	Ordinary shares	100.00%	
Eastspring Investments European Inv Grade Bond Fund	Ordinary shares	98.15%	
Eastspring Investments Fund Management Limited Liability Company	Ownership interest	100.00%	23/F, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments Global Bond Navigator Fund	Ordinary shares	98.30%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments Global Emerging Markets Bond Fund	Ordinary shares	93.98%	
Eastspring Investments Global Equity Navigator Fund	Ordinary shares	100.00%	
Eastspring Investments Global Market Navigator Fund	Ordinary shares	95.89%	
Eastspring Investments Global Multi Asset Income Plus Growth Fund	Ordinary shares	100.00%	
Eastspring Investments Greater China Equity Fund	Ordinary shares	90.71%	
Eastspring Investments Hong Kong Equity Fund	Ordinary shares	99.57%	

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments Incorporated	Ordinary shares	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Eastspring Investments India Consumer Equity Open Limited	Ordinary shares	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront Port Louis, Mauritius
Eastspring Investments India Equity Fund	Ordinary shares	80.28%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments India Equity Open Limited	Ordinary shares	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront Port Louis, Mauritius
Eastspring Investments India Infrastructure Equity Open Limited	Ordinary shares	100.00%	
Eastspring Investments Japan Fundamental Value Fund	Ordinary shares	98.53%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments Korea Index Securities Baby Investment Trust	Ordinary shares	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Investments Korea Value Securities Investment Trust Bond	Ordinary shares	99.71%	
Eastspring Investments Latin American Equity Fund	Ordinary shares	94.44%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments Limited	Ordinary shares	100.00%	Marunouchi Park Building, 6-1 Marunouchi 2-chome, Chiyoda-Ku, Tokyo, Japan
Eastspring Investments Limited (in liquidation)	Ordinary shares	100.00%	Level 6, Precinct Building 5, Unit 5, Dubai International Financial Centre, Dubai, United Arab Emirates
Eastspring Investments North America Value Fund	Ordinary shares	99.76%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments Portfolio Management Limited (in liquidation)	Ordinary shares	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront Port Louis, Mauritius
Eastspring Investments Services Pte. Ltd.	Ordinary shares	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments SICAV-FIS - Alternative Investments Fund	Ordinary shares	100.00%	2-4 Rue Eugene Ruppert, L-2453 Luxembourg
Eastspring Investments SICAV-FIS - Asia Pacific Loan Fund	Ordinary shares	100.00%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments SICAV-FIS Universal USD Bond Fund	Ordinary shares	99.95%	
Eastspring Investments SICAV-FIS Universal USD Bond II Fund	Ordinary shares	100.00%	
Eastspring Investments Standard Plus Securities Investment Trust	Ordinary shares	97.53%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Investments Unit Trusts -Global Technology Fund	Ordinary shares	91.69%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments US Bond Fund	Ordinary shares	65.36%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Investments US Corporate Bond Fund	Ordinary shares	83.44%	
Eastspring Investments US High Inv Grade Bond Fund	Ordinary shares	89.13%	
Eastspring Investments US Investment Grade Bond Fund	Ordinary shares	25.03%	

D Other notes
Continued

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments UT Singapore ASEAN Equity Fund	Ordinary shares	99.84%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments UT Singapore Select Bond Fund	Ordinary shares	92.02%	
Eastspring Investments VUL Max Choice Securities Investment Trust 1	Ordinary shares	99.95%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Investments VUL Max Choice Securities Investment Trust 2	Ordinary shares	99.95%	
Eastspring Investments VUL NOW Securities Investment Trust 1	Ordinary shares	99.96%	
Eastspring Investments World Value Equity Fund	Ordinary shares	84.92%	26, Boulevard Royal, L-2449 Luxembourg
Eastspring Real Assets Partners	Ordinary shares	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Securities Investment Trust Co., Ltd.	Ordinary shares	99.54%	4F, No.1 Songzhi Road, Taipei 110, Taiwan
Edger Investments Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Empire Holding S.a.r.l. (In liquidation)	Ordinary shares	100.00%	5 Rue Guillaume Kroll, L-1882, Luxembourg
Euro Salas Properties Limited	Ordinary shares	100.00%	7 West George Street, Glasgow G2 1BA, UK
Falan GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
Fashion Square ECO LP	Limited partnership interest	100.00%	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801, USA
First Dakota, Inc.	Ordinary shares	100.00%	314 East Thayer Avenue, Bismarck, ND 58501, USA
Five Hotel Holdings, LLC	Membership interest	100.00%	CT Corporation System, 208 S. LaSalle St. Suite 814, Chicago IL 60604, Illinois USA
Foudry Properties Limited	Ordinary shares	50.00%	Clearwater Court, Vastern Road, Reading RG1 8DB, UK
Furnival Insurance Company PCC Limited	Ordinary shares	100.00%	PO Box 34, St. Martin's House, Le Bordage, St. Peter Port, GY1 4AU, Guernsey
GCI Holdings Corporation	Ordinary shares	75.80%	Prentice-Hall Corporation, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
Genny GP 1 LLP	Limited partnership interest	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Genny GP 2 Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
Genny GP Limited	Ordinary shares	100.00%	
GGE GP Limited	Ordinary shares	100.00%	
Global Low Volatility Equity fund D Acc	Ordinary shares	94.59%	26, Boulevard Royal, L-2449 Luxembourg
Greenpark (Reading) General Partner Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Greenpark (Reading) Nominee No. 1 Limited	Ordinary shares	100.00%	
Greenpark (Reading) Nominee No. 2 Limited	Ordinary shares	100.00%	
GS Twenty Two Limited	Ordinary shares	100.00%	
Hermitage Management LLC	Membership interest	100.00%	1 Corporate Way, Lansing, Michigan 48951, USA

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Holborn Bars Nominees Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Holborn Finance Holding Company (In liquidation)	Ordinary shares	100.00%	
Holtwood Limited	Ordinary shares	100.00%	International House, Castle Hill, Victoria Road, Douglas, IM2 4RB, Isle of Man
Hyde Holdco 1 Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
ICICI Prudential Asset Management Company Limited	Ordinary shares	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
ICICI Prudential Life Insurance Company Limited	Ordinary shares	25.83%	ICICI PruLife Towers, 1089 Appasaheb Marathe Marg, Prabhadevi, Mumbai 400025, India
ICICI Prudential Pension Funds Management Company Limited	Ordinary shares	25.83%	
ICICI Prudential Trust Limited	Ordinary shares	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
IFC Holdings, Inc.	Ordinary shares	100.00%	1209 Orange St, Wilmington, DE 19801, USA
Infracapital (AIRI) GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
Infracapital (AIRI) Holdings Limited	Ordinary shares	100.00%	
Infracapital (AIRI) SLP LP	Partnership interest	100.00%	
Infracapital (Bio) GP Limited	Ordinary shares	100.00%	
Infracapital (Bio) SLP LP	Partnership interest	100.00%	
Infracapital (GC) GP Limited	Ordinary shares	100.00%	
Infracapital (GC) SLP LP	Ordinary shares with partnership interest	100.00%	
Infracapital (IT PPP) GP Limited	Ordinary shares	100.00%	
Infracapital (IT PPP) SLP LP	Partnership interest	100.00%	
Infracapital (Sense) GP Limited	Ordinary shares	100.00%	
Infracapital (Sense) Holdings Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Infracapital (Sense) SLP LP	Partnership interest	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
Infracapital (TLSB) GP Limited	Ordinary shares	100.00%	
Infracapital (TLSB) SLP LP	Partnership interest	100.00%	
Infracapital ABP GP Limited	Ordinary shares	100.00%	
Infracapital CI II Limited	Ordinary shares	100.00%	
Infracapital DF II GP LLP	Limited partnership interest	100.00%	
Infracapital DF II Limited	Ordinary shares	100.00%	
Infracapital Employee Feeder GP 1 LLP	Limited partnership interest	100.00%	
Infracapital Employee Feeder GP 2 LLP	Limited partnership interest	100.00%	
Infracapital Employee Feeder GP Limited	Ordinary shares	100.00%	
Infracapital F1 GP2 Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Infracapital F2 GP1 Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital F2 GP2 Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Infracapital GP 1 LLP	Limited partnership interest	100.00%	
Infracapital GP 2 LLP	Limited partnership interest	100.00%	
Infracapital GP II Limited	Ordinary shares	100.00%	
Infracapital GP Limited	Ordinary shares	100.00%	
Infracapital Greenfield Partners I GP 1 Limited	Ordinary shares	100.00%	
Infracapital Greenfield Partners I GP 2 Limited	Ordinary shares	100.00%	
Infracapital Greenfield Partners I GP LLP	Ordinary shares	100.00%	
Infracapital Greenfield Partners I LP	Limited partnership interest	100.00%	
Infracapital Long Term Income Partners GP 1 Limited	Ordinary shares	100.00%	
Infracapital Long Term Income Partners GP 2 Limited	Ordinary shares	100.00%	
Infracapital Long Term Income Partners GP LLP	Limited partnership interest	100.00%	
Infracapital Partners II LP	Limited partnership interest	25.98%	
Infracapital Partners LP	Limited partnership interest	33.04%	
Infracapital Sisu GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
Infracapital SLP II GP LLP	Limited partnership interest	100.00%	
Infracapital SLP Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Innisfree M&G PPP LLP	Limited partnership interest	35.00%	Boundary House, 91-93 Charterhouse Street, London EC1M 6HR, UK
INVEST Financial Corporation Insurance Agency, Inc. of Delaware	Ordinary shares	100.00%	100 West 10th Street Wilmington, DE 19801, USA
INVEST Financial Corporation Insurance Agency, Inc. of Illinois	Ordinary shares	100.00%	208 South LaSalle Street Suite 814 Chicago, IL 60604, USA
Investment Centers of America, Inc	Ordinary shares	100.00%	314 East Thayer Avenue, Bismarck, ND 58501, USA
Jackson Charitable Foundation	Non-stock basis	100.00%	1 Corporate Way, Lansing, Michigan 48951, USA
Jackson National Asset Management LLC	Capital contribution	100.00%	
Jackson National Life (Bermuda) Limited	Ordinary shares	100.00%	Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda
Jackson National Life Distributors LLC	Membership interest	100.00%	1209 Orange St, Wilmington, DE 19801, USA
Jackson National Life Insurance Company	Ordinary shares	100.00%	1 Corporate Way, Lansing,Michigan 48951, USA
Jackson National Life Insurance Company of New York	Ordinary shares	100.00%	2900 Westchester Av, Suite 305, Purchase, NY 10577, USA
Jefferies Capital Partners V, L.P.	Limited partnership interest	21.92%	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801, USA
JNL Strategic Income Fund LLC	Membership interest	100.00%	
Lion Credit Opportunity Fund	Ordinary shares	32.26%	3rd Floor, Kilmore House, Park Lane, Dublin 1, D01 YE64, Ireland

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
LIPP S.à r.l. (in liquidation)	Ordinary shares	100.00%	5 Rue Guillaume Kroll, L-1882, Luxembourg
Livicos Limited	Ordinary shares	100.00%	Montague House, Adelaide Road, Dublin 2, Ireland
M&G (Guernsey) Limited	Ordinary shares	100.00%	Dorey Court, Admiral Park, St. Peter Port, Guernsey GY1 2HT
M&G Alternatives Investment Management Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G Asia Property Fund	A Class Shares	40.35%	34-38, Avenue de la Liberté, L-1930 Luxembourg
M&G Corporate bond Fund	Ordinary shares	24.40%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G Dividend Fund	Ordinary shares	54.67%	
M&G Emerging Markets Bond Fund	Ordinary shares	23.85%	
M&G Episode Defensive Fund	Ordinary shares	94.62%	
M&G Episode Macro Fund	Ordinary shares	45.65%	
M&G European Credit Investment Fund	Ordinary shares	100.00%	80, Route d'Esch, L-1470 Luxembourg
M&G European High Yield Credit Investment Fund	Ordinary shares	100.00%	
M&G European Property Fund SICAV-FIS	Ordinary shares	68.06%	34-38, Avenue de la Liberté, L-1930 Luxembourg
M&G European Secured Property Income Fund	Units	51.12%	
M&G European Select Fund	Ordinary shares	37.30%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G European Strategic Value Fund	Ordinary shares	92.47%	
M&G Feeder of Property Portfolio	Ordinary shares	28.25%	
M&G Financial Services Limited	Ordinary shares	100.00%	
M&G Founders 1 Limited	Ordinary shares	100.00%	
M&G General Partner Inc.	Ordinary shares	100.00%	Walker House, 87 Mary Street, Grand Cayman, KY1 9002, Cayman Islands
M&G Gilt & Fixed Interest Income Fund	Ordinary shares	41.11%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G Global Corporate Bond Fund	Ordinary shares	63.53%	
M&G Global Credit Investment Fund	Ordinary shares	100.00%	80, Route d'Esch, L-1470 Luxembourg
M&G Global Leaders Fund	Ordinary shares	24.28%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G Global Select Fund	Ordinary shares	23.69%	
M&G IMPPP 1 Limited	Ordinary shares	100.00%	
M&G International Investments Limited	Ordinary shares	100.00%	
M&G International Investments Nominees Limited	Ordinary shares	100.00%	
M&G International Investments Switzerland AG	Ordinary shares	100.00%	Talstrasse 66, 8001 Zurich, Switzerland
M&G Investment Management Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G Investments (Hong Kong) Limited	Ordinary shares	100.00%	6th Floor, Alexandra House, 18 Chater Road, Central Hong Kong, Hong Kong
M&G Investments (Singapore) Pte. Ltd.	Ordinary shares	100.00%	10 Marina Boulevard, 39 Marina Bay Financial Centre, Singapore 018983
M&G Investments Japan Co., Ltd.	Ordinary shares	100.00%	3-1 Toranomon, 4 Chome, Minato-ko, Tokyo 105-6009, Japan

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G Managed Growth Fund	Ordinary shares	26.40%	
M&G Management Services Limited	Ordinary shares	100.00%	
M&G Nominees Limited	Ordinary shares	100.00%	
M&G Pan European Dividend Fund	Ordinary shares	34.78%	
M&G Platform Nominees Limited	Ordinary shares	100.00%	
M&G RE Espana 2016 S.L.	Ordinary shares	100.00%	Plaza de Colon, Torre II, Planta 14, 28046, Madrid, Spain
M&G Real Estate (Luxembourg) S.A.	Ordinary shares	100.00%	34-38, Avenue de la Liberté, L-1930 Luxembourg
M&G Real Estate Asia Holding Company Pte. ltd	Ordinary shares	100.00%	10 Marina Boulevard, #31-03 Marina Bay Financial Centre Tower 2, Singapore 018983
M&G Real Estate Asia PTE. Ltd	Ordinary shares	100.00%	
M&G Real Estate Debt Fund LP	Limited partnership interest	29.15%	Ground Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT
M&G Real Estate Funds Management S.a.r.l.	Ordinary shares	100.00%	34-38, Avenue de la Liberté, L-1930 Luxembourg
M&G Real Estate Japan Co. Ltd	Ordinary shares	100.00%	Shiroyama Trust Tower, Tokyo, Japan
M&G Real Estate Korea Co. Ltd	Ordinary shares	100.00%	Kyobo Building, Seoul, Korea
M&G Real Estate Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G RED Employee Feeder GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
M&G RED GP Limited	Ordinary shares	100.00%	Dorey Court, Admiral Park, St Peter Port, Guernsey GY1 2HT
M&G RED II Employee Feeder GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
M&G RED II GP Limited	Ordinary shares	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port Guernsey GY1 1WG
M&G RED II SLP GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
M&G RED III Employee Feeder GP Limited	Ordinary shares	100.00%	
M&G RED III GP Limited	Ordinary shares	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey GY1 1WG
M&G RED III SLP GP Limited	Ordinary shares	100.00%	Burness Paull LLP, 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
M&G RED SLP GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
M&G RPF GP Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G RPF Nominee 1 Limited	Ordinary shares	100.00%	
M&G RPF Nominee 2 Limited	Ordinary shares	100.00%	
M&G Securities Limited	Ordinary shares	100.00%	
M&G SIF Management Company (Ireland) Limited	Ordinary shares	100.00%	78 Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
M&G Traditional Credit Fund	Ordinary shares	45.41%	
M&G UK Companies Financing Fund II LP	Limited partnership interest	48.32%	Laurence Pountney Hill, London EC4R 0HH UK
M&G UK Property Fund	Class C units	99.79%	34-38, Avenue de la Liberté, L-1930 Luxembourg

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G UK Property GP Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
M&G UK Property Nominee 1 Limited	Ordinary shares	100.00%	
M&G UK Property Nominee 2 Limited	Ordinary shares	100.00%	
M&G UK Residential Property Fund	Class founder units	48.37%	34-38, Avenue de la Liberté, L-1930 Luxembourg
M&G UKCF II GP Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Manchester JV Limited	Ordinary shares	50.00%	40 Broadway, London SW1H 0BU, UK
Manchester Nominee (1) Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
MCF S.r.l.	Ordinary shares	45.00%	Via Romagnosi 18/a, 00196 Roma, Italy
Minster Court Estate Management Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Mission Plans of America, Inc	Ordinary shares	100.00%	1999 Bryan Street Suite 900, Dallas, TX 75201, USA
MM and S (2375) Limited	Ordinary shares	100.00%	Mazars Llp, 90 St. Vincent Street, Glasgow G2 5UB, UK
Murphy & Partners Fund, LP	Limited partnership interest	21.07%	Corporation Service Company 2711 Centerville Road, Ste 400, Wilmington, DE 19808, USA
NAPI REIT, Inc	Ordinary shares	100.00%	The Corporation Trust Incorporated, 300 E Lombard Street, Baltimore, MD 21202, USA
National Planning Corporation	Ordinary shares	100.00%	1209 Orange St, Wilmington, DE 19801, USA
National Planning Holdings, Inc.	Ordinary shares	100.00%	
North Sathorn Holdings Company Limited	Ordinary shares	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Nova Sepadu Sdn. Bhd.	Ordinary shares	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Oaktree Business Park Limited	Ordinary shares	12.50%	Laurence Pountney Hill, London EC4R 0HH, UK
Old Hickory Fund I, LLC	Ordinary shares	100.00%	Eschenheimer Anlage 1, 60316 Frankfurt am Main, Germany
Old Kingsway, LP	Limited Partnership Interest	100.00%	Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Limited	Ordinary shares	99.95%	Barrat House Cartwright Way, Bardon Hill, Coalville, Leicestershire LE67 1UF, UK
Pacus (UK) Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
PCA IP Services Limited	Ordinary shares	100.00%	13/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PCA Life Assurance Co. Ltd.	Ordinary shares	99.79%	8/F, No.1 Songzhi Road, Taipei 11047, Taiwan
PCA Life Insurance Co., Ltd.	Ordinary shares	100.00%	21/F, PCA Life Tower, 302, Teheran-Ro, Gangnam-gu, Seoul, Korea
PCA Reinsurance Co. Ltd.	Ordinary shares	100.00%	Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
PGDS (UK One) Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
PGDS (US One) LLC	Membership interest	100.00%	1209 Orange St, Wilmington, DE 19801, USA
PGF Management Company (Ireland) Limited	Ordinary shares	100.00%	25-28 North Wall Quay, Dublin 1, Ireland
PPM America Capital Partners II, LLC	Membership interest	63.45%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners III, LLC	Membership interest	60.50%	
PPM America Capital Partners IV, LLC	Membership interest	34.50%	
PPM America Capital Partners V, LLC	Membership interest	34.00%	

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM America Capital Partners VI, LLC	Limited partnership interest	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners, LLC	Membership interest	19.38%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Private Equity Fund II LP	Limited partnership interest	100.00%	
PPM America Private Equity Fund III LP	Limited partnership interest	100.00%	
PPM America Private Equity Fund IV LP	Limited partnership interest	100.00%	
PPM America Private Equity Fund LP	Limited partnership interest	100.00%	
PPM America Private Equity Fund V LP	Limited partnership interest	100.00%	
PPM America Private Equity Fund VI LP	Limited partnership interest	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM America, Inc.	Ordinary shares	100.00%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM Capital (Holdings) Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
PPM Finance, Inc	Ordinary shares	100.00%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM Holdings, Inc	Ordinary shares	100.00%	
PPM Managers GP Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
PPM Ventures (Asia) Limited (in liquidation)	Ordinary shares	100.00%	Gloucester Tower, 15 Queens Road, Central, Hong Kong
PPMC First Nominees Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Property Partners (Two Rivers) Limited	Ordinary shares	50.00%	Bow Bells House, 1 Bread Street, London EC4M 9HH, UK
Pru Life Insurance Corporation of U.K.	Ordinary shares	100.00%	9/F, Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Prudence Foundation Limited	Limited by guarantee	100.00%	13/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential (Cambodia) Life Assurance Plc.	Ordinary shares	100.00%	20F, #445, Monivong Blvd, Boeung Prolit, 7 Makara, Phnom Penh Tower Phnom Penh, Cambodia
Prudential (Namibia) Unit Trusts Limited	Ordinary shares	100.00%	6 Feld Street, Windhoek, Namibia
Prudential (Netherlands One) Limited (In liquidation)	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential / M&G UKCF GP Limited	Ordinary shares	100.00%	
Prudential Africa Holdings Limited	Ordinary shares	100.00%	
Prudential Africa Services Limited	Ordinary shares	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Annuities Limited	Ordinary shares	100.00%	Mazars LLP, 45 Church Street, Birmingham B3 2RT, UK
Prudential Assurance Company Singapore (Pte) Limited	Ordinary shares	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Assurance Malaysia Berhad	Ordinary shares	51.00%	Level 3, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Assurance Uganda Limited	Ordinary shares	100.00%	Kampala Road, Kampala, Uganda

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Australia One Limited (in liquidation)	Ordinary shares and 6% Cumulative Preference Shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential BSN Takaful Berhad	Ordinary shares	49.00%	Level 8A, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Capital (Singapore) Pte. Limited	Ordinary shares	100.00%	10, Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Prudential Capital plc	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Corporate Pensions Trustee Limited	Ordinary shares	100.00%	
Prudential Corporation Australasia Holdings Pty Limited	Class A and Class B Shares	100.00%	Level 7,10-14 Smith Street, Parramatta, Australia, NSW 2124
Prudential Corporation Holdings Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Credit Opportunities 1 S.A.R.L.	Ordinary shares	100.00%	1, Rue Hildegard von Bingen, L-1282 Luxembourg
Prudential Credit Opportunities GP S.A.R.L.	Ordinary Shares	100.00%	
Prudential Credit Opportunities SCSp	Ordinary shares	100.00%	
Prudential Development Management Limited	Ordinary Shares/ Redeemable Preference Shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Distribution Limited	Ordinary shares	100.00%	Craigforth, Stirling FK9 4UE, UK
Prudential Dublin Investments Limited	Ordinary shares	100.00%	IFSC, North Wall Quay, Dublin 1, Ireland
Prudential Dynamic 0-30 Portfolio	Ordinary shares	29.95%	17 Rochester Row, London SW1P 1QT, UK
Prudential Dynamic 10-40 Portfolio	Ordinary shares	31.74%	
Prudential Dynamic 20-55 Portfolio	Ordinary shares	35.20%	
Prudential Dynamic 40-80 Portfolio	Ordinary shares	38.61%	
Prudential Dynamic 60-100 Portfolio	Ordinary shares	40.41%	
Prudential Dynamic Focused 0-30 Portfolio	Ordinary shares	66.09%	
Prudential Dynamic Focused 10-40 Portfolio	Ordinary shares	42.44%	
Prudential Dynamic Focused 20-55 Portfolio	Ordinary shares	50.40%	
Prudential Dynamic Focused 40-80 Portfolio	Ordinary shares	49.92%	
Prudential Dynamic Focused 60-100 Portfolio	Ordinary shares	70.93%	
Prudential Equity Release Mortgages Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Europe Assurance Holdings Limited (in liquidation)	Ordinary shares	100.00%	Mazars LLP, 90 St. Vincent Street, Glasgow G2 5UB, UK
Prudential Financial Planning Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Five Limited	Ordinary shares	100.00%	
Prudential General Insurance Hong Kong Limited	Ordinary shares	100.00%	59/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential GP Limited	Ordinary shares	100.00%	Craigforth, Stirling FK9 4UE, UK
Prudential Greenfield GP LLP	Limited partnership interest	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Greenfield GP1 Limited	Ordinary shares	100.00%	
Prudential Greenfield GP2 Limited	Ordinary shares	100.00%	
Prudential Greenfield LP	Limited partnership interest	100.00%	
Prudential Greenfield SLP GP LLP	Limited partnership interest	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Group Pensions Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Group Secretarial Services Limited	Ordinary shares	100.00%	
Prudential Holborn Life Limited	Ordinary shares	100.00%	
Prudential Holdings Limited	Ordinary shares	100.00%	Craigforth, Stirling FK9 4UE, UK
Prudential Hong Kong Limited	Ordinary shares	100.00%	59/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Assurance plc	Ordinary shares	100.00%	Montague House, Adelaide Road, Dublin 2, Ireland
Prudential International Management Services Limited	Ordinary shares	100.00%	
Prudential International Staff Pensions Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Investment (Luxembourg) 2 S.à r.l.	Ordinary shares	100.00%	34-38, Avenue de la Liberté, L-1930 Luxembourg
Prudential Investment Managers (South Africa) (Pty) Ltd	Ordinary shares	100.00%	Protea Place, Cape Town, South Africa
Prudential Investments Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential IP Services Limited	Ordinary shares	100.00%	
Prudential Life Assurance (Lao) Company Limited	Ordinary shares	100.00%	Unit A, 6th Floor, Vientiane Plaza Hotel Office Building, Sailom Road, Hatsady Neua Village, Chanthabouly District, Vientiane Capital, Lao, PDR
Prudential Life Assurance (Thailand) Public Company Limited	Ordinary shares	99.93%	9/9 Sathorn Building, 20th– 27th Fl., South Sathorn Rd., Yannawa, Sahtorn, Bangkok 10120, Thailand
Prudential Life Assurance Kenya Limited	Ordinary shares	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Life Assurance Limited	Ordinary shares	100.00%	226 Finsbury House, Buteko Avenue, Ndola, Zambia
Prudential Life Insurance Ghana Limited	Ordinary shares	100.00%	35 North Street, Accra, Ghana
Prudential Lifetime Mortgages Limited	Ordinary shares	100.00%	Craigforth, Stirling FK9 4UE, UK
Prudential Mauritius Holdings Limited	Ordinary shares	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront Port Louis, Mauritius
Prudential Pensions Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Pensions Management Zambia	Ordinary shares	49.00%	226 Finsbury House, Buteko Avenue, Ndola, Zambia
Prudential Polska sp. z.o.o	Ordinary shares	100.00%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Portfolio Managers (Namibia) (Pty) Limited	Ordinary shares	75.00%	6 Feld Street, Windhoek, Namibia
Prudential Portfolio Managers (South Africa) (Pty) Limited	Ordinary shares & A Class shares	49.99%	PO Box 44813, Claremont 7735, South Africa
Prudential Portfolio Managers (South Africa) Life Limited	Ordinary shares	100.00%	Protea Place, Cape Town, South Africa
Prudential Portfolio Managers Unit Trusts Limited	Ordinary shares	100.00%	PO Box 44813, Claremont 7735, South Africa
Prudential Process Management Services India Private Limited	Equity shares	100.00%	Prudential House, Mumbai, India
Prudential Properties Trusty Pty Limited	Unclassified shares	100.00%	Darling Park Tower 2, Sydney, Australia

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Property Holding Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Property Investment Managers Limited	Ordinary shares	100.00%	
Prudential Property Investments Limited	Ordinary shares	100.00%	
Prudential Real Estate Investments 1 Limited	Ordinary shares	100.00%	
Prudential Real Estate Investments 2 Limited	Ordinary shares	100.00%	
Prudential Real Estate Investments 3 Limited	Ordinary shares	100.00%	
Prudential Retirement Income Limited	Ordinary shares	100.00%	Craigforth, Stirling FK9 4UE, UK
Prudential Services Asia Sdn. Bhd.	Ordinary shares Class D Preference shares	100.00% 100.00%	Suite 1005, 10th Floor, Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Prudential Services Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Services Singapore Pte. Ltd.	Ordinary shares	100.00%	80 Robinson Road, #21-01/02 Singapore 068898
Prudential Singapore Holdings Pte. Limited	Ordinary shares	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Staff Pensions Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Trustee Company Limited	Ordinary shares	100.00%	
Prudential UK Real Estate General Partner Limited	Ordinary shares	100.00%	
Prudential UK Real Estate Limited Partnership	Limited partnership interest	100.00%	
Prudential UK Real Estate Nominee 1 Limited	Ordinary shares	100.00%	
Prudential UK Real Estate Nominee 2 Limited	Ordinary shares	100.00%	
Prudential UK Services Limited	Ordinary shares	100.00%	Craigforth, Stirling FK9 4UE, UK
Prudential Unit Trusts Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Prudential Vietnam Assurance Private Limited	Ownership interest	100.00%	25/F, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential Vietnam Finance Company Limited	Ownership interest	100.00%	
Prudential/M&G UK Companies Financing Fund LP	Limited partnership interest	34.42%	Laurence Pountney Hill, London EC4R 0HH, UK
Prutec Limited	Ordinary shares	100.00%	
PT. Eastspring Investments Indonesia	Ordinary shares	99.95%	23rd Floor, Prudential Tower, JL. Jend. Sudirman Kav.79, Jakarta 12910, Indonesia
PT. Prudential Life Assurance	Class A ordinary shares	94.62%	Prudential Tower, Jl. Jend. Sudirman Kav 79, Jakarta 12910, Indonesia
PVFC Financial Limited	Ordinary shares	100.00%	13/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PVM Partnerships Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Randolph Street LP	Limited partnership interest	100.00%	Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
REALIC of Jacksonville Plans, Inc.	Ordinary shares	100.00%	9235 Katy Freeway, Houston, TX 77255, USA
Reksa Dana Eastspring IDR Fixed Income Fund (NDEIFF)	Ordinary shares	100.00%	Prudential Tower 23rd Floor, Jl. Jendral Sudirman Kav.79, Jakarta Selatan, 12910, Indonesia
Rhodium Investment Fund	Ordinary shares	100.00%	10, Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983

D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Rift GP 1 Limited	Ordinary shares	100.00%	50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, UK
Rift GP 2 Limited	Ordinary shares	100.00%	
ROP, Inc	Ordinary shares	100.00%	1209 Orange St, Wilmington, DE 19801, USA
ScotAm Pension Trustees Limited	Ordinary shares	100.00%	Craigforth, Stirling FK9 4UE, UK
Scottish Amicable Finance plc	Ordinary shares	100.00%	
Scottish Amicable ISA Managers Limited (in liquidation)	Ordinary shares	100.00%	Mazars LLP, 90 St Vincent Street, Glasgow G2 5UB, UK
Scottish Amicable Life Assurance Society	No share capital	100.00%	Craigforth, Stirling FK9 4UE UK
Scottish Amicable PEP and ISA Nominees Limited (in liquidation)	Ordinary shares	100.00%	Mazars LLP, 90 St Vincent Street, Glasgow G2 5UB, UK
Scotts Spazio Pte. Ltd.	Ordinary shares	45.00%	152 Beach Road, #27-01, Gateway East, Singapore 189721
Sealand (No 1) Limited	Ordinary shares	100.00%	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
Sealand (No 2) Limited	Ordinary shares	100.00%	
Sectordate Ltd	A Ordinary shares	32.60%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham B2 5PP, UK
SII Investments, Inc.	Ordinary shares	100.00%	2401 South Memorial Drive, Appleton, WI 54915, USA
Silverfleet Capital 2004 LP	Limited Partnership Interest	100.00%	1 Royal Plaza, St Peters Port, Guernsey, GY1 2HL
Silverfleet Capital 2005 LP	Limited Partnership Interest	100.00%	
Silverfleet Capital 2006 LP	Limited Partnership Interest	100.00%	
Silverfleet Capital 2007 LP	Limited Partnership Interest	100.00%	
Silverfleet Capital 2008 LP	Limited Partnership Interest	100.00%	
Silverfleet Capital 2009 LP	Limited Partnership Interest	100.00%	
Silverfleet Capital 2010 LP	Limited Partnership Interest	100.00%	
Silverfleet Capital 2011 LP	Limited Partnership Interest	100.00%	
Smithfield Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
SMLLC	General Partner	100.00%	The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, USA
Squire Capital I LLC	Membership interest	100.00%	1 Corporate Way, Lansing, Michigan 48951, USA
Squire Capital II LLC	Membership interest	100.00%	
Squire Reassurance Company II, LLC	Capital stock	100.00%	40600 Ann Arbor Road, East Suite 201, Plymouth, MI 48170, USA
Squire Reassurance Company LLC	Membership interest	100.00%	1 Corporate Way, Lansing, Michigan 48951, USA

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Sri Han Suria Sdn. Bhd.	Ordinary shares Class A and B Preference shares	51.00% 100.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
St Edward Homes Limited	Ordinary shares	50.00%	Berkeley House, 19 Portsmouth Road, Cobham KT11 1JG, UK
St Edwards Strand Partnership	Limited partnership interest	50.00%	
Stableview Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Staple Limited	Ordinary shares	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Staple Nominees Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Thanachart Life Assurance Public Company Limited (in liquidation)	Ordinary shares	99.93%	9/9 Sathorn Building, 20th– 27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
The Car Auction Unit Trust	Ordinary shares	50.00%	Dorey Court, Admiral Park, St Peter Port GY1 3BG, Guernsey
The First British Fixed Trust Company Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
The Greenpark (Reading) Limited Partnership	Limited partnership interest	100.00%	
The Heights Management Company Limited	Ordinary shares	50.00%	
The Hub (Witton) Management Company Limited	Ordinary shares	100.00%	
The St Edward Homes Partnership	Limited partnership interest	49.95%	Berkeley House, 19 Portsmouth Road, Cobham, KT11 1JG, UK
The Strand Property Unit Trust	Units	50.00%	Liberte house, 19-23 La Motte Street, St Helier, Jersey, Channel Islands, JE2 4SY
The Two Rivers Trust	Units	50.00%	
THMI, Inc.	Ordinary shares	75.80%	Prentice-Hall Corporation, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA
Three Snowhill Birmingham Sarl	Ordinary shares	100.00%	5 Rue Guillaume Kroll, L-1882, Luxembourg
Two Rivers Limited Partnership	Ordinary shares	50.00%	Bow Bells House, 1 Bread Street, London EC4M 9HH, UK
Two Snowhill Birmingham Sarl	Ordinary shares	100.00%	5 Rue Guillaume Kroll, L-1882, Luxembourg
US Strategic Income Bond Fund D USD Acc	Ordinary shares	100.00%	26, Boulevard Royal, L-2449 Luxembourg
US Total Return Bond Fund D USD Acc	Ordinary shares	100.00%	
VFL International Life Company SPC, Ltd	Ordinary shares	100.00%	171 Elgin Avenue, Grand Cayman, Cayman Islands
Warren Farm Office Village Limited	Ordinary shares	100.00%	Laurence Pountney Hill, London EC4R 0HH, UK
Wessex Gate Limited	Ordinary shares	100.00%	
Westwacker Limited	Ordinary shares	100.00%	
Wynnefield Private Equity Partners I, L.P.	Limited partnership interest	99.00%	PHS Corporate Services Inc. 1313 N. Market St, Ste 5100, Wilmington, DE 19801, USA
Wynnefield Private Equity Partners II, L.P.	Limited partnership interest	99.00%	The Corporation Trust Company Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801 USA

E Further accounting policies

E1 Other significant accounting policies

In addition to the critical accounting policies presented in note A3.1, the following detailed accounting policies are adopted by the Group to prepare the consolidated financial statements. These accounting policies are applied consistently for all years presented and normally are not subject to change unless new accounting standards, interpretations or amendments are introduced by the IASB.

(a) Basis of consolidation

The Group consolidates those investees it is deemed to control. The Group has control over an investee if all three of the following are met: (1) it has power over an investee; (2) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (3) it has ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. The majority of the Group's subsidiaries are corporate entities, but the Group's insurance operations also invest in a number of limited partnerships.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee. Where the Group is deemed to control an entity it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity, with no control over the entity, the investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Entities consolidated by the Group include Qualifying Partnerships as defined under the UK Partnerships (Accounts) Regulations 2008 (the 'Partnerships Act'). Some of these limited partnerships have taken advantage of the exemption under regulation 7 of the Partnerships Act from the financial statements requirements. This is under regulations 4 to 6, on the basis that these limited partnerships are dealt with on a consolidated basis in these financial statements.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In a number of these arrangements, the Group's share of the underlying net assets may be less than 50 per cent but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party. Associates are entities over which the Group has significant influence, but it does not control. Generally it is presumed that the Group has significant influence if it holds between 20 per cent and 50 per cent voting rights of the entity.

With the exception of those referred to below, the Group accounts for its investments in joint ventures and associates by using the equity method of accounting. The Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The equity method of accounting does not apply to investments in associates and joint ventures held by the Group's insurance or investment funds. This includes venture capital business, mutual funds and unit trusts and which, as allowed by IAS 28, 'Investments in Associates and Joint Ventures', are carried at fair value through profit or loss.

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Open-Ended Investment Companies (OEICs);
- Unit Trusts (UTs);
- Limited partnerships;
- Variable interest entities;
- Investment vehicles within separate accounts offered through variable annuities;
- Collateralised debt obligations;
- Mortgage-backed securities; and
- Similar asset-backed securities.

Open-ended investment companies and unit trusts

The Group invests in OEICs and UTs, which invest mainly in equities, bonds, cash and cash equivalents, and properties. The Group's percentage ownership in these entities can fluctuate on a daily basis according to the participation of the Group and other investors in them.

- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity exceeds 50 per cent, the Group is judged to have control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is between 20 per cent and 50 per cent, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is less than 20 per cent, the Group is judged to not have control over the entity.
- Where the entity is managed by an asset manager outside the Group, an assessment is made of whether the Group has existing rights that gives it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of OEICs and UTs where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as a subsidiary and are consolidated, with the interests of investors other than the Group being classified as liabilities, and appear as net asset value attributable to unit holders of consolidated unit trusts and similar funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Where the Group's asset manager sets up OEICs and UTs as part of asset management operations, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with OEICs and UTs. For these open-ended investment companies and unit trusts, the Group is not deemed to control the entities but to be acting as an agent.

The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of these investment vehicles.

Jackson's separate account assets

These are investment vehicles that invest contract holders' premiums in equity, fixed income, bonds and money market mutual funds. The contract holder retains the underlying returns and the ownership risks related to the underlying investments. The shareholder's economic interest in separate accounts is limited to the administrative fees charged. The separate accounts are set up as separate regulated entities governed by a Board of Governors or trustees for which the majority of the members are independent of Jackson or any affiliated entity. The independent members are responsible for any decision making that impacts contract holders' interest and govern the operational activities of the entities' advisers, including asset managers. Accordingly, the Group does not control these vehicles. These investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities that are actively traded in a liquid market. The Group is not the sponsor of the vehicles in which it holds investments and has no administrative rights over the vehicles' activities. The Group generates returns and retains the ownership risks commensurate to its holding and its exposure to the investments. Accordingly the Group does not have power over the relevant activities of such vehicles and all are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

The table below provides aggregate carrying amounts of the investments in unconsolidated structured entities reported in the Group's statement of financial position:

	2016 £m			2015 £m		
	OEICs/UTs	Separate account assets	Other structured entities	OEICs/UTs	Separate account assets	Other structured entities
Statement of financial position line items						
Equity securities and portfolio holdings in unit trusts	16,489	120,411	–	12,945	91,022	–
Debt securities	–	–	12,220	–	–	11,735
Total	16,489	120,411	12,220	12,945	91,022	11,735

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments.

As at 31 December 2016, the Group does not have an agreement, contractual or otherwise, or intention to provide financial support to structured entities that could expose the Group to a loss.

E1 Other significant accounting policies continued

(b) Reinsurance

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. The treatment of any gains or losses arising on the purchase of reinsurance contracts is dependent on the underlying accounting basis of the entity concerned.

(c) Earned premiums, policy fees and claims paid

Premiums for conventional with-profits policies and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where Prudential collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

(d) Investment return

Investment return included in the income statement principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit or loss, and realised gains and losses (including impairment losses) on items held at amortised cost and Jackson's debt securities designated as available-for-sale. Movements in unrealised appreciation/depreciation of Jackson's debt securities designated as available-for-sale are recorded in other comprehensive income. Interest income is recognised as it accrues, taking into account the effective yield on investments. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accrual basis.

(e) Financial investments other than instruments classified as long-term business contracts

(i) Investment classification

The Group holds financial investments in accordance with IAS 39, whereby subject to specific criteria, financial instruments are required to be accounted for under one of the following categories:

- Financial assets and liabilities at fair value through profit or loss – this comprises assets and liabilities designated by management as fair value through profit or loss on inception and derivatives that are held for trading. These investments are measured at fair value with all changes thereon being recognised in investment return in the income statement;
- Financial investments on an available-for-sale basis – this comprises assets that are designated by management as available-for-sale and/or do not fall into any of the other categories. These assets are initially recognised at fair value plus attributable transaction costs.
- Available-for-sale assets are subsequently measured at fair value. Interest income is recognised on an effective interest basis in the income statement. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. Except for foreign exchange gains and losses on debt securities, which are included in the income statement, unrealised gains and losses are recognised in other comprehensive income. Upon disposal or impairment, accumulated unrealised gains and losses are transferred from other comprehensive income to the income statement as realised gains or losses; and
- Loans and receivables – except for those designated as at fair value through profit or loss or available-for-sale, these instruments comprise non-quoted investments that have fixed or determinable payments. These instruments include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.

The Group uses the trade date method to account for regular purchases and sales of financial assets. 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'.

(ii) Derivatives and hedge accounting

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes.

The Group may designate certain derivatives as hedges.

For hedges of net investments in foreign operations, the effective portion of any change in fair value of derivatives or other financial instruments designated as net investment hedges is recognised in other comprehensive income. The ineffective portion of changes in the fair value of the hedging instrument is recorded in the income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39. The Group has no fair value and cash flows hedges under IAS 39 at 31 December 2016 and 2015.

All derivatives that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded in the income statement.

The primary areas of the Group's continuing operations where derivative instruments are held are the UK with-profits funds and annuity business, and Jackson.

For UK with-profits funds the derivative programme is used for the purposes of efficient portfolio management or reduction in investment risk.

For shareholder-backed UK annuity business the derivatives are held to contribute to the matching as far as practical, of asset returns and duration with those of liabilities to policyholders. The carrying value of these liabilities is sensitive to the return on the matching financial assets including derivatives held.

For Jackson, an extensive derivative programme is maintained. Value movements on the derivatives held can be very significant in their effect on shareholder results. Further details on this aspect of the Group's financial reporting are described in note B1.2.

(iii) Embedded derivatives

Embedded derivatives are present in host contracts issued by various Group companies, in particular Jackson. They are embedded within other non-derivative host financial instruments and insurance contracts to create hybrid instruments. Embedded derivatives meeting the definition of an insurance contract are accounted for under IFRS 4. Where economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with the changes in fair value recognised in the income statement, the embedded derivative is bifurcated and carried at fair value as a derivative in accordance with IAS 39. For Jackson's 'not for life' Guaranteed Minimum Withdrawal Benefit and Fixed Index Annuity reserves the determination of fair value requires assumptions regarding future mix of Separate Account assets, equity volatility levels, and policyholder behaviour.

In addition, the Group applies the option under IFRS 4 to not separate and fair value surrender options embedded in host contracts and with-profits investment contracts whose strike price is either a fixed amount or a fixed amount plus interest. Further details on the valuation basis for embedded derivatives attaching to Jackson's life assurance contracts are provided in note C4.2.

(iv) Securities lending and reverse repurchase agreements

The Group is party to various securities lending agreements (including repurchase agreements) under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100 per cent of the fair value of securities loaned is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending programme, the collateral, and corresponding obligation to return such collateral, are recognised in the consolidated statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments in the statement of financial position.

(v) Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

(vi) Financial liabilities designated at fair value through profit or loss

Consistent with the Group's risk management and investment strategy and the nature of the products concerned, the Group has designated under IAS 39 classification certain financial liabilities at fair value through profit or loss as these instruments are managed and their performance evaluated on a fair value basis. These instruments include liabilities related to consolidated collateralised debt obligations and net assets attributable to unit holders of consolidated unit trusts and similar funds.

E1 Other significant accounting policies continued

(f) Segments

Under IFRS 8 'Operating Segments', the Group determines and presents operating segments based on the information that is internally provided to the Group Executive Committee which is the Group's chief operating decision maker.

The operating segments identified by the Group reflect the Group's organisational structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management).

The products of the insurance operations contain both significant and insignificant levels of insurance risk. The products are managed together and there is no distinction between these two categories other than for accounting purposes. This segment also includes the commission earned on general insurance business and investment subsidiaries held to support the Group's insurance operations.

Asset management comprises both internal and third-party asset management services, inclusive of portfolio and mutual fund management, where the Group acts as an adviser, and broker-dealer activities. The nature of the products and the managing of the business differ from the risks inherent in the insurance operations segments, and the regulatory environment of the asset management industry differs from that of the insurance operations segments.

Further information on the Group's operating segments is provided in note B1.3.

(g) Borrowings

Although initially recognised at fair value, net of transaction costs, borrowings, excluding liabilities of consolidated collateralised debt obligations, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

(h) Investment properties

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment properties, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors valuation standards. Each property is externally valued at least once every three years.

Leases of investment property where the Group has substantially all the risks and rewards of ownership are classified as finance leases (leasehold property). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

(i) Pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position. By contrast, if the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group. These assets are excluded from plan assets in determining the pension surplus or deficit recognised in the consolidated statement of financial position.

The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit liability (asset) at the start of the period, is charged to the income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income.

Contributions to the Group's defined contribution schemes are expensed when due.

(j) Share-based payments and related movements in own shares

The Group offers share award and option plans for certain key employees and a Save As You Earn plan for all UK and certain overseas employees. Shares held in trust relating to these plans are conditionally gifted to employees.

The compensation expense charged to the income statement is primarily based upon the fair value of the options granted, the vesting period and the vesting conditions.

The Company has established trusts to facilitate the delivery of Prudential plc shares under employee incentive plans and savings-related share option schemes. The cost to the Company of acquiring these treasury shares held in trusts is shown as a deduction from shareholders' equity.

(k) Tax

Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. Prudential is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 'Income Taxes' does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

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 tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

(l) Business acquisitions and disposals

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the acquisition consideration over the fair value of the assets and liabilities of the acquired entity is recorded as goodwill. Expenses related to acquiring new subsidiaries are expensed in the period in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

Income and expenses of entities sold during the period are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21.

(m) Goodwill

Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the Group statement of financial position as an intangible asset at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash generating units.

(n) Intangible assets

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are measured at fair value on acquisition. Deferred acquisition costs are accounted for as described in notes A3.1(d) and A3.1(f) above. Other intangible assets, such as distribution rights and software, are valued initially at the price paid to acquire them and are subsequently carried at cost less amortisation and any accumulated impairment losses. Distribution rights relate to fees paid under bancassurance partnership arrangements for bank distribution of products for the term of the contract. Amounts for distribution rights are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels. The same principles apply to determining the amortisation method for other intangible assets unless the pattern cannot be determined reliably, in which case a straight line method is applied. Amortisation of intangible assets is charged to the 'acquisition costs and other expenditure' line in the consolidated income statement.

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

(p) Shareholders' dividends

Interim 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.

E Further accounting policies
Continued

E1 Other significant accounting policies continued

(q) Share capital
Where there is no obligation to transfer assets, shares are classified as equity. The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued, is credited to share premium. Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from retained earnings. Upon issue or sale any consideration received is credited to retained earnings net of related costs.

(r) Foreign exchange
The Group's consolidated financial statements are presented in pounds sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries must be translated into the presentation currency of the Group from their functional currencies, ie the currency of the primary economic environment in which the entity operates. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income.

Foreign currency borrowings that are used to provide a hedge against Group equity investments in overseas subsidiaries are translated at year end exchange rates and movements recognised in other comprehensive income. Other foreign currency monetary items are translated at year end exchange rates with changes recognised in the income statement.

Foreign currency transactions are translated at the spot rate prevailing at the time.

(s) Earnings per share
Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated unit trusts and OEICs, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

Statement of financial position of the parent company

31 December	Note	2016 £m	2015 £m
Fixed assets			
Shares in subsidiary undertakings	5	10,859	12,514
Current assets			
Debtors:			
Amounts owed by subsidiary undertakings		5,798	4,783
Other debtors		11	3
Tax recoverable		44	43
Derivative assets	6	4	1
Pension asset	7	48	51
Cash at bank and in hand		24	104
		5,929	4,985
Liabilities: amounts falling due within one year			
Commercial paper	8	(1,052)	(1,107)
Other borrowings	8	–	(200)
Derivative liabilities	6	(447)	(322)
Amounts owed to subsidiary undertakings		(773)	(2,711)
Tax payable		(10)	(20)
Deferred tax liability	9	(9)	(9)
Accruals and deferred income		(72)	(56)
		(2,363)	(4,425)
Net current assets		3,566	560
Total assets less current liabilities		14,425	13,074
Liabilities: amounts falling due after more than one year			
Subordinated liabilities	8	(5,772)	(4,018)
Debenture loans	8	(549)	(549)
Other borrowings	8	(599)	(598)
		(6,920)	(5,165)
Total net assets		7,505	7,909
Capital and reserves			
Share capital	10	129	128
Share premium	10	1,927	1,915
Profit and loss account	11	5,449	5,866
Shareholders' funds		7,505	7,909
Profit for the year		840	920

The financial statements of the parent company on pages 309 to 317 were approved by the Board of Directors on 13 March 2017 and signed on its behalf.

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Nic Nicandrou
Chief Financial Officer

05 Financial statements

Statement of changes in equity of the parent company

	Share capital £m	Share premium £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2015	128	1,908	5,909	7,945
Total comprehensive income for the year				
Profit for the year	–	–	920	920
Actuarial gains recognised in respect of the defined benefit pension scheme	–	–	4	4
Total comprehensive income for the year	–	–	924	924
Transactions with owners, recorded directly in equity				
New share capital subscribed	–	7	–	7
Share based payment transactions	–	–	7	7
Dividends	–	–	(974)	(974)
Total contributions by and distributions to owners	–	7	(967)	(960)
Balance at 31 December 2015	128	1,915	5,866	7,909
Balance at 1 January 2016	**128**	**1,915**	**5,866**	**7,909**
Total comprehensive income for the year				
Profit for the year	**–**	**–**	**840**	**840**
Actuarial gains recognised in respect of the defined benefit pension scheme	**–**	**–**	**4**	**4**
Total comprehensive income for the year	**–**	**–**	**844**	**844**
Transactions with owners, recorded directly in equity				
New share capital subscribed	**1**	**12**	**–**	**13**
Share based payment transactions	**–**	**–**	**6**	**6**
Dividends	**–**	**–**	**(1,267)**	**(1,267)**
Total contributions by and distributions to owners	**1**	**12**	**(1,261)**	**(1,248)**
Balance at 31 December 2016	**129**	**1,927**	**5,449**	**7,505**

Notes on the parent company financial statements

1 Nature of operations

Prudential plc (the Company) is a parent holding company. The Company together with its subsidiaries (collectively, the Group) is an international financial services group with its principal operations in Asia, the US and the UK. In Asia, the Group has operations in Hong Kong, Indonesia, Malaysia, Singapore and other countries. In the US, the Group's principal subsidiary is Jackson National Life Insurance Company. In the UK, the Group operates through its subsidiaries, primarily The Prudential Assurance Company Limited and M&G Investment Management Limited.

2 Basis of preparation

The financial statements of the Company, which comprise the statement of financial position, statement of changes in equity and related notes, are prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and endorsed by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has also taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

— A cash flow statement and related notes;
— Disclosures in respect of transactions with wholly-owned subsidiaries within the Prudential Group;
— Disclosure in respect of capital management; and
— The effects of new but not yet effective IFRSs.

As the consolidated financial statements of the Group include the equivalent disclosure, the Company has also applied the exemptions available under FRS 101 in respect of the following disclosures:

— IFRS 2 'Share Based Payments' in respect of Group-settled share-based payments; and
— Disclosure required by IFRS 7 'Financial Instrument Disclosures' and IFRS 13 'Fair Value Measurement'.

The accounting policies set out in note 3 below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

3 Significant accounting policies

Shares in subsidiary undertakings
Shares in subsidiary undertakings are shown at cost less impairment.

Amounts owed by subsidiary undertakings
Amounts owed by subsidiary undertakings are shown at cost, less provisions.

Derivatives
Derivative financial instruments are held to manage certain macro-economic exposures. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

Borrowings
Borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds, net of transaction costs, is amortised through the profit and loss account to the date of maturity or, for subordinated debt, over the expected life of the instrument.

Dividends
Interim dividends are recorded in the period in which they are paid.

Notes on the parent company financial statements
Continued

3 Significant accounting policies continued

Share premium

The difference between the proceeds received on issue of shares and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

Assets and liabilities denominated in foreign currencies, including borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, are translated at year end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of IAS 12, 'Income Taxes'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that future taxable profits will be available against which these losses can be utilised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

Pensions

The Company assumes a portion of the pension surplus or deficit of the Group's main pension scheme, the Prudential Staff Pension Scheme ('PSPS'). The Company applies the requirements of IAS 19 'Employee Benefits' (as revised in 2011) for the accounting of its interest in the PSPS surplus or deficit. Further details are disclosed in note 7.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets. The Company's share of pension surplus is recognised to the extent that the Company is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The assets and liabilities of the defined benefit pension schemes of the Prudential Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cash flows are then discounted at a high quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities, where appropriate, to determine their present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the net income (interest) on the net scheme assets (liabilities) at the start of the period, is recognised in the profit or loss account. Actuarial gains and losses as a result of the changes in assumptions, experience variances or the return on scheme assets excluding amounts included in the net deferred benefit asset (liability) are recorded in other comprehensive income.

Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn ('SAYE') plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled plans with a few cash-settled plans.

Under IFRS 2 'Share-based payment', where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions.

4 Reconciliation from the FRS 101 parent company results to the IFRS Group results

The parent company financial statements are prepared in accordance with FRS 101 and the Group financial statements are prepared in accordance with IFRS as issued by the IASB and endorsed by the EU. At 31 December 2016, there were no differences between FRS 101 and IFRS as issued by the IASB and endorsed by the EU in terms of their application to the parent company.

The tables below provide a reconciliation between the FRS 101 parent company results and the IFRS Group results.

	2016 £m	**2015** £m
Profit after tax		
Profit for the financial year of the Company (including dividends from subsidiaries) in accordance with FRS 101 and IFRS	840	920
Share in the IFRS result of the Group, net of distributions to the Company*	1,081	1,659
Profit after tax of the Group attributable to shareholders in accordance with IFRS	1,921	2,579

	2016 £m	**2015** £m
Net equity		
Shareholders' equity of the Company in accordance with FRS 101 and IFRS	7,505	7,909
Share in the IFRS net equity of the Group*	7,161	5,046
Shareholders' equity of the Group in accordance with IFRS	14,666	12,955

* The 'share in the IFRS result and net equity of the Group' lines represent the parent company's equity in the earnings and net assets of its subsidiaries and associates.

The profit for the financial year of the Company in accordance with IFRS includes dividends received in the year from subsidiary undertakings of £1,318 million and £985 million for the years ended 31 December 2016 and 2015, respectively.

As stated in note 3, under FRS 101, the Company accounts for its investments in subsidiary undertakings at cost less impairment. For the purpose of this reconciliation, no adjustment is made to the Company in respect of any valuation adjustments to shares in subsidiary undertakings that would be eliminated on consolidation.

5 Shares in subsidiary undertakings

	2016 £m
At 1 January	12,514
Liquidation of subsidiary undertaking	(1,600)
Other movements	(55)
At 31 December	10,859

The liquidation related to a central finance subsidiary in order to simplify the Group's corporate structure.

Other movements comprise £6 million in respect of share-based payments, reflecting the value of payments settled by the Company for employees of its subsidiary undertakings, less £61 million relating to cash received from subsidiaries in respect of share awards.

Subsidiary undertakings of the Company at 31 December 2016 are listed in note D6 of the Group financial statements.

6 Derivative financial instruments

	2016 £m		**2015** £m	
	Fair value assets	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Cross-currency swap	4	–	1	–
Inflation-linked swap	–	447	–	322
Total	4	447	1	322

Derivative financial instruments are held to manage certain macro-economic exposures. The change in fair value of the derivative financial instruments of the Company was a loss before tax of £122 million (2015: £7 million).

05 Financial statements

7 Pension scheme financial position

The majority of UK Prudential staff are members of the Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (the Scheme) which is primarily a closed defined benefit scheme.

At 31 December 2005, the allocation of surpluses and deficits attaching to the Scheme between the Company and the unallocated surplus of The Prudential Assurance Company Limited (PAC) with-profits fund was apportioned in the ratio 30/70 following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 and for the purpose of determining the allocation of the movements in that position up to 31 December 2016. The IAS 19 service charge and ongoing employer contributions are allocated by reference to the cost allocation for current activity.

The last completed triennial actuarial valuation of the Scheme was as at 5 April 2014. Further details on the results of this valuation and the total employer contributions to the Scheme for the year are provided in note C9 of the Group financial statements, together with the key assumptions adopted, including mortality assumptions.

A description of the regulatory framework in which the Scheme operates, the governance of the Scheme, and the risks to which the Scheme exposes the Company is provided in note C9. The most recent full valuation has been updated to 31 December 2016, applying the principles prescribed by IAS 19. The actuarial assumptions used in determining the IAS 19 benefit obligations and the net periodic costs and sensitivity of IAS 19 benefit obligations to changes in the actuarial assumptions are also provided in note C9.

The assets and liabilities of the Scheme were:

	31 Dec 2016 £m			31 Dec 2015 £m		
	Quoted prices in an active market	Other	Total	Quoted prices in an active market	Other	Total
Scheme assets:						
Equities						
UK	7	11	18	118	8	126
Overseas	284	9	293	150	–	150
Bonds*						
Government	5,411	–	5,411	4,795	–	4,795
Corporate	1,125	44	1,169	925	45	970
Asset-backed securities	142	2	144	135	–	135
Properties	–	71	71	–	70	70
Derivatives	252	–	252	183	–	183
Other assets	269	–	269	272	26	298
Fair value of Scheme assets	7,490	137	7,627	6,578	149	6,727
Present value of benefit obligations			(6,910)			(5,758)
Underlying surplus in the Scheme			717			969
Effect of the application of IFRIC 14 for de-recognition of surplus			(558)			(800)
Surplus in the Scheme			159			169
Surplus in the Scheme recognised by the Company†			48			51

* 96 per cent (2015: 96 per cent) of the bonds are investment graded.
† The surplus in the Scheme recognised in the balance sheet of the Company represents the amount that is recoverable through reduced future contributions and is net of the apportionment to the PAC with-profits fund.

The changes in the fair value of the underlying Scheme assets and the present value of the underlying benefit obligations are as follows:

	2016 £m				
	Fair value of Scheme assets	Present value of benefit obligations note (i)	Net surplus without the effect of IFRIC 14	Effect of IFRIC 14 for derecognition of surplus	IAS 19 basis net surplus
Balance at 1 January	6,727	(5,758)	969	(800)	169
Current service cost	–	(19)	(19)	–	(19)
Net interest income (cost)	250	(213)	37	(32)	5
Administration expenses	(4)	–	(4)	–	(4)
Actuarial gains (losses) note (ii)	949	(1,226)	(277)	274	(3)
Contributions paid by the employer note (iii)	11	–	11	–	11
Contributions paid by the employee	1	(1)	–	–	–
Benefits paid	(307)	307	–	–	–
Balance at 31 December	7,627	(6,910)	717	(558)	159

	2015 £m				
	Fair value of Scheme assets	Present value of benefit obligations note (i)	Net surplus without the effect of IFRIC 14	Effect of IFRIC 14 for derecognition of surplus	IAS 19 basis net surplus
Balance at 1 January	6,997	(6,157)	840	(710)	130
Current service cost	–	(21)	(21)	–	(21)
Negative past service cost	–	48	48	–	48
Net interest income (cost)	240	(209)	31	(26)	5
Administration expenses	(4)	–	(4)	–	(4)
Actuarial gains (losses) note (ii)	(248)	312	64	(64)	–
Contributions paid by the employer note (iii)	11	–	11	–	11
Contributions paid by the employee	1	(1)	–	–	–
Benefits paid	(270)	270	–	–	–
Balance at 31 December	6,727	(5,758)	969	(800)	169

Notes

(i) The weighted average duration of the benefit obligations of the Scheme is 18 years (2015: 17 years). The following table provides an expected maturity analysis of the benefit obligations as at 31 December:

£m	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total
2016	227	1,013	1,439	1,474	1,407	5,930	11,490
2015	225	974	1,422	1,489	1,438	6,303	11,851

(ii) The actuarial gains attributable to policyholders and shareholders are analysed as follows:

	2016 £m	2015 £m
Return on Scheme assets excluding interest income*	949	(248)
Actuarial gains (losses)		
Experience gains on Scheme liabilities	87	28
Actuarial losses – demographic assumptions	(32)	(3)
Actuarial (losses) gains – financial assumptions	(1,281)	287
	(1,226)	312
Total actuarial gains without the effect of IFRIC 14	(277)	64
Actuarial gains attributable to the Company before tax†	4	4

* The total return on Scheme assets in 2016 was a gain of £1,199 million (2015: loss of £8 million).

† Actuarial gains attributable to the Company are net of the apportionment to the PAC with-profits fund and are related to the surplus recognised in the balance sheet of the Company. In 2016, the gains included a credit of £87 million (2015: charge of £15 million) for the adjustment to the unrecognised portion of surplus.

The gains after tax of £4 million (2015: £4 million) are recorded in other comprehensive income.

(iii) Employer contributions to be paid into the Scheme for the year ending 31 December 2017 are expected to amount to £11 million, comprising ongoing service contributions and expenses.

Notes on the parent company financial statements
Continued

8 Borrowings

	Core structural borrowings		Other borrowings		Total	
	2016 £m	**2015** £m	**2016** £m	**2015** £m	**2016** £m	**2015** £m
Core structural borrowings note (i)						
Subordinated liabilities note (ii)	5,772	4,018	–	–	5,772	4,018
Debenture loans	549	549	–	–	549	549
	6,321	4,567	–	–	6,321	4,567
Other borrowings: note (iii)						
Commercial paper	–	–	1,052	1,107	1,052	1,107
Floating Rate Notes note (iv)	–	–	–	200	–	200
Medium Term Notes 2018	–	–	599	598	599	598
Total borrowings	6,321	4,567	1,651	1,905	7,972	6,472
Borrowings are repayable as follows:						
Within 1 year	–	–	1,052	1,307	1,052	1,307
Between 1 and 5 years	–	–	599	598	599	598
After 5 years	6,321	4,567	–	–	6,321	4,567
	6,321	4,567	1,651	1,905	7,972	6,472

Notes
(i) Further details on the core structural borrowings of the Company are provided in note C6.1 of the Group financial statements.
(ii) The interests of the holders of the subordinated liabilities are subordinate to the entitlements of other creditors of the Company.
(iii) These borrowings support a short-term fixed income securities programme.
(iv) The Floating Rate Notes matured in October 2016.

9 Deferred tax liability

Deferred tax liability	**2016** £m	**2015** £m
Short-term temporary differences related to pension scheme	(9)	(9)
Total	(9)	(9)

The reduction in the UK corporation tax rate to 17 per cent from 1 April 2020 was substantively enacted on 6 September 2016 and does not have a material impact on the financial statements for the year ended 31 December 2016.

10 Share capital and share premium

A summary of the ordinary shares in issue and the options outstanding to subscribe for the Company's shares at 31 December 2016 is set out in note C10 of the Group financial statements.

11 Retained profit of the Company

Retained profit at 31 December 2016 amounted to £5,449 million (2015: £5,866 million). The retained profit includes distributable reserves of £2,962 million and non-distributable reserves of £2,487 million. The non-distributable reserves comprise £2,405 million relating to gains made by intermediate holding companies following the transfer at fair value of certain subsidiaries to other parts of the Group as part of internal restructuring exercises and £82 million of share-based payment reserves. The amount of £2,405 million is not able to be regarded as part of the distributable reserves of the parent company because the gains relate to intragroup transactions.

Under English company law, Prudential may pay dividends only if sufficient distributable reserves of the Company are available for the purpose and if the amount of its net assets is greater than the aggregate of its called up share capital and non-distributable reserves (such as the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate.

12 Other information

a Information on directors' remuneration is given in the directors' remuneration report section of this Annual Report and note B3.3 of the Group financial statements.
b Information on transactions of the directors with the Group is given in note D4 of the Group financial statements.
c The Company employs no staff.
d Fees payable to the Company's auditor for the audit of the Company's annual accounts were £0.1 million (2015: £0.1 million) and for other services were £0.1 million (2015: £0.2 million).
e In certain instances, the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

13 Post balance sheet events

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

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Prudential plc, whose names and positions are set out on pages 77 to 81 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Independent auditor's report to the members of Prudential plc

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Prudential plc for the year ended 31 December 2016 set out on pages 161 to 317. In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion on the financial statements, the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit, which are unchanged from 2015 were as follows:

Policyholder liabilities (2016: £388,996 million, 2015: £322,518 million), the risk compared to the prior year is unchanged.

Refer to page 95 (Audit Committee report), page 168 (accounting policy) and pages 229 to 250 (financial disclosures)

The risk

The Group has significant policyholder liabilities representing 85 per cent of the Group's total liabilities. This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long term policyholder liabilities. Economic assumptions, including investment return, credit risk and associated discount rates, and operating assumptions including mortality, morbidity, expenses and persistency (including consideration of policyholder behaviour) are the key inputs used to estimate these long term liabilities.

Additionally:
- In the US, the valuation of the guarantees in the variable annuity business is a complex exercise as it involves exercising significant judgement over the relationship between the investment return attaching to these products and the guarantees contractually provided to policyholders and the likely policyholder behaviour in response to changes in investment performance.
- In the UK, the valuation of the policyholder liabilities in relation to the annuity business requires the exercise of significant judgement over the setting of mortality and credit risk assumptions.

Our response

We used our own actuarial specialists to assist us in performing our procedures in this area.

Key procedures included assessing the Group's methodology for calculating the policyholder liabilities and their analysis of the movements in policyholder liabilities during the year, including consideration of whether the movements are in line with the assumptions adopted by the Group, our understanding of developments in the business and our expectation derived from market experience.

Our procedures in the US included:
- Considering the appropriateness of the assumptions used in the stochastic models for the valuation of the variable annuity guarantees.
- Assessing assumptions for investment mix and projected investment returns by reference to company specific and industry data and for future growth rates by reference to market trends and market volatility.
- Assessment of assumptions of policyholder behaviour, including consideration against relevant company and industry historical data.

Our procedures in the UK included:
- Considering the appropriateness of the mortality assumptions used in the valuation of the annuity liabilities by reference to company and industry data on historical mortality experience and expectations of future mortality improvements, including evaluation of the choice of the Continuous Mortality Investigation ('CMI') model and the parameters used in relation to this.
- Considering the appropriateness of the credit risk methodology and assumptions by reference to industry practice and our expectation derived from market experience.

We utilised the results of KPMG benchmarking of assumptions and actuarial market practice to inform our challenge of management's assumptions in both areas noted above.

Our work on the policyholder liability adequacy test included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of company and industry experience data and specific product features. We also performed test work to ensure the appropriateness of changes made to the policyholder liability reserving models during the year. We considered whether the Group's disclosures in relation to the assumptions used in the calculation of policyholder liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs.

Valuation of investments (2016: £421,688 million, 2015: £351,979 million), the risk compared to the prior year is unchanged.
Refer to page 95 (Audit Committee report), page 174 (accounting policy) and pages 209 to 228 (financial disclosures)

The risk

The Group's investment portfolio represents 90 per cent of the Group's total assets. The valuation of the portfolio involves judgement in selecting the valuation basis for each investment and further judgement in determining the appropriate valuation for harder to value investments.

The areas that involved significant audit effort and judgement in 2016 were the valuation of illiquid positions within the financial investments portfolio representing 2 per cent of the Group's total assets. These included unlisted equity, unlisted debt securities, certain derivatives and loans such as commercial mortgage loans and bridge loans. For these positions a reliable third party price was not readily available and therefore involved the application of expert judgement in the valuations adopted.

Our response

We used our own valuation specialists and pricing services to assist us in performing our procedures in this area. Our procedures included:
- Assessing the availability of quoted prices in liquid markets;
- Assessing whether the valuation process is appropriately designed and captures relevant valuation inputs;
- Testing whether associated controls in respect of the valuation process are operating properly;
- Performing our own independent price checks from our own pricing services using external quotes for liquid positions and, where available, for illiquid positions;
- Assessing pricing model methodologies and assumptions against industry practice and valuation guidelines;
- Evaluating the valuation assessment performed by the Group in order to identify any potential impairment in relation to loans; and
- Performing our own assessment of loan files to understand the performance of the loans. We examined the existing and prospective investee company cash flows in order to evaluate whether loans can be serviced or refinancing may be required and considered the impact on impairment testing performed.

We also assessed whether the Group's disclosures in relation to the valuation of investments are compliant with the relevant accounting requirements and appropriately presents the sensitivities in the valuations based on alternative outcomes.

Deferred acquisition costs ('DAC') (2016: £9,178 million, 2015: £7,022 million), the risk compared to the prior year is unchanged.
Refer to page 95 (Audit Committee report), page 172 (accounting policy) and pages 252 to 254 (financial disclosures)

The risk

DAC represents 2 per cent of the Group's total assets and involves judgements in the identification of the acquisition costs that may be deferred, the appropriateness of the deferral methodology adopted and the assessment of the recoverability of the asset.

The DAC associated with the US business, which represents 90 per cent of the total DAC, involves the greatest judgement in terms of measurement and recoverability. The amortisation and recoverability assessment of the US DAC asset is related to the achieved and projected future profit profile. This involves making assumptions about future investment returns and the consequential impact on fee income.

Our response

We used our own actuarial specialists to assist us in performing our audit procedures in this area, which included
- Evaluating the appropriateness of the Group's deferral policy by comparing it against the requirements of relevant accounting standards;
- Evaluating whether costs incurred are deferred in accordance with the Group's deferral policy; and
- Assessing the calculations performed including the appropriateness of the assumptions used in determining the estimated future profit profile and the extent of the associated adjustment necessary to the amortisation of the DAC asset. We compared the estimated future profits to the carrying value of the DAC asset to assess recoverability. Our work included assessing the reasonableness of assumptions such as the projected investment return by comparing against the Group's investment portfolio mix and market return data.

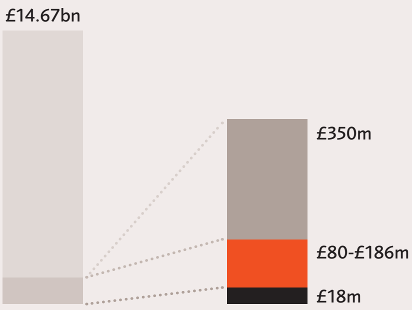
We also considered the adequacy of the Group's disclosures about the degree of estimation involved in the valuation of DAC.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £350 million (2015: £350 million) determined with reference to a benchmark of IFRS shareholders' equity (of which it represents 2.4 per cent (2015: 2.7 per cent)). We consider IFRS shareholders' equity to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

We set out below the materiality thresholds that are key to the audit.

IFRS shareholders' equity **Materiality**



- Threshold for misstatements reported to the Audit Committee
- Range of component materialities
- Materiality for the Group financial statements

We report to the Group Audit Committee any corrected or uncorrected identified misstatements exceeding £18 million (2015: £18 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

We subjected the Group's operations to audits for Group reporting purposes as follows:

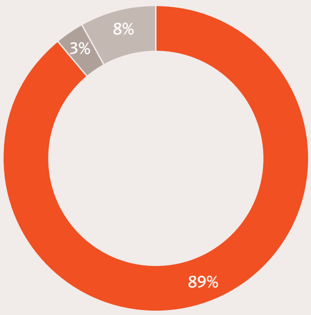
Full scope audits for Group reporting purposes in relation to the financial information of: the insurance operations in the UK, US, Hong Kong, Indonesia, Singapore, Malaysia, and Thailand; and the fund management operations of M&G and Eastspring Singapore (new in scope for 2016).

Audits of account balances that correspond to the risks of material misstatement identified above in relation to Prudential Capital and the insurance operations in Korea (full scope audit in 2015), China, Taiwan and Vietnam. The account balances audited are policyholder liabilities, investments, and deferred acquisition costs.

For the remaining operations, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these operations.

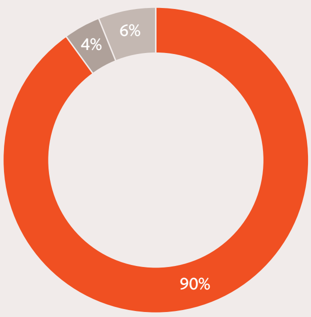
These components accounted for the following percentages of the Group's results:

Group revenue



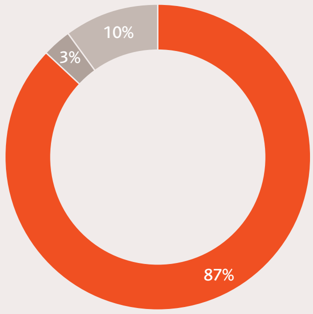
- Audit for Group reporting (2015: 90%)
- Audit of account balances (2015: 2%)
- Analysis at Group level (2015: 8%)

Group profit before tax



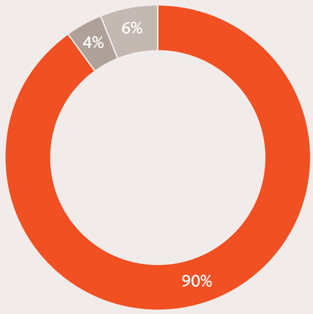
- Audit for Group reporting (2015: 90%)
- Audit of account balances (2015: 2%)
- Analysis at Group level (2015: 8%)

Group total assets



- Audit for Group reporting (2015: 91%)
- Audit of account balances (2015: 2%)
- Analysis at Group level (2015: 7%)

Group shareholders' equity



- Audit for Group reporting (2015: 89%)
- Audit of account balances (2015: 3%)
- Analysis at Group level (2015: 8%)

The Group audit team in the UK covered the UK Group Head office operations. Component auditors performed the audit work in the remaining locations.

The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities. These were set as £146 million for key reporting components in Asia, other than Eastspring Singapore which was set as £80 million, and £186 million for all other key reporting components (2015: £146 million - £186 million), having regard to the size and risk profile of the Group.

The Group audit team visited ten component locations, comprising: the insurance operations in the UK, US, Hong Kong, Indonesia, Singapore, Malaysia and Thailand; the fund management operations in M&G and Eastspring Singapore; and

Independent auditor's report to the members of Prudential plc Continued

Prudential Capital. Video and telephone conference meetings were also held with these component auditors and certain others that were not physically visited. At these visits and meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were reviewed and any further work required by the Group audit team was then performed by the component auditor.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group team, also regularly attended Business Unit audit committee meetings (at a regional level for Asia) and participated in meetings with local management to obtain additional understanding first hand of the key risks and audit issues at a component level which may affect the Group financial statements.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- The Directors' viability statement on page 60, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- The disclosures on page 106 of the Annual Report concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- The Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The Directors' statements, set out on pages 106 and 60, in relation to going concern and longer-term viability; and
- The part of the Corporate Governance Statement on page 106 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

7 Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 318, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

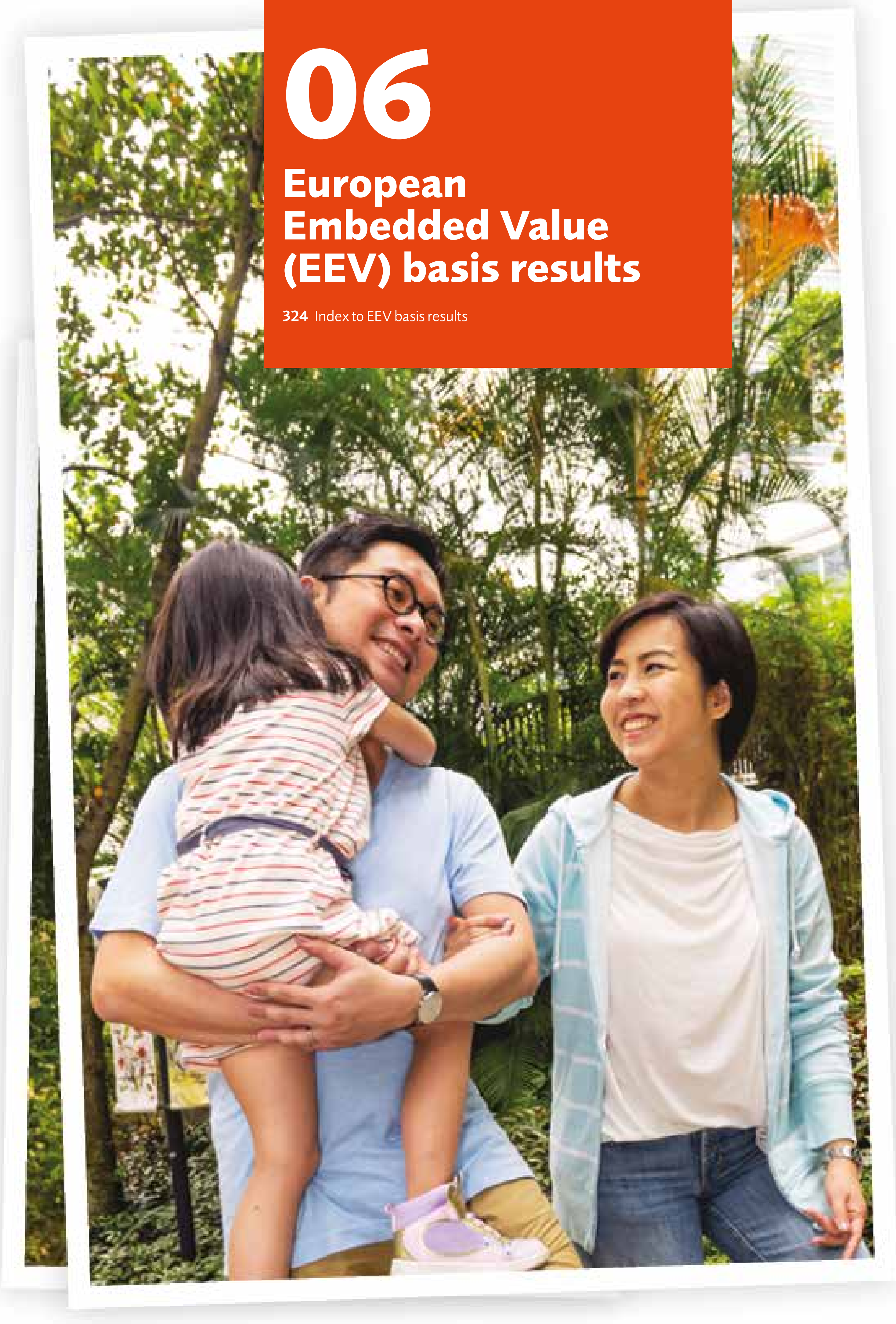
Rees Aronson
(Senior Statutory Auditor)

For and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
London

13 March 2017

06

European Embedded Value (EEV) basis results



Index to European Embedded Value (EEV) basis results

Notes on the EEV basis results

Description of EEV basis reporting

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

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

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

European Embedded Value (EEV) basis results

Post-tax operating profit based on longer-term investment returns

Results analysis by business area

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

Notes

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

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

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

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

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

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

European Embedded Value (EEV) basis results
Continued

Post-tax summarised consolidated income statement

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

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).
† The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

Basic earnings per share

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

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

Movement in shareholders' equity

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

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

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

European Embedded Value (EEV) basis results
Continued

Summary statement of financial position

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

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

Net asset value per share

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

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

The supplementary information on pages 325 to 360 was approved by the Board of Directors on 13 March 2017.

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Nic Nicandrou
Chief Financial Officer

Notes on the EEV basis results

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, prepared by the European Insurance CFO Forum. There is no change to the EEV methodology. The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, as discussed in note 2 below. The 2015 comparative results for UK insurance operations were prepared reflecting the Solvency I basis, being the regime applicable for the year. There is no change to the basis of preparation for Asia and the US operations. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. Except for the change in presentation of the results of the operating and non-operating results for Asia operations to show separately the contribution from the held for sale Korea life business (see note 17 for details), the 2015 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2015.

A detailed description of the EEV methodology and accounting presentation is provided in note 14.

2 Effect of Solvency II implementation on EEV basis results on 1 January 2016

The Solvency II framework is effective from 1 January 2016. For our operations in Asia and the US there is no impact on the EEV results since Solvency II does not act as the local constraint on the ability to distribute profits to the Group. The embedded value for these businesses will continue to be driven by local regulatory and target capital requirements. For the UK insurance operations, Solvency II has an impact on the EEV results as it changes the local regulatory valuation of net worth and capital requirements, affecting the components of the EEV.

The impact of Solvency II on EEV shareholders' equity on 1 January 2016 is shown below:

Total EEV basis shareholders' equity	£m
As reported at 31 December 2015	32,359
Opening adjustment at 1 January 2016 for long-term business operations	
Effect of implementation of Solvency II on net worth note (a)	2,760
Effect of implementation of Solvency II on net value of in-force business (VIF) note (b)	(3,233)
	(473)
Group total shareholders' equity as at 1 January 2016 note (c)	31,886

Notes

(a) The Solvency II framework requires technical provisions to be valued on a best estimate basis and capital requirements to be risk-based. It also requires the establishment of a risk margin (which for business in force at 31 December 2015 can be broadly offset by transitional measures). As a result of applying this framework the EEV net worth increased by £2,760 million reflecting the release of the prudent regulatory margins previously included under Solvency I, and also from the recognition within net worth of a portion of future shareholder transfers expected from the with-profits fund. The higher net worth incorporated increases in required capital reflecting the higher solvency capital requirements of the new regime.

(b) The net value of in-force business (VIF) is correspondingly impacted as follows:
– the release of prudent regulatory margins and recognition of a portion of future with-profits business shareholders' transfers within net worth lead to a corresponding reduction in the VIF;
– the run-off of the risk margin, net of transitional measures, is now captured in VIF; and
– the cost of capital deducted from the gross VIF increases as a result of the higher Solvency II capital requirements.
The overall impact of these changes was to reduce the value of in-force by £(3,233) million.

(c) At 1 January 2016 the effect of these changes was a net reduction in EEV shareholders' equity of £(473) million.

The impact of Solvency II in 2016 for UK insurance operations is estimated to have reduced total operating profit from new and in-force business by £(39) million.

3 Results analysis by business area

The 2015 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2015 CER comparative results are translated at 2016 average exchange rates.

Annual premium equivalents (APE) note 16

	Note	**2016** £m	**2015*** £m		**% change**	
			AER	**CER**	**AER**	**CER**
Asia operations		3,599	2,712	3,020	33%	19%
US operations		1,561	1,729	1,950	(10)%	(20)%
UK retail operations‡		1,160	874	874	33%	33%
Group total excluding UK bulk annuities	4	6,320	5,315	5,844	19%	8%
UK bulk annuities‡		–	151	151	(100)%	(100)%
Group total		6,320	5,466	5,995	16%	5%

06 European Embedded Value (EEV) basis results

3 Results analysis by business area continued

Post-tax operating profit

	Note	2016 £m	2015* £m		% change	
			AER	CER	AER	CER
Asia operations						
New business	4	2,030	1,482	1,660	37%	22%
Business in force	5	1,044	798	895	31%	17%
Long-term business		3,074	2,280	2,555	35%	20%
Eastspring Investments		125	101	112	24%	12%
Total		3,199	2,381	2,667	34%	20%
US operations						
New business	4	790	809	913	(2)%	(13)%
Business in force	5	1,181	999	1,127	18%	5%
Long-term business		1,971	1,808	2,040	9%	(3)%
Broker-dealer and asset management		(3)	7	8	(143)%	(138)%
Total		1,968	1,815	2,048	8%	(4)%
UK operations						
New business‡						
UK retail operations	4	268	201	201	33%	33%
UK bulk annuities		–	117	117	(100)%	(100)%
		268	318	318	(16)%	(16)%
Business in force	5	375	545	545	(31)%	(31)%
Long-term business†		643	863	863	(25)%	(25)%
General insurance commission		23	22	22	5%	5%
Total UK insurance operations†		666	885	885	(25)%	(25)%
M&G		341	358	358	(5)%	(5)%
Prudential Capital		22	18	18	22%	22%
Total†		1,029	1,261	1,261	(18)%	(18)%
Other income and expenditure		(679)	(566)	(566)	(20)%	(20)%
Solvency II and restructuring costs		(57)	(51)	(51)	(12)%	(12)%
Interest received on tax settlement		37	–	–	n/a	n/a
Operating profit based on longer-term investment returns†		5,497	4,840	5,359	14%	3%
Analysed as profit (loss) from:						
New business‡						
Life operations excluding UK bulk annuities	4	3,088	2,492	2,774	24%	11%
UK bulk annuities		–	117	117	(100)%	(100)%
		3,088	2,609	2,891	18%	7%
Business in force	5	2,600	2,342	2,567	11%	1%
Total long-term business†		5,688	4,951	5,458	15%	4%
Asset management and general insurance commission		508	506	518	0%	(2)%
Other results		(699)	(617)	(617)	(13)%	(13)%
Operating profit based on longer-term investment returns†		5,497	4,840	5,359	14%	3%

Post-tax profit

	Note	2016 £m	2015* £m		% change	
			AER	CER	AER	CER
Operating profit based on longer-term investment returns†		5,497	4,840	5,359	14%	3%
Short-term fluctuations in investment returns	6	(507)	(1,215)	(1,343)	58%	62%
Effect of changes in economic assumptions	7	(60)	66	66	(191)%	(191)%
Mark to market value movements on core borrowings		(4)	221	220	(102)%	(102)%
(Loss) profit attaching to the held for sale Korea life business	17	(410)	39	42	n/a	n/a
Total non-operating loss		(981)	(889)	(1,015)	(10)%	3%
Profit for the year attributable to shareholders		4,516	3,951	4,344	14%	4%

Basic earnings per share (in pence)

	2016	2015		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns*†	214.7p	189.6p	209.9p	13%	2%
Based on post-tax profit†	176.4p	154.8p	170.2p	14%	4%

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).
† The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.
‡ Following Prudential's withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

4 Analysis of new business contribution

(i) Group summary

	2016				
	Annual premium and contribution equivalents (APE) £m note 16	Present value of new business premiums (PVNBP) £m note 16	New business contribution £m note	New business margin	
				APE %	PVNBP %
Asia operations note (ii)	3,599	19,271	2,030	56	10.5
US operations	1,561	15,608	790	51	5.1
UK insurance operations†	1,160	10,513	268	23	2.5
Group total	6,320	45,392	3,088	49	6.8

	2015*				
	Annual premium and contribution equivalents (APE) £m note 16	Present value of new business premiums (PVNBP) £m note 16	New business contribution £m note	New business margin	
				APE %	PVNBP %
Asia operations note (ii)	2,712	14,428	1,482	55	10.3
US operations	1,729	17,286	809	47	4.7
UK retail operations†‡	874	7,561	201	23	2.7
Total excluding UK bulk annuities	5,315	39,275	2,492	47	6.3
UK bulk annuities‡	151	1,508	117	77	7.8
Group total	5,466	40,783	2,609	48	6.4

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).
† The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.
‡ Following Prudential's withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

Note
The increase in new business contribution of £596 million from £2,492 million for 2015 (excluding the contributions from UK bulk annuities) to £3,088 million for 2016 comprises an increase on a CER basis of £314 million and an increase of £282 million for foreign exchange effects. The increase of £314 million on a CER basis comprises a contribution of £226 million for higher retail sales volumes in 2016, a £17 million effect of movement in long-term interest rates, generated by the active basis of setting economic assumptions (analysed as Asia £14 million, US £13 million and UK £(10) million), and a £71 million impact of pricing, product and other actions.

(ii) Asia operations – new business contribution by territory

	2016 £m	2015* £m	
		AER	CER
China	63	30	32
Hong Kong	1,363	835	941
Indonesia	175	229	260
Taiwan	31	28	31
Other	398	360	396
Total Asia operations	2,030	1,482	1,660

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

5 Operating profit from business in force

(i) Group summary

	2016 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total note
Unwind of discount and other expected returns	866	583	445	1,894
Effect of changes in operating assumptions	54	170	25	249
Experience variances and other items	124	428	(95)	457
Total	1,044	1,181	375	2,600

	2015* £m			
	Asia operations* note (ii)	US operations note (iii)	UK insurance operations† note (iv)	Total note
Unwind of discount and other expected returns	725	472	488	1,685
Effect of changes in operating assumptions	12	115	55	182
Experience variances and other items	61	412	2	475
Total	798	999	545	2,342

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).
† The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

Note
The movement in operating profit from business in force of £258 million from £2,342 million for 2015 to £2,600 million for 2016 comprises:

	£m
Movement in unwind of discount and other expected returns:	
Effects of changes in:	
Growth in opening value	126
Interest rates	(28)
Foreign exchange	141
Implementation of Solvency II on 1 January 2016	(30)
	209
Movement in effect of changes in operating assumptions, experience variances and other items (including foreign exchange of £84 million)	49
Net movement in operating profit from business in force	258

06 European Embedded Value (EEV) basis results

5 Operating profit from business in force continued

(ii) Asia operations

	2016 £m	2015* £m
Unwind of discount and other expected returns note (a)	866	725
Effect of changes in operating assumptions:		
Mortality and morbidity	33	63
Persistency and withdrawals note (b)	(47)	(46)
Expense	15	(1)
Other note (c)	53	(4)
	54	12
Experience variances and other items:		
Mortality and morbidity note (d)	71	54
Persistency and withdrawals note (e)	52	17
Expense note (f)	(23)	(32)
Other	24	22
	124	61
Total Asia operations	1,044	798

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

Notes

(a) The increase in unwind of discount and other expected returns of £141 million from £725 million for 2015 to £866 million for 2016 comprises a positive £61 million impact for the growth in the opening in-force value, a positive £81 million foreign exchange effect and a net £(1) million effect for movements in long-term interest rates.

(b) The 2016 charge of £(47) million (2015: £(46) million) for persistency assumption changes comprises positive and negative contributions from our various operations, with positive persistency updates on health and protection products being more than offset by negative effects for unit-linked business.

(c) The 2016 credit of £53 million for other assumption changes reflects a number of offsetting items, including modelling improvements and those arising from asset allocation changes in a number of territories.

(d) The positive mortality and morbidity experience variance in 2016 of £71 million (2015: £54 million) mainly reflects better than expected experience in a number of territories.

(e) The positive £52 million for persistency and withdrawals experience in 2016 (2015: £17 million) comprises positive and negative contributions from various operations, with positive persistency experience on health and protection products which more than offsets negative experience on unit-linked products.

(f) The negative expense experience variance in 2016 of £(23) million (2015: £(32) million) principally arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan).

(iii) US operations

	2016 £m	2015 £m
Unwind of discount and other expected returns note (a)	583	472
Effect of changes in operating assumptions note (b)	170	115
Experience variances and other items:		
Spread experience variance note (c)	119	149
Amortisation of interest-related realised gains and losses note (d)	88	70
Other note (e)	221	193
	428	412
Total US operations	1,181	999

Notes

(a) The increase in unwind of discount and other expected returns of £111 million from £472 million for 2015 to £583 million for 2016 comprises a positive £40 million effect for the underlying growth in the in-force book, a positive £60 million foreign exchange effect and an £11 million impact of the 20 basis points increase in the US 10-year treasury yield during the year.

(b) The 2016 credit of £170 million comprises assumption updates for mortality, persistency and expense, together with an increase in the assumed level of tax relief reflecting recent experience.

(c) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 15(ii)). The spread experience variance in 2016 of £119 million (2015: £149 million) includes the positive effect of transactions previously undertaken to more closely match the overall asset and liability duration. The reduction compared to the prior year reflects the effects of declining yields in the portfolio caused by the prolonged low interest rate environment.

(d) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(e) Other experience variances of £221 million in 2016 (2015: £193 million) include the effects of positive persistency experience and other variances.

(iv) UK insurance operations

	2016 £m	2015* £m
Unwind of discount and other expected returns note (a)	445	488
Reduction in future UK corporate tax rate note (b)	25	55
Other note (c)	(95)	2
Total UK insurance operations	375	545

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

Notes

(a) The decrease in unwind of discount and expected returns of £(43) million from 2015 of £488 million to £445 million for 2016 comprises a positive £25 million effect for the underlying growth in the in-force book, more than offset by a £(38) million effect driven by the 70 basis points decrease in the 15-year gilt yield during the year and a negative £(30) million representing the net effect of adopting the Solvency II regime.

(b) The credit of £25 million (2015: £55 million) for the reduction in UK corporate tax rate reflects the beneficial effect of applying a lower corporation tax rate (see note 15) to future life profits from in-force business in the UK.

(c) Other items comprise the following:

	2016 £m	2015 £m
Longevity reinsurance	(90)	(134)
Impact of specific management actions to improve solvency position note (d)	110	75
Provision for cost of undertaking past non-advised annuity sales review and potential redress note (e)	(145)	–
Other items note (f)	30	61
	(95)	2

(d) The 2016 benefit of £110 million (2015: £75 million) arises from the specific management actions to improve solvency, including the effect of repositioning the fixed income asset portfolio.

(e) In response to the findings of the FCA's Thematic Review of Annuities Sales Practices, the UK business will review all internally vesting annuities sold without advice after 1 July 2008. Reflecting this, the UK 2016 result includes a provision of £145 million (post-tax) for the estimated cost of the review and any appropriate customer redress, but excludes any potential for insurance recoveries.

(f) The 2016 credit of £30 million (2015: £61 million) comprises assumption updates and experience variances for mortality, expense, persistency and other items.

6 Short-term fluctuations in investment returns

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

(i) Group summary

	2016 £m	2015* £m
Asia operations note (ii)	(100)	(213)
US operations note (iii)	(1,102)	(753)
UK insurance operations note (iv)	869	(194)
Other operations note (v)	(174)	(55)
Total	(507)	(1,215)

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

(ii) Asia operations

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

	2016 £m	2015* £m
Hong Kong	(105)	(144)
Singapore	52	(104)
Other	(47)	35
Total Asia operations note	(100)	(213)

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

Note

For 2016, the charge of £(100) million mainly reflects the impact of interest rate movements on bonds and other investment returns, with losses due to increased long-term interest rates in Hong Kong, partly offset by gains in Singapore (as shown in note 15(i)).

6 Short-term fluctuations in investment returns continued

(iii) US operations

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

	2016 £m	2015 £m
Investment return related experience on fixed income securities note (a)	(85)	(17)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current year separate account return, net of related hedging activity and other items note (b)	(1,017)	(736)
Total US operations	(1,102)	(753)

Notes

(a) The charge relating to fixed income securities comprises the following elements:
– the impact on portfolio yields of changes in the asset portfolio in the year;
– the excess of actual realised gains and losses over the amortisation of interest-related realised gains and losses recorded in the profit and loss account; and
– credit experience (versus the longer-term assumption).

(b) This item reflects the net impact of:
– changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values in the current year of 8.9 per cent and that assumed at the start of the year of 6.0 per cent; and
– related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

(iv) UK insurance operations

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

	2016 £m	2015* £m
Shareholder-backed annuity business note (a)	431	(88)
With-profits and other business note (b)	438	(106)
Total UK insurance operations	869	(194)

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

Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:
– gains (losses) on surplus assets compared to the expected long-term rate of return reflecting reductions (increases) in corporate bond and gilt yields;
– the difference between actual and expected default experience; and
– the effect of mismatching for assets and liabilities of different durations.

(b) The £438 million fluctuations in 2016 for with-profits and other business represent the impact of achieving a 13.6 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 5.0 per cent (2015: total return of 3.1 per cent compared to assumed rate of 5.4 per cent), together with the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from movements in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns for other operations of negative £(174) million (2015: negative £(55) million) include unrealised value movements on investments held outside of the main life operations.

7 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business included in the profit for the year arise as follows:

(i) Group summary

	2016 £m	2015* £m
Asia operations note (ii)	70	(139)
US operations note (iii)	45	109
UK insurance operations note (iv)	(175)	96
Total	(60)	66

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

(ii) Asia operations

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

	2016 £m	2015* £m
Hong Kong	85	100
Indonesia	46	(15)
Malaysia	(20)	(30)
Singapore	(60)	(50)
Taiwan	12	(97)
Other	7	(47)
Total Asia operations note	70	(139)

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

Note

The positive effect for 2016 of £70 million largely arises from the movements in long-term interest rates (see note 15(i)). Non-operating profits arise from higher interest rates and hence fund earned rates in Hong Kong, together with the beneficial impact of valuing future health and protection profits at lower discount rates in Indonesia. Losses arise from a fall in interest rates in Singapore and a higher discount rate in Malaysia.

(iii) US operations

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

	2016 £m	2015 £m
Variable annuity business	86	104
Fixed annuity and other general account business	(41)	5
Total US operations note	45	109

Note

For 2016, the credit of £45 million mainly reflects the increase in the assumed separate account return and reinvestment rates for variable annuity business, following the 20 basis points increase in the US 10-year treasury yield, resulting in higher projected fee income and a decrease in projected benefit costs. For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income of applying a higher discount rate on the opening value of the in-force book.

(iv) UK insurance operations

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

	2016 £m	2015* £m
Shareholder-backed annuity business note (a)	(113)	(56)
With-profits and other business note (b)	(62)	152
Total UK insurance operations	(175)	96

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

Notes

(a) For shareholder-backed annuity business the overall negative effect of £(113) million for 2016 (2015: £(56) million) reflects an increase in the cost of capital, driven by the lower interest rates, partially offset by the change in the present value of projected spread income arising mainly from the adoption of lower risk discount rates as shown in note 15(iii).

(b) The charge of £(62) million for 2016 (2015: credit of £152 million) reflects the net effect of changes in expected future fund earned rates and risk discount rates (as shown in note 15(iii)).

8 Net core structural borrowings of shareholder-financed operations

	31 Dec 2016 £m			31 Dec 2015 £m		
	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company (including central finance subsidiaries) cash and short-term investments	(2,626)	–	(2,626)	(2,173)	–	(2,173)
Central funds[note]						
Subordinated debt	5,772	182	5,954	4,018	211	4,229
Senior debt	549	175	724	549	142	691
	6,321	357	6,678	4,567	353	4,920
Holding company net borrowings	3,695	357	4,052	2,394	353	2,747
Prudential Capital bank loan	275	–	275	275	–	275
Jackson surplus notes	202	65	267	169	55	224
Net core structural borrowings of shareholder-financed operations	4,172	422	4,594	2,838	408	3,246

Note
In June 2016, the Company issued core structural borrowings of US$1,000 million 5.25 per cent Tier 2 perpetual subordinated notes. The proceeds net of costs were £681 million.
In September 2016, the Company issued core structural borrowings of US$725 million 4.38 per cent Tier 2 perpetual subordinated notes. The proceeds net of costs were £546 million.
The movement in IFRS basis core structural borrowings from 2015 to 2016 also includes foreign exchange effects.

9 Reconciliation of movement in shareholders' equity

	2016 £m						
	Long-term business operations						
	Asia operations note (i)	US operations	UK insurance operations*	Total long-term business operations	Asset management and UK general insurance commission	Other operations note (i)	Group total
Operating profit based on longer-term investment returns:							
Long-term business:							
New business[note 4]	2,030	790	268	3,088	–	–	3,088
Business in force[note 5]	1,044	1,181	375	2,600	–	–	2,600
	3,074	1,971	643	5,688		–	5,688
Asset management and general insurance commission	–	–	–	–	508	–	508
Other results	–	–	(33)	(33)	–	(666)	(699)
Post-tax operating profit	3,074	1,971	610	5,655	508	(666)	5,497
Loss attaching to the held for sale Korea life business[note 17]	(395)	–	–	(395)	–	(15)	(410)
Other non-operating (loss) profit	(30)	(1,057)	694	(393)	(38)	(140)	(571)
Profit for the year	2,649	914	1,304	4,867	470	(821)	4,516
Other items taken directly to equity:							
Exchange movements on foreign operations and net investment hedges	2,714	1,878	–	4,592	83	(464)	4,211
Intra-group dividends and investment in operations[note (ii)]	(594)	(388)	(281)	(1,263)	(462)	1,725	–
External dividends	–	–	–		–	(1,267)	(1,267)
Mark to market value movements on Jackson assets backing surplus and required capital	–	(11)	–	(11)	–	–	(11)
Other movements[note (iii)]	(6)	(75)	(169)	(250)	9	(126)	(367)
Net increase in shareholders' equity	4,763	2,318	854	7,935	100	(953)	7,082
Shareholders' equity at beginning of year:							
As previously reported	13,643	9,487	9,647	32,777	2,354	(2,772)	32,359
Effect of implementation of Solvency II[note 2]	–	–	(473)	(473)	–	–	(473)
Other opening adjustments[note (v)]	66	–	279	345	–	(345)	–
	13,709	9,487	9,453	32,649	2,354	(3,117)	31,886
Shareholders' equity at end of year	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968

	2016 £m						
	Long-term business operations				Asset management and UK general insurance commission	Other operations note (i)	Group total
	Asia operations note (i)	US operations	UK insurance operations*	Total long-term business operations			
Representing:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	4,747	5,204	5,974	15,925	1,224	(3,958)	13,191
Goodwill	–	–	–	–	1,230	245	1,475
Total IFRS basis shareholders' equity	4,747	5,204	5,974	15,925	2,454	(3,713)	14,666
Additional retained profit (loss) on an EEV basis note (iv)	13,725	6,601	4,333	24,659	–	(357)	24,302
EEV basis shareholders' equity	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968
Balance at beginning of year:*							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	3,789	4,154	5,397	13,340	1,124	(2,972)	11,492
Goodwill	–	–	–	–	1,230	233	1,463
Total IFRS basis shareholders' equity	3,789	4,154	5,397	13,340	2,354	(2,739)	12,955
Additional retained profit (loss) on an EEV basis note (iv)	9,920	5,333	4,056	19,309	–	(378)	18,931
EEV basis shareholders' equity	13,709	9,487	9,453	32,649	2,354	(3,117)	31,886

* The balance at the beginning of the year has been presented after the adjustments for the impact of Solvency II for UK insurance operations at 1 January 2016 (see note 2 for details), together with the effect of a classification change (see note (v) below).

Notes

(i) Other operations of £(4,070) million represents the shareholders' equity of £(4,315) million for other operations as shown in the movement in shareholders' equity and includes goodwill of £245 million (2015: £233 million) related to Asia long-term operations.

(ii) Intra-group dividends represent dividends that have been declared in the year and investments in operations reflect increases in share capital. The amounts included in note 11 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.

(iii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments and treasury shares.

(iv) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(357) million (2015: £(353) million), as shown in note 8.

(v) Other opening adjustments represents the effect of a classification change of £345 million from Other operations to UK insurance operations of £279 million and to Asia insurance operations of £66 million in order to align with Solvency II segmental reporting, which has no overall effect on the Group's EEV.

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

	2016 £m				
	Free surplus note 11	Required capital	Total net worth	Value of in-force business note	Total long-term business operations
Group					
Shareholders' equity at beginning of year:					
As previously reported	5,642	4,704	10,346	22,431	32,777
Opening adjustments*	(1,473)	4,578	3,105	(3,233)	(128)
	4,169	9,282	13,451	19,198	32,649
New business contribution	(903)	595	(308)	3,396	3,088
Existing business – transfer to net worth	3,060	(637)	2,423	(2,423)	–
Expected return on existing business note 5	99	193	292	1,602	1,894
Changes in operating assumptions and experience variances note 5	857	(231)	626	80	706
Solvency II and restructuring costs	(33)	–	(33)	–	(33)
Post-tax operating profit	3,080	(80)	3,000	2,655	5,655
Loss attaching to held for sale Korea life business note 9	(86)	–	(86)	(309)	(395)
Other non-operating items	(932)	505	(427)	34	(393)
Profit for the year from long-term business	2,062	425	2,487	2,380	4,867
Exchange movements on foreign operations and net investment hedges	633	589	1,222	3,370	4,592
Intra-group dividends and investment in operations	(1,263)	–	(1,263)	–	(1,263)
Other movements	(250)	–	(250)	(11)	(261)
Shareholders' equity at end of year*	5,351	10,296	15,647	24,937	40,584
Asia operations					
New business contribution	(476)	139	(337)	2,367	2,030
Existing business – transfer to net worth	1,157	(92)	1,065	(1,065)	–
Expected return on existing business note 5	39	54	93	773	866
Changes in operating assumptions and experience variances note 5	14	94	108	70	178
Post-tax operating profit	734	195	929	2,145	3,074
Loss attaching to held for sale Korea life business note 9	(86)	–	(86)	(309)	(395)
Other non-operating items	(91)	29	(62)	32	(30)
Profit for the year from long-term business	557	224	781	1,868	2,649
US operations					
New business contribution	(298)	324	26	764	790
Existing business – transfer to net worth	1,223	(213)	1,010	(1,010)	–
Expected return on existing business note 5	47	53	100	483	583
Changes in operating assumptions and experience variances note 5	596	5	601	(3)	598
Post-tax operating profit	1,568	169	1,737	234	1,971
Non-operating items	(770)	(108)	(878)	(179)	(1,057)
Profit for the year from long-term business	798	61	859	55	914

	2016 £m				
	Free surplus note 11	Required capital	Total net worth	Value of in-force business note	Total long-term business operations
UK insurance operations					
New business contribution	(129)	132	3	265	268
Existing business – transfer to net worth	680	(332)	348	(348)	–
Expected return on existing business note 5	13	86	99	346	445
Changes in operating assumptions and experience variances note 5	247	(330)	(83)	13	(70)
Solvency II and restructuring costs	(33)	–	(33)	–	(33)
Post-tax operating profit	778	(444)	334	276	610
Non-operating items	(71)	584	513	181	694
Profit for the year from long-term business	707	140	847	457	1,304

* Opening adjustments represent the impact of implementation of Solvency II for UK insurance operations at 1 January 2016 (see note 2 for details), together with the effect of a classification change, as discussed in note 9(v).

Note

The net value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital as shown below:

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	15,371	8,584	3,468	27,423	11,280	7,355	3,043	21,678
Cost of capital	(477)	(319)	(692)	(1,488)	(438)	(229)	(713)	(1,380)
Cost of time value of guarantees	(87)	(911)	–	(998)	(88)	(1,012)	–	(1,100)
Net value of in-force business	14,807	7,354	2,776	24,937	10,754	6,114	2,330	19,198
Total net worth	3,665	4,451	7,531	15,647	2,955	3,373	7,123	13,451
Total embedded value note 9	18,472	11,805	10,307	40,584	13,709	9,487	9,453	32,649

* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results in the table above are presented after the adjustments for the impact of Solvency II for UK insurance operations at 1 January 2016, together with the effect of a classification change, as discussed in note 9(v).

06 European Embedded Value (EEV) basis results

Notes on the EEV basis results
Continued

11 Analysis of movement in free surplus

For EEV covered business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles. Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity for central operations, net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

Free surplus for insurance and asset management operations and Group total free surplus, including other operations, are shown in the tables below.

(i) Underlying free surplus generated – insurance and asset management operations

The 2015 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2015 CER comparative results are translated at 2016 average exchange rates.

	2016 £m	2015* £m		% change	
		AER	CER	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	1,210	951	1,064	27%	14%
Investment in new business note (iii)(a)	(476)	(386)	(426)	(23)%	(12)%
Long-term business	734	565	638	30%	15%
Eastspring Investments note (iii)(b)	125	101	112	24%	12%
Total	859	666	750	29%	15%
US operations					
Underlying free surplus generated from in-force life business	1,866	1,426	1,608	31%	16%
Investment in new business note (iii)(a)	(298)	(267)	(301)	(12)%	1%
Long-term business	1,568	1,159	1,307	35%	20%
Broker-dealer and asset management note (iii)(b)	(3)	7	8	(143)%	(138)%
Total	1,565	1,166	1,315	34%	19%
UK insurance operations					
Underlying free surplus generated from in-force life business	907	878	878	3%	3%
Investment in new business note (iii)(a)	(129)	(65)	(65)	(98)%	(98)%
Long-term business†	778	813	813	(4)%	(4)%
General insurance commission note (iii)(b)	23	22	22	5%	5%
Total	801	835	835	(4)%	(4)%
M&G	341	358	358	(5)%	(5)%
Prudential Capital	22	18	18	22%	22%
Underlying free surplus generated from insurance and asset management operations	3,588	3,043	3,276	18%	10%
Representing:					
Long-term business:					
Expected in-force cash flows (including expected return on net assets)	3,159	2,693	2,941	17%	7%
Effects of changes in operating assumptions, experience variances and other items	824	562	609	47%	35%
Underlying free surplus generated from in-force life business	3,983	3,255	3,550	22%	12%
Investment in new business note (iii)(a)	(903)	(718)	(792)	(26)%	(14)%
Total long-term business*†	3,080	2,537	2,758	21%	12%
Asset management and general insurance commission note (iii)(b)	508	506	518	0%	(2)%
	3,588	3,043	3,276	18%	10%

* The 2015 comparative results have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).
† The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflected the Solvency I basis being the regime applicable for the year.

(ii) Underlying free surplus generated – total Group

	2016 £m	2015* £m		% change	
		AER	CER	AER	CER
Underlying free surplus generated from insurance and asset management operations note (i)	3,588	3,043	3,276	18%	10%
Other income and expenditure net of restructuring and Solvency II costs note (iii)(b)	(703)	(588)	(588)	(20)%	(20)%
Interest received on tax settlement	37	–	–	n/a	n/a
Group total underlying free surplus generated, including other operations	2,922	2,455	2,688	19%	9%

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

(iii) Movement in free surplus – long-term business and asset management operations

	2016 £m				
	Long-term business note 10	Asset management and UK general insurance commission note (b)	Total insurance and asset management operations	Central and other operations note (b)	Group total
Underlying free surplus generated	3,080	508	3,588	(666)	2,922
Loss attaching to held for sale Korea life business note 10	(86)	–	(86)	–	(86)
Other non-operating items note (c)	(932)	(38)	(970)	(169)	(1,139)
	2,062	470	2,532	(835)	1,697
Net cash flows to parent company note (d)	(1,236)	(482)	(1,718)	1,718	–
External dividends			–	(1,267)	(1,267)
Exchange rate movements, timing differences and other items note (e)	356	112	468	1,144	1,612
Net movement in free surplus	1,182	100	1,282	760	2,042
Balance at 1 January 2016:					
Balance at beginning of year	5,642	1,124	6,766	1,224	7,990
Opening adjustments*	(1,473)	–	(1,473)	(345)	(1,818)
	4,169	1,124	5,293	879	6,172
Balance at end of year	5,351	1,224	6,575	1,639	8,214
Representing:					
Asia operations			2,142	–	2,142
US operations			2,418	–	2,418
UK operations			2,015	–	2,015
Other operations			–	1,639	1,639
			6,575	1,639	8,214
Balance at 1 January 2016:*					
Asia operations			1,814	–	1,814
US operations			1,733	–	1,733
UK operations			1,746	–	1,746
Other operations			–	879	879
			5,293	879	6,172

* Opening adjustments represent the impact of implementation of Solvency II at 1 January 2016 (see note 2 for details), together with the effect of a reclassification between long-term business and other operations, as discussed in note 9(v). Balance at 1 January 2016 has been presented after the opening adjustments.

11 Analysis of movement in free surplus continued

(iii) Movement in free surplus – long-term business and asset management operations continued

	2015* £m				
	Long-term business	Asset management and UK general insurance commission note (b)	Total insurance and asset management operations	Central and other operations note (b)	Group total
Underlying free surplus generated	2,537	506	3,043	(588)	2,455
Disposal of Japan life business	23	–	23	–	23
Results of the held for sale Korea life business note 17	15	–	15	–	15
Other non-operating items note (c)	(415)	(53)	(468)	29	(439)
	2,160	453	2,613	(559)	2,054
Net cash flows to parent company note (d)	(1,271)	(354)	(1,625)	1,625	–
External dividends	–	–	–	(974)	(974)
Exchange rate movements, timing differences and other items note (e)	560	159	719	(307)	412
Net movement in free surplus	1,449	258	1,707	(215)	1,492
Balance at beginning of year	4,193	866	5,059	1,439	6,498
Balance at end of year	5,642	1,124	6,766	1,224	7,990

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

Notes

(a) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.

(b) Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

(c) Non-operating items are principally short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.

(d) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(e) Exchange rate movements, timing differences and other items represent:

	2016 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	633	83	716	48	764
Mark to market value movements on Jackson assets backing surplus and required capital note 9	(11)	–	(11)	–	(11)
Other items note (f)	(266)	29	(237)	1,096	859
	356	112	468	1,144	1,612

	2015 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	67	3	70	10	80
Mark to market value movements on Jackson assets backing surplus and required capital	(76)	–	(76)	–	(76)
Other items note (f)	569	156	725	(317)	408
	560	159	719	(307)	412

(f) Other items include the movements in subordinated debt for Other operations, together with the effect of intra-group loans and other non-cash items. The 2015 results also included the effect of a classification change of £702 million from Other operations to UK insurance operations in order to align with Solvency II segmental reporting, with no overall effect on the Group's EEV.

12 Expected transfer of value of in-force business and required capital to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2016 and 2015 totals for the emergence of free surplus as follows:

	2016 £m	2015* £m
Required capital note 10	10,296	9,282
Value of in-force business (VIF) note 10	24,937	19,198
Add back: deduction for cost of time value of guarantees note 10	998	1,100
Expected free surplus generation from the sale of Korea life business note 17	(76)	–
Other items note	(1,430)	(1,714)
Total	34,725	27,866

* In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).

Note
'Other items' represent amounts incorporated into VIF where there is no definitive time frame for when the payments will be made or receipts received. In particular, other items include the deduction of the shareholders' interest in the estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital is modelled as emerging into free surplus over future years.

2016 £m

		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
	2016 total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations*	16,393	5,141	3,331	2,209	1,515	3,118	1,079
US operations	10,556	5,542	3,203	1,240	372	199	–
UK insurance operations	7,776	2,890	1,931	1,119	901	899	36
Total	34,725	13,573	8,465	4,568	2,788	4,216	1,115
	100%	39%	25%	13%	8%	12%	3%

2015 £m

		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
	2015 total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations	11,858	3,916	2,552	1,669	1,115	2,055	551
US operations	8,740	4,361	2,752	1,129	383	115	–
UK insurance operations†	7,268	2,446	1,812	1,198	866	920	26
Total†	27,866	10,723	7,116	3,996	2,364	3,090	577
	100%	38%	26%	14%	9%	11%	2%

* Asia operations exclude the cash flows in respect of the held for sale Korea life business.
† In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).

13 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2016 and 31 December 2015 and the new business contribution after the effect of required capital for 2016 and 2015 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 0.5 per cent decrease in interest rates* (1 per cent decrease for 2015), including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level by contrast to EEV basis required capital for (embedded value only); and
- 5 basis points increase in UK long-term expected defaults.

* To reflect the current level of low interest rates, the sensitivity of new business contribution and embedded value to a 0.5 per cent reduction in interest rates is shown for 2016.

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

New business contribution

	2016 £m				2015 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations*	US operations	UK insurance operations†	Total long-term business operations
New business contribution note 4	2,030	790	268	3,088	1,482	809	318	2,609
Discount rates – 1% increase	(375)	(43)	(32)	(450)	(254)	(38)	(40)	(332)
Interest rates – 1% increase	51	64	27	142	30	80	7	117
Interest rates – 1% decrease	–	–	–	–	(78)	(127)	(9)	(214)
Interest rates – 0.5% decrease	(30)	(49)	(15)	(94)	–	–	–	–
Equity/property yields – 1% rise	129	91	28	248	71	95	20	186
Long-term expected defaults – 5 bps increase	–	–	(2)	(2)	–	–	(8)	(8)

* In order to show the Asia long-term business on a comparable basis, the 2015 comparatives for new business contribution have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).
† The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

Embedded value of long-term business operations

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Shareholders' equity note 9	18,472	11,805	10,307	40,584	13,643	9,487	9,647	32,777
Discount rates – 1% increase	(2,078)	(379)	(809)	(3,266)	(1,448)	(271)	(586)	(2,305)
Interest rates – 1% increase	(701)	(241)	(638)	(1,580)	(380)	(46)	(328)	(754)
Interest rates – 1% decrease	–	–	–	–	132	(93)	426	465
Interest rates – 0.5% decrease	248	25	369	642	–	–	–	–
Equity/property yields – 1% rise	771	653	314	1,738	506	514	271	1,291
Equity/property market values – 10% fall	(361)	(11)	(399)	(771)	(246)	(411)	(373)	(1,030)
Statutory minimum capital	150	223	–	373	148	162	4	314
Long-term expected defaults – 5 bps increase	–	–	(138)	(138)	–	–	(141)	(141)

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

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumptions shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for changes in interest rates, the effect shown above for Jackson would also be recorded within the fair value movements on assets backing surplus and required capital, which are taken directly to shareholders' equity.

(b) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2016 and 31 December 2015 and the new business contribution after the effect of required capital for 2016 and 2015 to:

— 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
— 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
— 5 per cent proportionate decrease in base mortality and morbidity rates (ie increased longevity).

New business contribution

	2016 £m				2015 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations*	US operations	UK insurance operations†	Total long-term business operations
New business contribution note 4	2,030	790	268	3,088	1,482	809	318	2,609
Maintenance expenses – 10% decrease	33	10	3	46	27	8	2	37
Lapse rates – 10% decrease	132	26	11	169	104	25	9	138
Mortality and morbidity – 5% decrease	57	4	(4)	57	49	1	(13)	37
Change representing effect on:								
Life business	57	4	–	61	49	1	1	51
UK annuities	–	–	(4)	(4)	–	–	(14)	(14)

* In order to show the Asia long-term business on a comparable basis, the 2015 comparatives for new business contribution have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).
† The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

Embedded value of long-term business operations

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Shareholders' equity note 9	18,472	11,805	10,307	40,584	13,643	9,487	9,647	32,777
Maintenance expenses – 10% decrease	187	104	91	382	153	80	68	301
Lapse rates – 10% decrease	659	533	79	1,271	508	394	75	977
Mortality and morbidity – 5% decrease	554	192	(302)	444	449	172	(299)	322
Change representing effect on:								
Life business	554	192	12	758	449	172	11	632
UK annuities	–	–	(314)	(314)	–	–	(310)	(310)

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

14 Methodology and accounting presentation

(a) Methodology

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- The present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - The cost of locked-in required capital; and
  - The time value of cost of options and guarantees;
- Locked-in required capital; and
- The shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results as explained in note 14(b)(iii), no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 14(b)(i).

(i) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business, including the Group's investments in joint venture and associate insurance operations, for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's asset management and other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 14(a)(vii).

The definition of long-term business operations comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group's long-term business operations, with two exceptions:

- The closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court-Approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.
- The presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

(ii) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency, mortality and morbidity, as described in note 15. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating assumptions as at the end of the year.

For UK immediate annuity business and single premium Universal Life products in Asia, primarily in Singapore, the new business contribution is determined by applying economic assumptions reflecting point-of-sale market conditions. This is consistent with how the business is priced as crediting rates are linked to yields on specific assets and the yield is locked in when the assets are purchased at the point of sale of the policy. For other business within the Group, end-of-year economic assumptions are used.

New business profitability is a key metric for the Group's management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of regular premium new business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on an IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the EEV result for Jackson acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that, broadly speaking, are held for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation (depreciation) on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

(iii) Cost of capital

A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

(iv) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US operations (Jackson)

The principal financial options and guarantees in Jackson are associated with the fixed annuity (FA) and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for both years, depending on the particular product, jurisdiction where issued, and date of issue. For 2016, 87 per cent (2015: 87 per cent) of the account values on fixed annuities are for policies with guarantees of 3 per cent or less. The average guarantee rate is 2.6 per cent (2015: 2.6 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable upon depletion of funds (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)), or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholders' value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities (FIA) that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

14 Methodology and accounting presentation continued

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 bonus – annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The PAC with-profits fund also held a provision on the Solvency II basis of £62 million at 31 December 2016 (Pillar I Peak 2 basis at 31 December 2015: £47 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in the UK is through the non-covered business of SAIF. A provision on the Solvency II basis of £571 million was held in SAIF at 31 December 2016 (Pillar I Peak 2 basis at 31 December 2015: £412 million) to honour the guarantees. As described in note 14(a)(i), the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders' funds.

Time value
The value of financial options and guarantees comprises two parts:

- The first part arises from a deterministic valuation on best estimate assumptions (the intrinsic value); and
- The second part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 15(iv), (v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

(v) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets subject to it being at least the local statutory minimum requirements.

For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. Following the implementation of Solvency II which became effective on 1 January 2016, a portion of future shareholder transfers expected from the with-profits fund is recognised within net worth, together with the associated capital requirements.

For shareholder-backed business the following capital requirements apply:

- Asia operations: the level of required capital has been set to an amount at least equal to the higher of local statutory requirements and the internal target;
- US operations: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set at the Solvency II Solvency Capital Requirement (SCR) for shareholder-backed business as a whole; for 2015, the capital requirements were set to an amount at least equal to the higher of Solvency I Pillar I and Pillar II requirements for shareholder-backed business as a whole.

(vi) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

(vii) Internal asset management

The in-force and new business results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current year profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the year. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the assets for covered business.

(viii) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin.

For Asia and US operations, the risk-free rates are based on 10-year local government bond yields.

For UK insurance operations, following the implementation of Solvency II on 1 January 2016, the EEV risk-free rate is based on the full term structure of interest rates, ie a yield curve, rather than using a flat 15-year gilt yield (as for 2015). This yield curve is used to determine the embedded value at the end of the reporting period.

The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product-specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

— Expected long-term defaults;
— Credit risk premium (to reflect the volatility in downgrade and default levels); and
— Short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above.

However, for those businesses largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below:

Asia operations

For Asia operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly, no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

14 Methodology and accounting presentation continued

US operations (Jackson)

For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve (RMR) charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults as shown in note 15(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

— How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
— Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment return rates credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business inforce alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

UK operations

(1) Shareholder-backed annuity business

For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, as the assets are generally held to maturity to match liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on the Solvency II allowance for credit risk. The Solvency II allowance is set by European Insurance and Occupational Pensions Authority (EIOPA) using a prudent assumption that all future downgrades will be replaced annually, and allowing for the credit spread floor.

For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for a best estimate credit risk allowance. The remaining elements of prudence within the Solvency II allowance are incorporated into the risk margin included in the discount rate, shown in note 14(iii).

In 2015, the allowance for liquidity premium was based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for expected long-term defaults, a credit risk premium, an allowance for a 1-notch downgrade of the asset portfolio subject to credit risk; and an allowance for short-term downgrades and defaults.

(2) With-profits fund non-profit annuity business

For UK non-profit annuity business including that attributable to the PAC with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

(3) With-profits fund holdings of debt securities

The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over risk-free, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's Asia operations in China, Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. For the Group's US business and UK business, no additional allowance is necessary.

In 2015, for UK shareholder-backed annuity business, a further allowance of 50 basis points was used to reflect the longevity risk, which is covered by the solvency capital requirements following the implementation of Solvency II from 1 January 2016.

(ix) Foreign currency translation
Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year-end exchange rates. The principal exchange rates are shown in note A1 of the IFRS financial statements.

(x) Taxation
In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting period.

(xi) Inter-company arrangements
The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to the PAC non-profit sub-fund.

(b) Accounting presentation
(i) Analysis of post-tax profit
To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 14(b)(ii)) and incorporate the following:

— New business contribution, as defined in note 14(a)(ii);
— Unwind of discount on the value of in-force business and other expected returns, as described in note 14(b)(iii);
— The impact of routine changes of estimates relating to operating assumptions, as described in note 14(b)(iv); and
— Operating experience variances, as described in note 14(b)(v).

Non-operating results comprise the recurrent items of:

— Short-term fluctuations in investment returns;
— The mark to market value movements on core borrowings; and
— The effect of changes in economic assumptions.

In addition, non-operating profit also includes the effect of adjustment to the carrying value of the held for sale Korea life business in 2016 and a reclassification of the result attributable to the held for sale Korea life business in both years (see note 17 for details).

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

(ii) Investment returns included in operating profit
For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 14(b)(iii).

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-period 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 business adjusted to reflect end-of-period projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the operating result for the year.

14 Methodology and accounting presentation continued

(iii) Unwind of discount and other expected returns

The unwind of discount and other expected returns is determined by reference to:

— The value of in-force business at the beginning of the year (adjusted for the effect of current year economic and operating assumption changes); and
— Required capital and surplus assets.

UK operations

In applying this general approach, the unwind of discount included in operating profit is determined by reference to the following:

— The unwind is determined by reference to an implied single risk discount rate for 2016. Following the implementation of Solvency II the EEV risk-free rate is based on a yield curve (as set out in note 14a(viii)), which is used to derive a single implied discount rate which, if this rate had been used, would reproduce the same embedded value as that calculated by reference to the yield curve. The difference between the operating profit determined using the single implied discount rate and that derived using the yield curve is included within non-operating profit; and
— For with-profits business, the opening value of in-force is adjusted for the effect of short-term investment volatility due to market movements (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2016, the shareholders' interest in the smoothed surplus assets used for this purpose only were £77 million lower (31 December 2015: £58 million lower) than the surplus assets carried in the statement of financial position.

(iv) Effect of changes in operating assumptions

Operating profit includes the effect of changes to non-economic assumptions on the value of in-force at the end of the year. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force as operating assumption changes, with the experience variances subsequently being determined by reference to the end-of-period assumptions (see note 14(b)(v)).

(v) Operating experience variances

Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality and morbidity, expenses and other factors, which are calculated with reference to the end-of-period assumptions.

(vi) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the year caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results. For UK insurance operations, the effect is after allowing for the recalculation of transitional measures on technical provisions.

15 Assumptions

Principal economic assumptions

The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to year-end risk-free rates of return (defined below for each of the Group's insurance operations). Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the year.

(i) Asia operations[notes (b), (c)]

The risk-free rates of return for Asia operations are defined as 10-year government bond yields at the end of the year.

	Risk discount rate %				10-year government bond yield %		Expected long-term inflation %	
	New business		In-force business					
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
China	9.6	9.4	9.6	9.4	3.1	2.9	2.5	2.5
Hong Kong[notes (b)(d)]	3.9	3.7	3.9	3.7	2.5	2.3	2.3	2.3
Indonesia	12.0	12.8	12.0	12.8	8.1	8.9	5.0	5.0
Malaysia[note (d)]	6.8	6.6	6.9	6.7	4.3	4.2	2.5	2.5
Philippines	11.6	11.3	11.6	11.3	4.8	4.6	4.0	4.0
Singapore[note (d)]	4.2	4.3	5.0	5.1	2.5	2.6	2.0	2.0
Taiwan	4.0	4.0	4.0	3.9	1.2	1.0	1.0	1.0
Thailand	9.4	9.3	9.4	9.3	2.7	2.5	3.0	3.0
Vietnam	13.0	13.8	13.0	13.8	6.3	7.1	5.5	5.5
Total weighted risk discount rate[note (a)]	5.3	5.9	6.1	6.4				

Notes

(a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each country's risk discount rates by reference to the post-tax EEV basis new business contribution and the closing value of in-force business. The changes in the risk discount rates for individual Asia territories reflect the movements in 10-year government bond yields, together with the effects of movements in the allowance for market risk and changes in product mix.

(b) For Hong Kong the assumptions shown are for US dollar denominated business. For other territories, the assumptions are for local currency denominated business.

(c) Equity risk premiums in Asia range from 3.5 per cent to 8.7 per cent (2015: from 3.5 per cent to 8.6 per cent).

(d) The mean equity return assumptions for the most significant equity holdings of the Asia operations are:

	31 Dec 2016 %	31 Dec 2015 %
Hong Kong	6.5	6.3
Malaysia	10.2	10.2
Singapore	8.5	8.6

(ii) US operations

The risk-free rates of return for US operations are defined as 10-year treasury bond yield at the end of the year.

	31 Dec 2016 %	31 Dec 2015 %
Assumed new business spread margins:*		
Fixed annuity business:†		
January to June issues	1.25	1.25
July to December issues	1.25	1.50
Fixed index annuity business:		
January to June issues	1.50	1.50
July to December issues	1.50	1.75
Institutional business	0.50	0.70
Allowance for long-term defaults included in projected spread[note 14(a)(viii)]	0.21	0.24
Risk discount rate:		
Variable annuity:		
Risk discount rate	6.9	6.8
Additional allowance for credit risk included in risk discount rate[note 14(a)(viii)]	0.2	0.2
Non-variable annuity:		
Risk discount rate	4.1	3.9
Additional allowance for credit risk included in risk discount rate[note 14(a)(viii)]	1.0	1.0
Weighted average total:		
New business	6.8	6.7
In-force business	6.5	6.2
US 10-year treasury bond yield	2.5	2.3
Pre-tax expected long-term nominal rate of return for US equities	6.5	6.3
Expected long-term rate of inflation	3.0	2.8
Equity risk premium	4.0	4.0
S&P equity return volatility[note (v)]	18.0	18.0

* Including the proportion of variable annuity business invested in the general account and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

† Including the proportion of variable annuity business invested in the general account.

15 Assumptions continued

(iii) UK insurance operations

Effective from 1 January 2016, following the implementation of Solvency II, the EEV risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period. For 2016, these yield curves are used to derive pre-tax expected long-term nominal rates of investment return and risk discount rates. For the purpose of determining the unwind of discount in the analysis of operating profit, these yield curves are used to derive a single implied risk discount rate, as explained in note 14(a)(viii).

For 2015, risk-free rates of return and risk discount rates were based on a flat 15-year gilt yield at the end of the year.

The key economic assumptions are shown below for both years, for 2016 the single implied risk discount rate is shown, along with the 15-year nominal rate of return based on the yield curve. For 2015 the long-term nominal rates of return are shown.

	31 Dec 2016 %	31 Dec 2015 %
Shareholder-backed annuity business: note (a)		
Risk discount rate:		
New business	3.9	5.7
In-force business	4.5	7.4
Pre-tax expected 15-year/long-term nominal rates of investment return: note (b)		
New business	3.0	3.5
In-force business	2.8	3.5
With-profits and other business:		
Risk discount rate:*		
New business	4.7	5.6
In-force business	4.9	5.7
Pre-tax expected 15-year/long-term nominal rates of investment return: note (b)		
Overseas equities	6.2 to 9.4	6.3 to 9.4
Property	4.5	5.2
15-year gilt yield	1.7	2.4
Corporate bonds	3.5	4.1
Expected 15-year/long-term rate of inflation	3.6	3.1
Equity risk premium	4.0	4.0

* The risk discount rates for with-profits and other business shown above represents a weighted average total of the rates applied to determine the present value of future cash flows, including a portion of future with-profits business shareholders' transfers recognised in net worth.

Notes

(a) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates for new and in-force businesses reflect the effect of changes in asset yields (based on average yields for new business).

(b) The table below shows the pattern of the UK risk-free Solvency II spot yield curve at the end of 31 December 2016:

	31 Dec 2016				
Year	1	5	10	15	20
Risk-free rate (%)	0.4	0.7	1.1	1.3	1.3

Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 14(a)(iv).

(iv) Asia operations

— The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore and Taiwan operations;
— The principal asset classes are government and corporate bonds;
— The asset return models are similar to the models as described for UK insurance operations below; and
— 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; and
— The volatility of equity returns ranges from 18 per cent to 27 per cent for both years, and the standard deviation of interest rates ranges from 2.3 per cent to 2.6 per cent (2015: from 2.2 per cent to 2.5 per cent).

(vi) UK insurance operations

- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields;
- Equity returns are assumed to follow a log-normal distribution;
- The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread;
- Property returns are also modelled on a risk-free return plus a risk premium with a stochastic process reflecting total property returns; and
- The standard deviation of equities and property ranges from 15 per cent to 20 per cent for both years.

Operating assumptions

Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered. For businesses which are currently sub-scale (China, Malaysia Takaful and Taiwan), expense overruns are reported where these are expected to be short-lived.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia regional head office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

- Expenditure for Group head office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, which are charged to the EEV basis results as incurred; and
- Expenditure of the Asia regional head office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate-related activities and are included within corporate expenditure.

Tax rates

The assumed long-term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 14(a)(x).

The local standard corporate tax rates applicable for the most significant operations for 2016 and 2015 are as follows:

Standard corporate tax rates	%
Asia operations:	
Hong Kong	16.5 per cent on 5 per cent of premium income
Indonesia	25.0
Malaysia	2015: 25.0; from 2016: 24.0
Singapore	17.0
US operations	35.0
UK operations*	2015: 20.0; from 2017: 19.0; from 2020: 17.0

* The Finance Bill included a reduction in the UK corporate tax rate from 18 per cent to 17 per cent effective from 1 April 2020. The impact of this reduction on the UK in-force business is shown in note 5(iv)(b).

06 European Embedded Value (EEV) basis results

Notes on the EEV basis results
Continued

16 New business premiums and contributions note (i)

	Single premiums		Regular premiums		Annual premium and contribution equivalents (APE) note 14(a)(ii)		Present value of new business premiums (PVNBP)* note 14(a)(ii)	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Group insurance operations								
Asia†	2,397	1,938	3,359	2,518	3,599	2,712	19,271	14,428
US	15,608	17,286	–	–	1,561	1,729	15,608	17,286
UK‡	9,836	6,955	177	179	1,160	874	10,513	7,561
Group total excluding UK bulk annuities†	27,841	26,179	3,536	2,697	6,320	5,315	45,392	39,275
UK bulk annuities‡	–	1,508	–	–	–	151	–	1,508
Group total†	27,841	27,687	3,536	2,697	6,320	5,466	45,392	40,783
Asia insurance operations								
Cambodia	–	–	14	8	14	8	66	38
Hong Kong	1,140	546	1,798	1,158	1,912	1,213	10,930	7,007
Indonesia	236	230	255	303	279	326	1,048	1,224
Malaysia	110	100	233	201	244	211	1,352	1,208
Philippines	91	146	61	44	70	59	278	287
Singapore	523	454	299	264	351	309	2,627	2,230
Thailand	80	69	81	88	89	95	404	422
Vietnam	6	6	115	82	116	83	519	343
SE Asia operations including Hong Kong	2,186	1,551	2,856	2,148	3,075	2,304	17,224	12,759
China note (ii)	124	308	187	111	199	142	880	739
Taiwan	36	45	146	127	150	131	499	442
India note (iii)	51	34	170	132	175	135	668	488
Total Asia insurance operations†	2,397	1,938	3,359	2,518	3,599	2,712	19,271	14,428
US insurance operations								
Variable annuities	10,653	11,977	–	–	1,065	1,198	10,653	11,977
Elite Access (variable annuity)	2,056	3,144	–	–	206	314	2,056	3,144
Fixed annuities	555	477	–	–	55	48	555	477
Fixed index annuities	508	458	–	–	51	46	508	458
Wholesale	1,836	1,230	–	–	184	123	1,836	1,230
Total US insurance operations	15,608	17,286	–	–	1,561	1,729	15,608	17,286

	Single premiums		Regular premiums		Annual premium and contribution equivalents (APE) note 14(a)(ii)		Present value of new business premiums (PVNBP)* note 14(a)(ii)	
	2016 £m	**2015** £m	**2016** £m	**2015** £m	**2016** £m	**2015** £m	**2016** £m	**2015** £m
UK and Europe insurance operations								
Individual annuities	**546**	565	**–**	–	**55**	57	**546**	565
Bonds	**3,834**	3,327	**–**	–	**384**	333	**3,835**	3,328
Corporate pensions	**110**	175	**121**	135	**132**	152	**479**	600
Individual pensions	**2,532**	1,185	**35**	32	**289**	150	**2,681**	1,295
Income drawdown	**1,649**	1,024	**–**	–	**165**	102	**1,649**	1,024
Other products	**1,165**	679	**21**	12	**135**	80	**1,323**	749
Total retail	**9,836**	6,955	**177**	179	**1,160**	874	**10,513**	7,561
Wholesale	**–**	1,508	**–**	–	**–**	151	**–**	1,508
Total UK and Europe insurance operations	**9,836**	8,463	**177**	179	**1,160**	1,025	**10,513**	9,069
Group total†	**27,841**	27,687	**3,536**	2,697	**6,320**	5,466	**45,392**	40,783
Group total excluding UK bulk annuities†	**27,841**	26,179	**3,536**	2,697	**6,320**	5,315	**45,392**	39,275

* For 2016, the risk discount rates used to calculate PVNBP for UK insurance operations are on a basis that reflects the Solvency II regime effective on 1 January 2016 (see note 2 for details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

† The new business premiums and contributions exclude the results attributable to the held for sale Korea life business (see note 17 for details). The 2015 comparatives have been similarly adjusted.

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

Notes

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement. A reconciliation of APE and gross earned premiums on an IFRS basis is provided in Note II(i) within the unaudited financial information.

(ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

Notes on the EEV basis results
Continued

17 Agreement to sell Korea life business

In November 2016, the Group reached an agreement to sell the life insurance subsidiary in Korea, PCA Life Insurance, to Mirae Asset Life Insurance for KRW 170 billion (£114 million at 31 December 2016 closing exchange rate). Completion of the transaction is subject to regulatory approval.

Consistent with the classification of the business as held for sale for IFRS reporting, the EEV carrying value has been set to £105 million at 31 December 2016, representing the estimated proceeds, net of £9 million of related expenses.

In order to facilitate comparisons of the Group's retained businesses, the EEV basis operating profit excludes the contribution from the Korea life business. The 2015 comparative results have been similarly adjusted. For 2016, the post-tax result for the year of £5 million, including short-term fluctuations in investment returns and the effect of changes in economic assumptions, together with the £(415) million adjustment to the carrying value have given rise to an aggregate loss of £(410) million. The 2015 amount of £39 million represents the previously reported profit after tax for this business.

The tables below show the results of the held for sale Korea life business which were included in the Group's results for half year 2016 and full year 2015.

EEV post-tax results

	Half year 2016 £m	Full year 2015 £m
Operating profit		
New business contribution	3	8
Profit from business in force	3	33
	6	41
Non-operating loss	(17)	(2)
Total profit after tax	(11)	39
Underlying free surplus generated		
New business contribution	(9)	(27)
Profit from business in force	3	34
	(6)	7
Non-operating profit	17	8
Total free surplus generated	11	15

New business premiums and contributions

	Single premiums £m	Regular premiums £m	Annual premium and contribution equivalents (APE) £m	Present value of new business premiums (PVNBP) £m
Half year 2016	42	46	50	276
Full year 2015	182	123	141	780

Statement of directors' responsibilities in respect of the European Embedded Value (EEV) basis supplementary information

The directors have chosen to prepare supplementary information in accordance with the European Embedded Value Principles dated April 2016 by the European Insurance CFO Forum (the EEV Principles) using the methodology and assumptions set out in the Notes on the EEV basis results.

When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV guidance included in the EEV Principles.

In preparing the EEV supplementary information, the directors have:

- Prepared the supplementary information in accordance with the EEV Principles;
- Identified and described the business covered by the EVM;
- Applied the EVM consistently to the covered business;
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently;
- Made estimates that are reasonable and consistent; and
- Described the basis on which business that is not covered business has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's financial statements.

Independent auditor's report to Prudential plc on the European Embedded Value (EEV) basis supplementary information

Opinions and conclusions arising from our audit

Our opinion on the EEV basis supplementary information is unmodified

We have audited the EEV basis supplementary information of Prudential plc (the Company) for the year ended 31 December 2016 set out in the EEV basis results and Notes on the EEV basis results pages. The EEV basis supplementary information should be read in conjunction with the Group financial statements.

In our opinion, the EEV basis supplementary information of the Company for the year ended 31 December 2016 has been properly prepared, in all material respects, in accordance with the European Embedded Value Principles dated April 2016 by the European Insurance CFO Forum (the EEV Principles) using the methodology and assumptions set out in the Notes on the EEV basis results.

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 361, the Directors have accepted responsibility for the preparation of the supplementary information on the EEV basis in accordance with the EEV Principles.

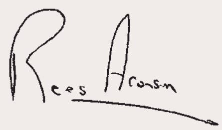
Our responsibility is to audit, and express an opinion on, the supplementary information in accordance with the terms of our engagement and in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on our website at www.kpmg.com/uk/auditscopeukco2014a. This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The purpose of this report and restrictions on its use by persons other than the Company

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.



Rees Aronson

for and on behalf of KPMG LLP
Chartered Accountants
London

13 March 2017

07

Additional information

Index to the additional unaudited financial information

I IFRS profit and loss information

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

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

— Spread income represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
— Fee income represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.
— With-profits business represents the gross of tax shareholders' transfer from the with-profits fund for the year.
— Insurance margin primarily represents profits derived from the insurance risks of mortality and morbidity.
— Margin on revenues primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.
— Acquisition costs and administration expenses represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance, as well as items that are more appropriately included in other sources of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
— DAC adjustments comprise DAC amortisation for the year, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

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

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

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

See notes at the end of this section.

I IFRS profit and loss information continued

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

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

See notes at the end of this section.

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

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

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

See notes at the end of this section.

Analysis of Asia operating profit drivers:

- Spread income increased on a constant exchange rate basis by 17 per cent to £192 million in 2016 (AER: 29 per cent), predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
- Fee income increased by 2 per cent on a constant exchange rate basis to £174 million in 2016 (AER: 13 per cent), broadly in line with the increase in movement in average unit-linked liabilities.
- Insurance margin increased on a constant exchange rate basis by 24 per cent to £1,040 million in 2016 (AER: 38 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. Insurance margin includes non-recurring items of £49 million (2015: £17 million on CER basis; £15 million on AER basis).
- Margin on revenues increased by £98 million on a constant exchange rate basis from £1,821 million to £1,919 million in 2016, primarily reflecting higher regular premium income recognised in the year.
- Acquisition costs increased on a constant exchange rate basis by 8 per cent to £1,285 million in 2016, (AER: 19 per cent) compared to the 19 per cent increase in APE sales (AER: 33 per cent increase), resulting in a decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE sales. If with-profits APE sales were excluded from the denominator the acquisition cost ratio would become 70 per cent, which is broadly in line with the 69 per cent on a constant exchange rate basis in 2015.
- Administration expenses increased on a constant exchange rate basis by 13 per cent to £832 million in 2016 (AER: 24 per cent) as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has increased from 279 basis points in 2015 to 287 basis points in 2016, the result of changes in country and product mix.

I IFRS profit and loss information continued

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

Margin analysis of long-term insurance business – US

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

See notes at the end of this section.

Analysis of US operating profit drivers:

— Spread income declined on a constant exchange rate basis by 5 per cent to £802 million in 2016 (AER increased by 8 per cent). The reported spread margin decreased to 217 basis points from 241 basis points in 2015, primarily due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 153 basis points (2015 CER: 167 basis points and AER: 166 basis points).

— Fee income increased on a constant exchange rate basis by 3 per cent to £1,942 million in 2016 (AER: 16 per cent), primarily due to positive net inflows from variable annuity business and fund appreciation during the second half of the year. Fee income margin has remained broadly in line with the prior year at 190 basis points (2015 CER and AER: 192 basis points).

— Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin of £888 million in 2016 was broadly in line with last year on a constant exchange rate basis, with higher income from the variable annuity guarantees offset by a decline in the contribution from the closed books of acquired business.

— Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 17 per cent at a constant exchange rate basis, largely due to lower sales in 2016.

— Administration expenses increased to £959 million in 2016 compared to £934 million for 2015 at constant exchange rates (AER £828 million), primarily as a result of higher asset-based commissions . These are paid on policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be 34 basis points (2015 CER and AER: 36 basis points).

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

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

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

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

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

a) Spread business is the net operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.

b) Fee business represents profits from variable annuity products. As well as fee income, revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.

c) Life and other business includes the profits from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs. Insurance margin forms the vast majority of revenue.

I IFRS profit and loss information continued

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

Margin analysis of long-term insurance business – UK

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

See notes at the end of this section.

Analysis of UK operating profit drivers:

- Spread income reduced from £258 million in 2015 to £177 million in 2016, mainly due to lower annuity sales. Spread income has two components:
  - A contribution from new annuity business which was lower at £41 million in 2016 compared to £123 million in 2015, as we withdrew our participation from this business. IFRS accounting (based on grandfathered GAAP) permits up front recognition of a considerable proportion of the spread to be earned over the entire term of the new contracts.
  - A contribution from in-force annuity and other business, which was broadly in line with last year at £136 million (2015: £135 million), equivalent to 42 basis points of average reserves (2015: 43 basis points).
- Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arises within our UK asset management business. Excluding these schemes, the fee margin on the remaining balances was 40 basis points (2015: 43 basis points).
- The lower 2016 insurance margin mainly reflects the more positive experience variance seen in 2015 compared to 2016, together with the fall in annual mortality profits following the extension of our longevity reinsurance programme in 2015 and 2016.
- Margin on revenues represents premium charges for expenses and other sundry net income received by the UK.
- Acquisition costs incurred were broadly consistent with 2015 at £89 million, equivalent to 8 per cent of total APE sales in 2016 (2015: 8 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. The year on year comparison of the ratio is therefore impacted by the level of with-profits business (where acquisition costs are funded by the estate) in the year and the contribution from the bulk annuities transactions in the prior year. Acquisition costs expressed as a percentage of shareholder-backed APE sales (excluding the bulk annuity transactions) were 37 per cent (2015: 36 per cent).
- The contribution from longevity reinsurance and other management actions to improve solvency during 2016 was £332 million (2015: £400 million). Further explanation and analysis is provided in Additional Unaudited IFRS Financial Information section I(d).
- The 2016 provision for the cost of undertaking a review of past non-advised annuity sales and potential redress of £175 million is explained in note C11, 'Provisions'.

Notes to sources of earnings tables

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

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

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

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

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

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

I IFRS profit and loss information continued

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

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

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

Notes

(i) Analysis of operating profit between new and in-force business.
The result for insurance operations comprises amounts in respect of new business and business in force as follows:

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

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

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

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

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

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

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

	2015 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	939	304	118	321	1,682
Performance-related fees	22	3	–	–	25
Operating income (net of commission) note (i)	961	307	118	321	1,707
Operating 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%			

Notes

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

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

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

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

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

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

‡ Institutional includes internal funds.

I IFRS profit and loss information continued

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

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

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

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

IFRS operating profit of UK long-term business

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

Underlying free surplus generation of UK long-term business*

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

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

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

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

II Other information

II(a) Holding company cash flow*

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

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

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

II Other information continued

II(b) Funds under management

(a) Summary

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

Notes

(i) Prudential Group funds under management comprise:

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

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

(b) Investment products – external funds under management

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

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

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

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

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

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

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

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

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

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

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

— Matching adjustment for UK annuities and volatility adjustment for US dollar denominated Hong Kong with-profits business, based on approvals from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority; and

— UK transitional measures, which have been recalculated at the valuation date, reducing the estimated Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.

The Group shareholder Solvency II capital position excludes:

— A portion of Solvency II surplus capital (£1.4 billion at 31 December 2016) relating to the Group's Asian life operations, including due to 'contract boundaries';

— The contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds in surplus (representing £3.7 billion of surplus capital from UK with-profits funds at 31 December 2016) and from the shareholders' share of the estate of with-profits funds; and

— The contribution to Own Funds and the Solvency Capital Requirement from pension funds in surplus.

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

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

II Other information continued

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

Analysis of movement in Group capital position

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

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

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

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

Analysis of Group Solvency Capital Requirements

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

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

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

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

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

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

Sensitivity analysis

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

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

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

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

II Other information continued

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

UK Solvency II capital position[1,2]

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

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

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

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

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

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

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

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

Annual regulatory reporting

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

Statement of independent review

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

Notes
1 The UK shareholder capital position represents the consolidated capital position of the shareholder funds of The Prudential Assurance Company Ltd (PAC) and all its subsidiaries.
2 The UK with-profits capital position includes the PAC with-profits sub-fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund.

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus

The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (less than 3 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2016 results.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2016, the tables also present the expected future free surplus to be generated from the investment made in new business during 2016 over the same 40-year period.

(i) Expected transfer of value of in-force business (VIF) and required capital to free surplus

	2016 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from new business written*			
Expected period of emergence	Asia†	US	UK	Total	Asia†	US	UK	Total
2017	1,320	1,446	675	3,441	188	270	27	485
2018	1,247	1,279	669	3,195	157	116	29	302
2019	1,202	1,273	636	3,111	170	123	29	322
2020	1,167	1,281	622	3,070	158	136	31	325
2021	1,142	1,282	606	3,030	170	151	33	354
2022	1,122	1,152	591	2,865	148	84	30	262
2023	1,122	1,116	576	2,814	159	79	29	267
2024	1,098	1,067	557	2,722	154	165	29	348
2025	1,076	914	534	2,524	148	144	28	320
2026	1,050	865	508	2,423	160	159	27	346
2027	1,001	708	486	2,195	137	110	24	271
2028	991	597	451	2,039	142	100	23	265
2029	958	547	434	1,939	135	82	22	239
2030	940	424	409	1,773	132	72	21	225
2031	921	351	381	1,653	146	70	20	236
2032	879	321	490	1,690	130	53	18	201
2033	859	215	465	1,539	130	36	18	184
2034	834	162	438	1,434	127	35	17	179
2035	821	153	413	1,387	123	31	16	170
2036	805	118	392	1,315	130	30	15	175
2037-2041	3,905	699	1,542	6,146	621	55	65	741
2042-2046	3,564	–	1,053	4,617	607	–	66	673
2047-2051	3,257	–	554	3,811	593	–	14	607
2052-2056	2,999	–	301	3,300	585	–	8	593
Total free surplus expected to emerge in the next 40 years	34,280	15,970	13,783	64,033	5,350	2,101	639	8,090

* The analysis excludes amounts incorporated into VIF at 31 December 2016 where there is no definitive timeframe for when the payments will be made or receipts received. In particular, it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2056.
† Asia operations exclude the cash flows in respect of the held for sale Korea life business.

The above amounts can be reconciled to the new business amounts as follows:

	2016 £m			
	Asia	US	UK	Total
Undiscounted expected free surplus generation for years 2017 to 2056	5,350	2,101	639	8,090
Less: discount effect	(2,968)	(746)	(259)	(3,973)
Discounted expected free surplus generation for years 2017 to 2056	2,382	1,355	380	4,117
Discounted expected free surplus generation for years 2056+	292	–	1	293
Less: Free surplus investment in new business	(476)	(298)	(129)	(903)
Other items‡	(168)	(267)	16	(419)
Post-tax EEV new business profit	2,030	790	268	3,088

‡ Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

II Other information continued

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

The undiscounted expected free surplus generation from all in-force business at 31 December 2016 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2015 as follows:

Group	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055:								
As previously published	**2,621**	2,463	2,383	2,378	2,388	2,369	36,173	50,775
Effect of Solvency II implementation†	**46**	55	49	45	43	48	1,350	1,636
	2,667	2,518	2,432	2,423	2,431	2,417	37,523	52,411
Less: Amounts expected to be realised in the current year	**(2,667)**	–	–	–	–	–	–	(2,667)
Less: Contribution from the held for sale Korea life business‡	**–**	(40)	(40)	(37)	(35)	(33)	(537)	(722)
Add: Expected free surplus to be generated in year 2056*	**–**	–	–	–	–	–	394	394
Foreign exchange differences	**–**	370	355	350	354	346	5,023	6,798
New business	**–**	485	302	322	326	354	6,304	8,093
Operating movements	**–**	11	18	(16)	5	(36)		
Non-operating and other movements	**–**	97	128	69	(11)	(18)	(521)	(274)
2016 expected free surplus generation for years 2017 to 2056	**–**	3,441	3,195	3,111	3,070	3,030	48,186	64,033

Asia	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055	**1,015**	962	926	905	871	889	20,640	26,208
Less: Amounts expected to be realised in the current year	**(1,015)**	–	–	–	–	–	–	(1,015)
Less: Contribution from the held for sale Korea life business‡	**–**	(40)	(40)	(37)	(35)	(33)	(537)	(722)
Add: Expected free surplus to be generated in year 2056*	**–**	–	–	–	–	–	358	358
Foreign exchange differences	**–**	179	172	163	158	157	3,737	4,566
New business	**–**	188	157	170	158	170	4,507	5,350
Operating movements	**–**	33	34	8	24	(23)		
Non-operating and other movements	**–**	(2)	(2)	(7)	(9)	(18)	(503)	(465)
2016 expected free surplus generation for years 2017 to 2056	**–**	1,320	1,247	1,202	1,167	1,142	28,202	34,280

US	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055:	**1,120**	991	951	970	1,018	982	6,665	12,697
Less: Amounts expected to be realised in the current year	**(1,120)**	–	–	–	–	–	–	(1,120)
Foreign exchange differences	**–**	191	183	187	196	189	1,286	2,232
New business	**–**	270	116	123	136	151	1,305	2,101
Operating movements	**–**	(5)	(5)	(15)	(15)	(7)		
Non-operating and other movements	**–**	(1)	34	8	(54)	(33)	153	60
2016 expected free surplus generation for years 2017 to 2056	**–**	1,446	1,279	1,273	1,281	1,282	9,409	15,970

UK	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055								
As previously published	**486**	510	506	503	499	498	8,868	11,870
Effect of Solvency II implementation†	**46**	55	49	45	43	48	1,350	1,636
	532	565	555	548	542	546	10,218	13,506
Less: Amounts expected to be realised in the current year	**(532)**	–	–	–	–	–	–	(532)
Add: Expected free surplus to be generated in year 2056*	–	–	–	–	–	–	36	36
New business	–	27	29	29	31	33	490	639
Operating movements	–	(17)	(11)	(9)	(4)	(6)		
Non-operating and other movements	–	100	96	68	53	33	(169)	134
2016 expected free surplus generation for years 2017 to 2056	–	675	669	636	622	606	10,575	13,783

* Excluding 2016 new business.
† In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).
‡ The contribution from the Korea life business has been removed from expected free surplus generation following its reclassification as held for sale.

At 31 December 2016, the total free surplus expected to be generated over the next five years (2017 to 2021 inclusive), using the same assumptions and methodology as those underpinning our 2016 embedded value reporting was £15.8 billion, an increase of £3.3 billion from the £12.5 billion expected over an equivalent period from the end of 2015, after allowing for the effect of the implementation of Solvency II on the opening balance sheet.

This increase primarily reflects the new business written in 2016, which is expected to generate £1,788 million of free surplus over the next five years.

At 31 December 2016, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £64.0 billion, up from the £52.4 billion expected at the end of 2015, after allowing for the effect of the implementation of Solvency II on the opening balance sheet, reflecting the effect of new business written across all three business operations of £8.1 billion and a positive foreign exchange translation effect of £6.8 billion. These positive effects have been offset by the negative impact of £(0.7) billion for the removal of the contribution from the Korea life business following its reclassification as held for sale and a £(0.3) billion net effect reflecting operating, market assumption changes and other items. In Asia, these include the negative impact from movements in long-term interest rates and other regular operating assumption changes. In the US, these mainly reflect the positive effect of higher future separate account growth due to the increase in interest rates and the impact of an increase in equity market returns in 2016, partially offset by the negative effect from the acceleration of free surplus from the contingent financing of specific US statutory reserves. In the UK, these mainly arise from the positive effect of higher than assumed investment returns on with-profits funds, partially offset by the negative effect of longevity reinsurance transactions entered into during the year. The longevity reinsurance transactions executed this year had the effect of accelerating the generation of future free surplus into 2016. The overall growth in the Group's undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2016 from life business in-force at the end of 2016 was £4.0 billion including £0.8 billion of changes in operating assumptions and experience variances. This compares with the expected 2016 realisation at the end of 2015 of £2.7 billion. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2016	1,157	1,223	680	3,060
Expected return on free assets	39	47	13	99
Changes in operating assumptions and experience variances	14	596	214	824
Underlying free surplus generated from in-force life business in 2016	**1,210**	**1,866**	**907**	**3,983**
2016 free surplus expected to be generated at 31 December 2015	1,015	1,120	532	2,667

II Other information continued

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

	2016 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2015 new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2017	1,262	1,371	659	3,292	180	261	26	467
2018	1,113	1,141	628	2,882	137	105	27	269
2019	1,007	1,069	572	2,648	141	105	27	273
2020	916	1,009	535	2,460	124	108	28	260
2021	843	952	496	2,291	127	116	28	271
2022	769	803	458	2,030	104	60	25	189
2023	724	734	423	1,881	107	52	23	182
2024	664	658	387	1,709	99	101	21	221
2025	612	531	349	1,492	89	83	19	191
2026	562	477	314	1,353	91	90	17	198
2027	508	365	282	1,155	73	56	15	144
2028	476	292	245	1,013	72	48	14	134
2029	436	251	222	909	65	36	12	113
2030	408	185	197	790	60	30	11	101
2031	381	147	173	701	63	28	10	101
2032	346	131	218	695	55	19	9	83
2033	322	80	197	599	52	12	8	72
2034	299	61	178	538	49	11	7	67
2035	282	57	160	499	46	9	6	61
2036	266	43	148	457	47	8	6	61
2037-2041	1,154	199	515	1,868	203	17	24	244
2042-2046	853	–	197	1,050	163	–	12	175
2047-2051	638	–	129	767	131	–	3	134
2052-2056	473	–	58	531	104	–	2	106
Total discounted free surplus expected to emerge in the next 40 years	15,314	10,556	7,740	33,610	2,382	1,355	380	4,117

The above amounts can be reconciled to the Group's financial statements as follows:

	2016 £m
Discounted expected generation from all in-force business for years 2017 to 2056	33,610
Discounted expected generation from all in-force business for years after 2056	1,115
Discounted expected generation from all in-force business at 31 December 2016	34,725
Add: Free surplus of life operations held at 31 December 2016	5,351
Less: Time value of guarantees	(998)
Expected free surplus generation from the sale of Korea life business	76
Other non-modelled items	1,430
Total EEV for life operations	40,584

(ii) Expected emergence of risk margin release and amortisation of transitional

The 31 December 2016 Solvency II own funds included £2.5 billion of transitional relief (recalculated at the valuation date), the majority of which relates to UK annuity business in force on 1 January 2016, established to substantially mitigate the impact of recognising the related risk margin on transition to Solvency II. The following table sets out the expected UK annuity business risk margin release net of the related transitional amortisation over the next 15 years.

	2016 £m			
	Undiscounted expected generation from all in-force business at 31 December			
	Shareholder-backed annuity business			
Expected period of emergence	**Risk margin release**	**Amortisation of transitional**	**Other***	**Total UK**
2017	163	(116)	628	675
2018	153	(116)	632	669
2019	143	(116)	609	636
2020	141	(116)	597	622
2021	136	(116)	586	606
2022	134	(116)	573	591
2023	132	(116)	560	576
2024	127	(116)	546	557
2025	122	(116)	528	534
2026	117	(116)	507	508
2027	114	(116)	488	486
2028	104	(116)	463	451
2029	102	(116)	448	434
2030	97	(116)	428	409
2031	91	(116)	406	381
UK free surplus expected to emerge by 2031	1,876	(1,740)	7,999	8,135
Total UK free surplus expected to emerge from 2032 to 2056				5,648
Total UK free surplus expected to emerge in the next 40 years (note B(i))				13,783

* Including other UK business lines and other cash flows from annuity business.

The UK annuity risk margin release and related transitional amortisation, together with associated tax reconcile to the amounts shown in the Group Solvency II balance sheet (note II(c) of the IFRS additional unaudited financial information) as follows:

	Risk margin release £bn	**Amortisation of transitional** £bn
Annuity in-force business:		
– Risk margin release less amortisation of transitional expected to emerge by 2031	1.9	(1.7)
– Risk margin release expected to emerge after 2031 and gross up for tax	1.1	(0.4)
	3.0	(2.1)
Risk margin release and transitional for other business operations (pre-tax)	2.9	(0.4)
Total (pre-tax)	**5.9**	**(2.5)**

07 Additional information

II Other information continued

II(e) Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV metrics analysis by contribution by currency group:

Free surplus and IFRS 2016 results

	Underlying free surplus generated for total insurance and asset management operations note (2) %	Pre-tax operating profit notes (2),(3),(4) %	Shareholders' funds notes (2),(3),(4) %
US$ linked note (1)	15	21	19
Other Asia currencies	9	17	17
Total Asia	24	38	36
UK£ sterling notes (3),(4)	32	14	51
US$ note (4)	44	48	13
Total	100	100	100

EEV 2016 results

	Post-tax new business profits %	Post-tax operating profit notes (2),(3),(4) %	Shareholders' funds notes (2),(3),(4) %
US$ linked note (1)	55	46	36
Other Asia currencies	10	12	13
Total Asia	65	58	49
UK£ sterling notes (3),(4)	9	6	29
US$ note (4)	26	36	22
Total	100	100	100

Notes

(1) US$ linked comprising the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.
(2) Includes long-term, asset management business and other businesses.
(3) For operating profit and shareholders' funds, UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.
(4) For shareholders' funds, the US$ grouping includes US$ denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

II(f) Option schemes

The Group presently grants share options through four schemes, and exercises of the options are satisfied by the issue of new shares. Executive directors and eligible employees based in the UK may participate in the UK savings-related share option scheme. Executives and eligible employees based in Asia as well as eligible employees based in Europe can participate in the international savings-related share option scheme, while agents based in certain regions of Asia can participate in the international savings-related share option scheme for non-employees. Employees based in Dublin are eligible to participate in the Prudential International Assurance sharesave plan, which currently has no outstanding options in issue. Further details of the schemes and accounting policies are detailed in Note B3.2 of the IFRS basis consolidated financial statements.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

— UK savings-related share option scheme: 16 May 2023;
— International savings-related share option scheme: 31 May 2021;
— Prudential International Assurance sharesave plan: 3 August 2019; and
— International savings-related share option scheme for non-employees 2012: 17 May 2022.

The weighted average share price of Prudential plc for the year ended 31 December 2016 was £13.56 (2015: £15.49).
Particulars of options granted to directors are included in the Directors' remuneration report on page 109.
The closing price of the shares immediately before the date on which the options were granted during the year was £13.71.
The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2016.

UK savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
25 Sep 08	4.38	01 Dec 15	31 May 16	3,071	–	(3,071)	–	–	–	–
27 Apr 09	2.88	01 Jun 16	30 Nov 16	154,981	–	(154,948)	–	–	(33)	–
28 Sep 10	4.61	01 Dec 15	31 May 16	45,959	–	(45,290)	–	–	(669)	–
16 Sep 11	4.66	01 Dec 16	31 May 17	160,392	–	(115,689)	(653)	(6,536)	(1,508)	36,006
21 Sep 12	6.29	01 Dec 15	31 May 16	215,520	–	(211,172)	–	(2,862)	(1,486)	–
21 Sep 12	6.29	01 Dec 17	31 May 18	127,520	–	(3,426)	–	(3,101)	(1,107)	119,886
20 Sep 13	9.01	01 Dec 16	31 May 17	324,479	–	(230,295)	(9,992)	(6,050)	(4,330)	73,812
20 Sep 13	9.01	01 Dec 18	31 May 19	70,590	–	(749)	–	(332)	749	70,258
23 Sep 14	11.55	01 Dec 17	31 May 18	870,308	–	(14,177)	(53,204)	(22,430)	(21,409)	759,088
23 Sep 14	11.55	01 Dec 19	31 May 20	440,551	–	(6,485)	(17,566)	(7,997)	(17,742)	390,761
22 Sep 15	11.11	01 Dec 18	31 May 19	1,039,759	–	(3,801)	(74,163)	(14,618)	(13,936)	933,241
22 Sep 15	11.11	01 Dec 20	31 May 21	234,607	–	(585)	(2,970)	(4,590)	(2,655)	223,807
21 Sep 16	11.04	01 Dec 19	31 May 20	–	728,729	–	(9,582)	–	–	719,147
21 Sep 16	11.04	01 Dec 21	31 May 22	–	166,084	–	(1,358)	(298)	–	164,428
				3,687,737	894,813	(789,688)	(169,488)	(68,814)	(64,126)	3,490,434

The total number of securities available for issue under the scheme is 3,490,434 which represents 0.135 per cent of the issued share capital at 31 December 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £14.40.

The weighted average fair value of options granted under the plan in the period was £3.02.

07 Additional information

II Other information continued

International savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
16 Sep 11	4.66	01 Dec 16	31 May 17	17,617	–	–	–	–	(16,895)	722
21 Sep 12	6.29	01 Dec 15	31 May 16	249,429	–	(224,996)	–	–	(21,708)	2,725
21 Sep 12	6.29	01 Dec 17	31 May 18	14,501	–	–	–	–	–	14,501
20 Sep 13	9.01	01 Dec 16	31 May 17	571,967	–	(395,294)	(32,330)	(3,907)	(8,756)	131,680
20 Sep 13	9.01	01 Dec 18	31 May 19	47,004	–	–	(3,328)	–	–	43,676
23 Sep 14	11.55	01 Dec 17	31 May 18	8,643	–	–	(934)	–	–	7,709
23 Sep 14	11.55	01 Dec 19	31 May 20	4,464	–	–	–	–	–	4,464
22 Sep 15	11.11	01 Dec 18	31 May 19	24,284	–	–	(469)	–	(259)	23,556
22 Sep 15	11.11	01 Dec 20	31 May 21	3,240	–	–	–	–	–	3,240
21 Sep 16	11.04	01 Dec 19	31 May 20	–	15,516	–	–	–	–	15,516
				941,149	15,516	(620,290)	(37,061)	(3,907)	(47,618)	247,789

The total number of securities available for issue under the scheme is 247,789 which represents 0.010 per cent of the issued share capital at 31 December 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £14.80.

The weighted average fair value of options granted under the plan in the period was £2.96.

Prudential International Assurance sharesave plan

There are no securities available for issue under the scheme at 31 December 2016.

Non-employee savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
28 Sep 10	4.61	01 Dec 15	31 May 16	341,948	–	(25,357)	(316,591)	–	–	–
16 Sep 11	4.66	01 Dec 16	31 May 17	243,641	–	(30,064)	(183,641)	–	–	29,936
21 Sep 12	6.29	01 Dec 15	31 May 16	273,565	–	(148,635)	(124,930)	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	82,872	–	–	(54,871)	–	–	28,001
20 Sep 13	9.01	01 Dec 16	31 May 17	755,540	–	(397,020)	(2,275)	(5,488)	(4,436)	346,321
20 Sep 13	9.01	01 Dec 18	31 May 19	419,452	–	–	–	–	(12,602)	406,850
23 Sep 14	11.55	01 Dec 17	31 May 18	615,326	–	(389)	(2,700)	–	(15,802)	596,435
23 Sep 14	11.55	01 Dec 19	31 May 20	512,917	–	–	–	–	(10,124)	502,793
22 Sep 15	11.11	01 Dec 18	31 May 19	499,276	–	–	(3,078)	–	(15,373)	480,825
22 Sep 15	11.11	01 Dec 20	31 May 21	422,194	–	–	(779)	–	(15,421)	405,994
21 Sep 16	11.04	01 Dec 19	31 May 20	–	334,813	–	(537)	–	–	334,276
21 Sep 16	11.04	01 Dec 21	31 May 22	–	200,588	–	(1,358)	–	–	199,230
				4,166,731	535,401	(601,465)	(690,760)	(5,488)	(73,758)	3,330,661

The total number of securities available for issue under the scheme is 3,330,661 which represents 0.129 per cent of the issued share capital at 31 December 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £15.01.

The weighted average fair value of options granted under the plan in the period was £3.09.

II(g) Selected historical financial information of Prudential

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) and European Embedded Value (EEV).

This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document.

Income statement data

	Year ended 31 December				
	2016 £m	**2015** £m	**2014** £m	**2013** £m	**2012** £m
IFRS basis results					
Gross premium earned	**38,981**	36,663	32,832	30,502	29,113
Outward reinsurance premiums	**(2,020)**	(1,157)	(799)	(658)	(491)
Earned premiums, net of reinsurance	**36,961**	35,506	32,033	29,844	28,622
Investment return	**32,511**	3,304	25,787	20,347	23,931
Other income	**2,370**	2,495	2,306	2,184	1,885
Total revenue, net of reinsurance	**71,842**	41,305	60,126	52,375	54,438
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(59,366)**	(29,656)	(50,169)	(43,154)	(45,144)
Acquisition costs and other expenditure	**(8,848)**	(8,208)	(6,752)	(6,861)	(6,032)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(360)**	(312)	(341)	(305)	(280)
Remeasurement of carrying value of Korea life business classified as held for sale	**(238)**	–	–	–	
Disposal of Japan life business:					
Cumulative exchange loss recycled from other comprehensive income	**–**	(46)	–	–	–
Remeasurement adjustments	**–**	–	(13)	(120)	–
Total charges, net of reinsurance	**(68,812)**	(38,222)	(57,275)	(50,440)	(51,456)
Share of profits from joint ventures and associates, net of related tax	**182**	238	303	147	135
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*[note 1]	**3,212**	3,321	3,154	2,082	3,117
Tax charges attributable to policyholders' returns	**(937)**	(173)	(540)	(447)	(370)
Profit before tax attributable to shareholders	**2,275**	3,148	2,614	1,635	2,747
Tax credit (charge) attributable to shareholders' returns	**(354)**	(569)	(398)	(289)	(584)
Profit for the year	**1,921**	2,579	2,216	1,346	2,163

	2016	**2015**	**2014**	**2013**	**2012**
Based on profit for the year attributable to the equity holders of the Company:					
Basic earnings per share (in pence)	**75.0p**	101.0p	86.9p	52.8p	85.1p
Diluted earnings per share (in pence)	**75.0p**	100.9p	86.8p	52.7p	85.0p
Dividend per share declared and paid in reporting period (in pence)	**49.40p**	38.05p	35.03p	30.52p	25.64p
Interim ordinary dividend/final ordinary dividend	**39.40p**	38.05p	35.03p	30.52p	25.64p
Special dividend	**10.00p**				

Supplementary IFRS income statement data

	Year ended 31 December £m				
	2016	**2015**	**2014**	**2013**	**2012**
Operating profit based on longer-term investment returns[note 2]	**4,256**	3,969	3,154	2,937	2,504
Non-operating items	**(1,981)**	(821)	(540)	(1,302)	243
Profit before tax attributable to shareholders	**2,275**	3,148	2,614	1,635	2,747
Operating earnings per share (in pence)	**131.3p**	124.6p	95.7p	90.4p	76.4p

II Other information continued

Supplementary EEV income statement data (post-tax)

	Year ended 31 December £m				
	2016	2015	2014	2013	2012
Operating profit based on longer-term investment returns[note 2]	5,497	4,840	4,108	4,224	3,161
Non-operating items	(981)	(889)	235	134	608
Profit attributable to shareholders	4,516	3,951	4,343	4,358	3,769
Operating earnings per share (in pence)	214.7p	189.6p	161.2p	165.8p	124.4p

New business data

	Year ended 31 December £m				
	2016	2015	2014*	2013	2012
Annual premium equivalent (APE) sales	6,320	5,466	4,514	4,310	4,100
EEV new business profit (NBP) (post-tax)	3,088	2,609	2,104	2,057	1,766
NBP margin (% APE)	49%	48%	47%	48%	43%

* Excluding the £23 million APE and £11 million NBP for the sold PruHealth and PruProtect businesses.

Statement of financial position data

	£m				
As of and for the year ended 31 December	2016	2015	2014	2013	2012
Total assets	470,498	386,985	369,204	325,932	307,644
Total policyholder liabilities and unallocated surplus of with-profits funds	403,313	335,614	321,989	286,014	268,263
Core structural borrowings of shareholder-financed operations	6,798	5,011	4,304	4,636	3,554
Total liabilities	455,831	374,029	357,392	316,281	297,280
Total equity	14,667	12,956	11,812	9,651	10,364

Other data

	£bn				
As of and for the year ended 31 December	2016	2015	2014	2013	2012
Funds under management[note 3]	599	509	496	443	406
EEV shareholders' equity, excluding non-controlling interests	39.0	32.4	29.2	24.9	22.4
Group shareholder Solvency II surplus[note 4]	12.5	9.7	n/a	n/a	n/a
Insurance Groups Directive capital surplus before final dividend	n/a	5.5	4.7	5.1	5.1

Notes

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

2 Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on dilution of Group's holdings, the costs arising from the domestication of the Hong Kong business, profit (loss) attaching to the sale of Japan life and profit (loss) attaching to the held for sale Korea life business. Separately on the IFRS basis, operating profit also excludes amortisation of acquisition accounting adjustments. In addition, for EEV basis results, operating profit excludes the effect of changes in economic assumptions, the market value movement on core borrowings and in 2012, the gain arising on the acquisition of REALIC.

3 Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

4 The 2016 surplus is estimated.

II(h) Reconciliation between IFRS and EEV shareholders' funds

The table below shows the reconciliation of EEV shareholders' funds and IFRS shareholders' funds at the end of the year:

	31 Dec 2016 £m	31 Dec 2015 £m
EEV shareholders' funds	**38,968**	32,359
Less: Value of in-force business of long-term business[note (a)]	**(24,937)**	(22,431)
Deferred acquisition costs assigned zero value for EEV purposes	**9,170**	7,010
Other[notes (b),(c)]	**(8,535)**	(3,983)
IFRS shareholders' funds	**14,666**	12,955

Notes

(a) The EEV shareholders' funds comprises the present value of the shareholders' interest in the value of in-force business, net worth of long-term business operations and IFRS shareholders' funds of asset management and other operations. The value of in-force business reflects the present value of future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Net worth represents the net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

(b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value net worth for long-term insurance operations. It also includes the mark to market of the Group's core borrowings which are fair valued under EEV but not IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson where IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset) whereas the local regulatory basis used for EEV is based on future cash flows due to the policyholder on a prudent basis with consideration of an expense allowance as applicable, but with no separate deferred acquisition cost asset.

(c) The 2016 EEV results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The 2015 EEV results for UK insurance operations were prepared on a basis reflecting the Solvency I regime. As noted in (b) above, 'other adjustments' represent asset and liability valuation differences between IFRS and the local regulatory basis used to value net worth for long-term insurance operations. At 31 December 2016 for the UK this would be the difference between IFRS and Solvency II, and at 31 December 2015 the difference between IFRS and Solvency I.

II(i) Reconciliation of APE new business sales to earned premiums

The Group reports annual premium equivalent (APE) new business sales as a measure of the new policies sold in the period. This differs from the IFRS measure of premiums earned as shown below:

	2016 £m	2015 £m
Annual premium equivalents (APE) as published	**6,320**	5,466
Adjustment to include 100% of single premiums on new business sold in the period[note (a)]	**25,057**	24,918
Contribution from the held for sale Korea life business	**192**	305
Premiums from in-force business and other adjustments[note (b)]	**7,412**	5,974
Gross premiums earned	**38,981**	36,663
Outward reinsurance premiums	**(2,020)**	(1,157)
Earned premiums, net of reinsurance as shown in the IFRS financial statements	**36,961**	35,506

Notes

(a) APE new business sales only include one-tenth of single premiums, recorded on policies sold in the period. Gross premiums earned include 100 per cent of such premiums.

(b) Other adjustments principally include amounts in respect of the following:
- Gross premiums earned includes premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
- APE includes new policies written in the period which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in the UK for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
- For the purpose of reporting APE new business sales, we include the Group's share of amounts sold by the Group's insurance joint ventures. Under IFRS, joint ventures are equity accounted and so no amounts are included within gross premiums earned.

Risk factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-looking statements'.

Prudential's approaches to managing risks are explained in the 'Group Chief Risk Officer's report on the risks facing our business and how these are managed' section of this document.

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Prudential operates against a challenging background of periods of significant volatility in global capital and equity markets and interest rates (which in some jurisdictions have become negative), together with widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors could have a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

- Investment impairments and/or reduced investment returns, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;
- Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;
- Failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;
- Estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and
- Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. For example, this could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over: the change in accommodative monetary policies in the US, the UK and other jurisdictions with the risk of a disorderly repricing of inflation expectations and global bond yields, sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty and potentially negative socio-political events.

On 23 June 2016, the UK held a referendum in which a majority of the voting population voted in favour of the UK leaving the European Union (EU). The UK is expected to submit a formal notification of its intention to withdraw from the EU by the end of March 2017. Once this notification has been submitted, the UK will have a period of a maximum two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached between the UK and the EU, then it is expected the UK's membership of the EU will automatically terminate two years after the submission of the notification of the UK's intention to withdraw from the EU. The vote in favour of the UK leaving the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market is currently unknown. The ongoing uncertainty of when the UK will leave the EU, whether any form of transitional arrangements will be agreed between the UK and the EU, and the possibility of a lengthy period before negotiations are concluded may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

More generally, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility the Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax and capital controls), regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, and decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission has in late 2016 begun a review of some aspects of the Solvency II legislation, which is expected to continue until 2021 and covers, among other things, a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the 'volatility adjustment' for selected US Dollar-denominated business, and UK transitional measures. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position. The UK's vote to leave the EU could result in significant changes to the regulatory regime under which the Group operates.

Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS). In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments in Solvency II in the UK (as referred to above), National Association of Insurance Commissioners' reforms in the US, and amendments to certain local statutory regimes in some territories in Asia. These changes and their potential impact on the Group remain uncertain.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the US that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying G-SIIs, and a set of policy measures that will apply to them, which the FSB endorsed. An updated methodology for identifying G-SIIs was published by the IAIS on 16 June 2016. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential's designation as a G-SII was reaffirmed on 21 November 2016. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII.

The G-SII regime also introduces two types of capital requirements. The first, a Basic Capital Requirement (BCR), is designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement reflects the drivers of the assessment of G-SII designation. The IAIS intends for these requirements to take effect from January 2019, but G-SIIs will be expected to privately report to their group-wide supervisors in the interim.

The IAIS is also developing ComFrame which is focused on the supervision of Internationally Active Insurance Groups (IAIGs). ComFrame will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. As part of this, work is underway to develop a global Insurance Capital Standard (ICS) that is intended to apply to IAIGs. Once the development of the ICS has been concluded, it is intended to replace the BCR as the minimum group capital requirement for G-SIIs. A consultation on the ICS was concluded in 2016 and the IAIS intends to publish an interim version of the ICS in 2017. Further field testing, consultations and private reporting to group-wide supervisors on the interim version are expected over the coming years, and the ICS is expected to be adopted as part of ComFrame by the IAIS in late 2019.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. The IASB is currently re-deliberating the Exposure Draft proposals in light of comments by the insurance industry and other respondents and is expecting to issue the final standard (IFRS 17, 'Insurance Contracts') in the first half of 2017. The standard is expected to apply from 2021.

Any changes or modification of IFRS accounting policies may require a change in the future results or a retrospective adjustment of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed. Current regulatory actions include the UK business's undertaking to the Financial Conduct Authority to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers and potentially provide redress to certain such customers.

Regulators' interest may also include the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary (subjecting the person or entity to certain regulatory requirements, such as those adopted by the US Department of Labor issued in April 2016 which is likely to cause market disruption in the shorter term). There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New requirements could be introduced in these and other regulatory regimes that challenge legal structures, current sales practices, or could retrospectively be applied to sales made prior to their introduction, which could have a negative impact on Prudential's business or reported results.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including global life insurers such as Allianz, AXA, AIA and Manulife, and multinational asset managers such as J.P.Morgan Asset Management, Schroders, HSBC Global Asset Management, and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Lloyds Banking Group, Standard Life, Schroders, Invesco Perpetual, and Fidelity.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Allianz, Prudential Financial, Lincoln National, MetLife, and Aegon.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's, and A by Fitch. These ratings are all on a stable outlook.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's, and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa3 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's, and AA (stable outlook) by Fitch.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA by Standard & Poor's. This rating is on a stable outlook.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing partners) of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, Prudential also employs a large number of models and user-developed applications in its processes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational and model risk incidents do happen periodically and no system or process can entirely prevent them although there have not been any material events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

Attempts by third parties to disrupt Prudential's IT systems could result in loss of trust from Prudential's customers, reputational damage and financial loss

Being part of the financial services sector, Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to the key operations, make it difficult to recover critical services, damage assets and compromise data (both corporate or customer). This could result in loss of trust from Prudential's customers, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. As a result of Prudential's increasing market profile, the growing interest by customers to interact with their insurance provider and asset manager through the internet and social media, improved brand awareness and the classification of Prudential as a G-SII, there is an increased likelihood of Prudential being considered a target by cyber criminals. To date, Prudential has not identified a failure or breach which has had a material impact in relation to its legacy and other IT systems and processes. However, it has been, and likely will continue to be, subject to potential damage from computer viruses, attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive. Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality are also of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is particularly relevant to its lines of business other than its UK annuity business, especially Jackson's portfolio of variable annuities. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

Another example is the impact of epidemics and other effects that give rise to a large number of deaths or additional sickness claims. Significant influenza epidemics have occurred a number of times over the past century but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with the other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants.

Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its Directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its Directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Glossary

Actual Exchange Rates (AER)
Actual Exchange Rates 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.

Annual premium equivalent or APE
A measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent of single premiums on new business written during the period.

Asset backed security
A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. AFS securities are measured at fair value on the statement of financial position with unrealised gains and losses being booked in Other Comprehensive Income instead of the income statement.

Back book of business
The insurance policies sold in past periods that are still in force and hence are still recorded on the insurer's balance sheet.

Bonuses
Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus:

- Regular bonus – expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and
- Final bonus – an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.

Bulk annuity
A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the liabilities of the pension scheme.

Cash surrender value
The amount of cash available to a policyholder on the surrender of or withdrawal from a life insurance policy or annuity contract.

Constant Exchange Rates (CER)
Constant Exchange Rates – Prudential plc reports its results at both actual exchange rates (AER) to reflect actual results and also constant exchange rates (CER) so as to eliminate the impact from exchange translation. CER results are calculated by translating prior period results using current period foreign currency exchange rates, ie, current period average rates for the income statements and current period closing rate for the balance sheet.

Closed-book life insurance business
A 'closed book' is essentially a group of insurance policies that are no longer sold, but are still featured on the books of a life insurer as a premium-paying policy. The insurance company has 'closed the books' on new sales of these products which will remain in run-off until the policies expire and all claims are settled.

Core structural borrowings
Borrowings which Prudential considers to form part of its core capital structure and exclude operational borrowings.

Credit risk
The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.

Currency risk
The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.

Deferred acquisition costs or DAC
Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. Typically, under IFRS, an element of acquisition costs are deferred, ie not expensed in the year incurred, and instead amortised in the income statement in line with the emergence of surpluses on the related contracts.

Deferred annuities
Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.

Discretionary participation features or DPF
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on asset, fund, company or other entity performance.

Dividend cover
Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current period interim dividend plus the proposed second interim dividend.

Endowment product
An ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy.

European Embedded Value or EEV
Financial results that are prepared on a supplementary basis to the Group's consolidated IFRS results and which are prepared in accordance with a set of principles issued by the Chief Financial Officers Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance of EEV Disclosures published in October 2005. The principles are designed to capture the value of the new business sold in the period and of the business in force.

Fixed annuities
Fixed annuity contracts written in the US which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible pay-out options. The contract holder pays the insurer a premium, which is credited to the contract holders' account. Periodically,

interest is credited to the contract holders' account and administrative charges are deducted, as appropriate.

Fixed indexed annuities
These are similar to fixed annuities in that the contract holder pays the insurer a premium, which is credited to the contract holder's account and, periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. An annual minimum interest rate may be guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Funds under management
These comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

Group free surplus
Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

Guaranteed annuities
Policies that pay out a fixed amount of benefit for a defined period.

Guaranteed investment contract (GIC) (US)
An investment contract between an insurance company and an institutional investor, which provides a stated rate of return on deposits over a specified period of time. They typically provide for partial or total withdrawals at book value if needed for certain liquidity needs of the plan.

Guaranteed minimum accumulation benefit (GMAB) (US)
A guarantee that ensures that the contract value of a variable annuity contract will be at least equal to a certain minimum amount after a specified number of years.

Guaranteed minimum death benefit (GMDB) (US)
The basic death benefit offered under variable annuity contracts, which specifies that if the owner dies before annuity income payments begin, the beneficiary will receive a payment equal to the greater of the contract value or purchase payments less withdrawals.

Guaranteed minimum income benefit (GMIB) (US)
A guarantee that ensures, under certain conditions, that the owner may annuitise the variable annuity contract based on the greater of (a) the actual account value or (b) a pay-out base equal to premiums credited with some interest rate, or the maximum anniversary value of the account prior to annuitisation.

Guaranteed minimum withdrawal benefit (GMWB) (US)
A guarantee in a variable annuity that promises that the owner may make annual withdrawals of a defined amount for the life of the owner or until the total guaranteed amount is recovered, regardless of market performance or the actual account balance.

Health and protection
These comprise health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. Health and protection products are sold both as standalone policies and as riders that can be attached to life insurance products. Health and protection riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information.

Immediate annuity
An annuity in which payments to the annuitant or beneficiary start at once upon establishment of the annuity plan or scheme. Such annuities are almost always purchased with a single (lump sum) payment.

In-force
An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

Inherited estate
For life insurance proprietary companies, surplus capital available on top of what is necessary to cover policyholders reasonable expectations. An inherited (orphan) estate is effectively surplus capital on a realistic basis built over time and not allocated to policyholders or shareholders.

Internal rate of return (IRR)
The IRR is equivalent to the discount rate at which the present EEV value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

Internal vesting
Internal vestings are proceeds from a Prudential policy which the policyholder has decided to reinvest in a Prudential annuity product.

International Financial Reporting Standards (IFRS)
Accounting standards that all publicly listed groups in the European Union are required to apply in preparing consolidated financial statements.

Investment grade
Investments rated BBB- or above for S&P, Baa3 or above for Moody's. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Investment-linked products or contracts
Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit-linked products or unit-linked contracts.

Liquidity coverage ratio
Prudential calculates this as assets and resources available to us that are readily convertible to cash to cover corporate obligations in a prescribed stress scenario. We calculate this ratio over a range of time horizons extending to 12 months.

Glossary
Continued

Liquidity premium
This comprises the premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps and the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

Market value reduction (MVR)
A reduction applied to the payment on with-profits bonds when policyholders surrender in adverse market conditions.

Money Market Fund (MMF)
An MMF is an open-ended mutual fund that invests in short-term debt securities such as US treasury bills and commercial paper. The purpose of an MMF is to provide investors with a safe place to invest easily accessible cash-equivalent assets characterised as a low-risk, low-return investment.

Mortality rate
Rate of death, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks.

Net premiums
Life insurance premiums, net of reinsurance ceded to third-party reinsurers.

Net worth
Net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

New business margin
The value of new business on an EEV basis expressed as a percentage of the present value of new business premiums expected to be received from the new business.

New business profit
The profits, calculated in accordance with European Embedded Value Principles, from business sold in the financial reporting period under consideration.

Non-participating business
A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Also known as non-profit in the UK. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

Open-ended investment company (OEIC)
A collective investment fund structured as a limited company in which investors can buy and sell shares.

Operational borrowings
Borrowings which arise in the normal course of the business.

Participating funds
Distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. For Prudential the most significant participating funds are with-profits funds for business written in the UK, Hong Kong, Malaysia and Singapore.

Participating policies or participating business
Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

Payback period
Payback period is the time in which the initial 'cash' outflow of investment is expected to be recovered from the 'cash' inflows generated by the investment. We measure cash outflow by our investment of free surplus in new business sales. The payback period equals the time taken for this business to generate free surplus to cover this investment. Payback periods are measured on an undiscounted basis.

Present value of new business premiums or PVNBP
The present value of new business premiums 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.

Prudential Regulation Authority or PRA
The PRA is a UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Regular premium product
A life insurance product with regular periodic premium payments.

Rider
A supplemental plan that can be attached to a basic insurance policy, with payment of additional premium.

Risk margin reserve (RMR) charge
An RMR charge is included within operating profit based on longer-term investment returns and represents a charge for long-term expected defaults of debt securities, determined by reference to the credit quality of the portfolio.

Scottish Amicable Insurance Fund (SAIF)
SAIF is a ring-fenced sub-fund of the Prudential Assurance Company's long-term fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of Prudential plc have no interest in the profits of this fund although they are entitled to asset management fees on this business.

Separate account
A separate account is a pool of investments held by an insurance company not in or 'separate' from its general account. They generally accrue to the policyholder. A separate account allows an investor to choose an investment category according to his individual risk tolerance, and desire for performance.

Single premiums
Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.

Stochastic techniques
Stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

Subordinated debt
A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency, with limitations.

Surrender
The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.

Surrender charge or surrender fee
The fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period.

Takaful
Insurance that is compliant with Islamic principles.

Time value of options and guarantees
The value of financial options and guarantees comprises two parts, the intrinsic value and the time value. The intrinsic value is given by a deterministic valuation on best estimate assumptions. The time value is the additional value arising from the variability of economic outcomes in the future.

Total shareholder return (TSR)
TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.

Unallocated surplus
Unallocated surplus is recorded wholly as a liability and represents the excess of assets over policyholder liabilities for Prudential's with-profits funds. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Unit-linked products or unit-linked contracts
See 'investment-linked products or contracts' above.

Universal life
An insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

Variable annuity (VA) (US)
An annuity whose value is determined by the performance of underlying investment options that frequently includes securities. A variable annuity's value is not guaranteed and will fluctuate, depending on the value of its underlying investments. The holder of a variable annuity assumes the investment risk and the funds backing a variable annuity are held in the insurance company's separate account. VAs are similar to unit-linked annuities in the UK.

Whole of life
A type of life insurance policy that provides lifetime protection; premiums must usually be paid for life. The sum assured is paid out whenever death occurs. Commonly used for estate planning purposes.

With-profits funds
See 'participating funds' on page 400.

Yield
A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

Shareholder information

Communication with shareholders

The Group maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Group's financial calendar www.prudential.co.uk

Annual General Meeting

The 2017 Annual General Meeting (AGM) will be held in the Churchill Auditorium at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 18 May 2017 at 11.00am.

Prudential will continue its practice of calling a poll on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website.

Details of the 2016 AGM, including the major items discussed at the meeting and the results of the voting, can be found on the Company's website.

In accordance with relevant legislation, shareholders holding 5 per cent or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the Group Company Secretary at the registered office.

Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM.

Company constitution

Prudential is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles. Any change to the Articles must be approved by special resolution of the shareholders. There were no changes to the constitutional documents during 2016. The Memorandum and Articles are available on the Company's website.

Share capital

Issued share capital

The issued share capital as at 31 December 2016 consisted of 2,581,061,573 (2015: 2,572,454,958) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2016, there were 48,534 (2015: 56,276) accounts on the register. Further information can be found in note C10 on page 275.

Prudential also maintains secondary listings on the New York Stock Exchange (in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register) and the Singapore Stock Exchange.

Prudential has maintained a sufficiency of public float throughout the reporting period as required by the Hong Kong Listing Rules.

Analysis of shareholder accounts as at 31 December 2016

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	275	0.57	2,278,169,295	88.27
500,001–1,000,000	151	0.31	108,664,530	4.21
100,001–500,000	461	0.95	107,814,337	4.18
10,001–100,000	1,418	2.92	41,403,517	1.60
5,001–10,000	1,723	3.55	11,972,232	0.46
1,001–5,000	11,009	22.68	24,237,465	0.94
1–1,000	33,497	69.02	8,800,197	0.34
Total	48,534	100	2,581,061,573	100

Major shareholders

The following notifications have been disclosed under the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules in respect of notifiable interests exceeding 3 per cent in the voting rights of the issued share capital.

As at 31 December 2016	% of total voting rights
Capital Group Companies, Inc.	9.87
BlackRock, Inc	5.08
Norges Bank	4.03

As at 13 March 2017, no notifications have been received since the year end.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share plan, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the registered owner in accordance with the relevant plan rules. Trustees may vote at their discretion, but do not vote on any unawarded shares held as surplus assets.

As at 13 March 2017, Trustees held 0.47 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out on pages 110 to 157.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the FCA and the Hong Kong Stock Exchange, as well as under the rules of some of the Group's employee share plans.

All Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 131 of the Directors' remuneration report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. Prudential seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. The existing authorities to issue shares and to do so without observing pre-emption rights are due to expire at the end of this year's AGM. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 18 May 2017.

Details of shares issued during 2015 and 2016 are given in note C10 on page 275.

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange, Prudential confirms that it complies with the applicable law and regulation in the UK in relation to the holding of shares in treasury and with the conditions of the waiver in connection with the purchase of own shares and any treasury shares it may hold.

Authority to purchase own shares

The Directors also require authority from shareholders in relation to the purchase of the Company's own shares. Prudential seeks authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. This authority has not been used since it was last granted at the AGM in 2016. This existing authority is due to expire at the end of this year's AGM and a special resolution to renew the authority will be put to shareholders at the AGM on 18 May 2017.

Dividend information

2016 second interim dividend	Shareholders registered on the UK register and Hong Kong and Irish branch registers	Holders of US American Depository Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex-dividend date	30 March 2017	–	29 March 2017
Record date	31 March 2017	31 March 2017	31 March 2017
Payment date	19 May 2017	On or about 26 May 2017	On or about 26 May 2017

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

Shareholder information
Continued

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

Register	By post	By telephone
Principal UK register	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.	Tel 0371 384 2035 Textel 0371 384 2255 (for hard of hearing). Lines are open from 8.30am to 5.30pm (UK), Monday to Friday. International shareholders Tel +44 (0)121 415 7026
Irish branch register	Capita Asset Services, Shareholder solutions (Ireland) Ltd, PO Box 7117, Dublin 2, Ireland.	Tel +353 1 553 0050
Hong Kong branch register	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.	Tel +852 2862 8555
Singapore register	Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (PTE) Limited (CDP) in Singapore may refer queries to the CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.	Tel +65 6535 7511
ADRs	J.P. Morgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0854, USA.	Tel +1 800 990 1135 or from outside the US +1 651 453 2128 or log on to www.adr.com

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, shareholders may download the form from www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms

Cash dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available on the Company's website at www.prudential.co.uk/investors/shareholder-centre/agm-information/2017

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through CDP. Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential shares. For telephone sales call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares the value of which makes them uneconomic to sell them may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be downloaded from our website www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

How to contact us

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Chairman

Mike Wells
Group Chief Executive

Nic Nicandrou
Chief Financial Officer

Penny James
Group Chief Risk Officer

Group Executive Committee

Julian Adams
Group Regulatory and Government Relations Director

Raghu Hariharan
Director of Strategy and Capital Market Relations

Jonathan Oliver
Group Communications Director

Alan Porter
Group General Counsel and Company Secretary

Al-Noor Ramji
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Prudential public limited company

Incorporated and registered in England and Wales

Registered office

Laurence Pountney Hill
London EC4R 0HH
Registered number 1397169

www.prudential.co.uk

Prudential plc is a holding company, subsidiaries of which are authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority

Forward-looking statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's vote to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk factors' heading in the Annual Report and the 'Risk factors' heading of Prudential's most recent annual report on Form 20-F filed with the US Securities and Exchange Commission. Prudential's most recent annual report and Form 20-F are available on its website at www.prudential.co.uk

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.

Front cover:

Phuong Lan
Prudential Vietnam

Phuong Lan holds PRUmultiple care and PRU-Wealth Assured policies from Prudential Vietnam. These products provide financial protection against critical illness during Phuong Lan's lifetime, ensure availability of funds to help realise her goals in her later years, and enhance her family's prosperity.

Back cover:

Helen
Prudential UK and Europe

See page 29 for further details.

History

Providing financial security since 1848

Successive generations have looked to Prudential to safeguard their financial security – from industrial workers and their families in Victorian Britain, to around 24 million insurance customers worldwide today. Our financial strength, heritage, prudence and focus on our customers' long-term needs ensure that people continue to turn to our trusted brands to help them plan for today and tomorrow.

1848
Prudential is established as Prudential Mutual Assurance Investment and Loan Association in Hatton Garden, London, offering loans and life assurance to professional people.

1854
Prudential opens the Industrial Department to sell a new type of insurance, Industrial Insurance, to the working classes, for premiums of a penny and upwards.

1923
Prudential's first overseas life branch is established in India, with the first policy being sold to a tea planter in Assam.

1949
The 'Man from the Pru' advertising campaign is launched.

1986
Prudential acquires Jackson in the United States.

1994
Prudential Corporation Asia is formed in Hong Kong as a regional head office to expand operations beyond an existing presence in Malaysia, Singapore and Hong Kong.

1999
Prudential acquires M&G, pioneer of unit trusts in the UK and a leading provider of investment products.

2000
Prudential and CITIC launch the first Sino-British life insurance joint venture in China.

2014
Prudential acquires businesses in Ghana and Kenya, marking its entry into the fast-growing African life insurance industry.

www.prudentialhistory.co.uk

Fred's story

In June 1949, an article describing the life and work of a long-serving Prudential agent, Fred Sawyer, appeared in the Weekly Illustrated magazine. One of the pictures was so striking that it prompted Prudential's publicity department to use it in their next advertising campaign, and the figure of Fred Sawyer came to represent a typical agent.

'"Service," says Pru agent Sawyer, "is the secret of success". He has 1,500 clients and collects in the morning and evening, fitting in clerical work in the afternoon. But he still finds time to be a special constable, a school manager and a district councillor. "I know the people," says Mr Sawyer, "I wouldn't change my job for any other."'

Weekly Illustrated magazine June 1949

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Registered number 1397169

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