PRUDENTIAL

The Prudential Assurance Company Limited

Solvency and Financial Condition Report

31 December 2016

Contents

This report has been prepared in compliance with the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009|138|EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (‘Delegated Regulation’). The structure of this report follows the structure set out in Annex XX and discloses the information referred to in Articles 292 to 298 of the Delegated Regulation. The report also contains narrative information in quantitative and qualitative form supplemented, where appropriate, with quantitative templates. Where a comparison of the information on a Solvency II basis with that reported on the previous reporting period is required, this report does not report comparative information by availing the transitional arrangements on comparative information available under Article 303 of the Delegated Regulation (EU).

Summary

Company background

The Prudential Assurance Company Limited ('PAC', 'the Company', 'we') was founded in the United Kingdom ('UK') in 1848, and is a leading provider of savings and retirement income products. Our biggest strength comes from providing investments that help our customers meet their long-term goals, whilst also protecting them against short-term market fluctuations.

Our core strengths in with-profits and financial products for retirement are underpinned by our expertise in areas such as understanding life expectancy, handling investment risk and managing a range of investment assets. We are also financially strong which means we are able to withstand major market volatility and ensure we meet our commitments.

Our products are typically long-term consisting of life insurance, pensions and pension annuities. In common with other UK long-term insurance companies, our products are structured as either with-profits (or participating) products written in the with-profits funds, or non-participating products including annuities in payment and unit-linked products written in the non-profit fund. The Company operates a branch in Poland and owns a life insurance subsidiary in the UK as well as Ireland and Hong Kong.

Business and performance

The UK's retirement market is changing. The risk and responsibility for planning for retirement continues to transfer away from the State and employers to individual savers. The reforms introduced by Pension Freedoms in 2015 give our customers new flexibility in how they take their pension income. However, investment, increasing life expectancy and inflation risks have made things more complicated and guidance or advice is becoming increasingly important. We continue to support our customers in this changing environment by increasing the range of product options we offer to mirror the new flexibilities. We continue to focus on flexible bond, ISA, pension and income drawdown products which our customers find of value. A recent innovation is the launch of our 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 with a choice of funds and assets to invest in. At its core is PruFund, our unique investment 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 is made up of six risk-rated funds which offer investment in different countries and 25 different asset-classes and at the same time delivers smoothing through the strength of our with-profit fund.

Having identified a number of alternative capital deployment opportunities and following the introduction of Solvency II, we have made the decision not to write any bulk annuity business in 2016 and have now withdrawn from this market.

On 1 January 2016, the quota share reinsurance arrangement with subsidiary Prudential Retirement Income Limited was increased from 20% to 100%. On 1 October 2016 the business of Prudential Retirement Income Limited was transferred into the Company following a Part VII transfer under the Financial Services and Markets Acts 2000.

The performance of the Company for the year-ended 31 December 2016, as provided in section A, is described using the Company's results as presented in its UK GAAP financial statements.

The Company's total operating profit was 320 per cent higher at £1,902 million. This increase is primarily due to the increase in the Prudential Retirement Income Limited quota share reinsurance on 1 January 2016, the effect of reinsurance transactions and other management actions to improve our financial strength offset by the establishment of a £175 million provision in relation to the costs of undertaking a review of past non-advised annuity sales practices and related potential redress.

The Company's total non-operating result has decreased by £3,093 million to a loss of £1,539 million in 2016. This loss in 2016 is driven by a decrease in the value of shareholders' subsidiaries as a result of a reduction in the value of Prudential Retirement Income Limited following the Part VII transfer partly offset by an increase in the value of other subsidiaries, and adverse market movements on the partial equity hedge of the shareholder transfers in respect of future years and bonds transferred to the Company as part of the Part VII transfer.

The UK GAAP profit after tax has decreased by £1,807 million to £114 million in 2016 as a result of these movements in operating and non-operating profits and the associated tax charges.

System of governance

The Board of the Prudential Assurance Company Limited is collectively responsible for the long-term success of the Company and for providing leadership within a framework of effective controls. The control environment enables the Board to identify significant risks and apply appropriate measures to manage and mitigate them.

We keep our governance structures under constant review to ensure they suit the needs of our business and stakeholders. In 2016 the Company updated the constitution of the Board to include an independent non-executive Chairman and four independent non-executive directors. Further information on the Company's system of governance including information on the composition of its Board, key functions, risk management and internal control system is provided in section B.

Risk profile

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 was a year of extraordinary uncertainty and the financial strength of the Company remained robust throughout.

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 Company is able to withstand the impact of an adverse stressed outcome.

The Company 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 Company. As such, material risks will be retained selectively where we think there is value in doing so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking.

For our retained risks, we ensure that we have the necessary capabilities, expertise, processes and controls to manage appropriately the exposure.

Further information on the main risks inherent in our business (namely market risk, credit risk, insurance or underwriting risk, liquidity risk, operational risk, business environment risk and strategic risk) and how we manage these risks, and maintain an appropriate risk profile is provided in section C.

Valuation for solvency purposes

With effect from 1 January 2016, the Company is required to adopt Solvency II as its capital regime. This was developed by the EU in order to harmonise the various regimes previously applied across EU member states.

For the purposes of Solvency II reporting, the Company applies the Solvency II valuation rules to value the majority of the assets and liabilities of the Company:

(i) As a general principle, technical provisions under Solvency II are valued at the amount for which they could theoretically be transferred immediately to a third party in an arm's length transaction. The technical provisions consist of the best estimate liability and the risk margin, reduced by the “transitional measures on technical provisions” where relevant.

(ii) The assets and other liabilities are valued under Solvency II at the amount for which they could be exchanged between knowledgeable and willing parties in arm's length transactions. The assets and other liabilities are valued separately using methods that are consistent with this principle in accordance with the valuation approaches set out in the Solvency II Directive.

The own funds and capital for the Company’s non-insurance subsidiaries carrying out financial activities are included using sectoral rules.

Further information on the valuation of assets, technical provisions and other liabilities of the Company for solvency purposes is provided in section D, including a discussion of the differences between Solvency II and the UK GAAP valuation bases.

Capital management

The Company has been granted approval by the Prudential Regulation Authority to calculate its solvency capital requirement based on its internal model. The Company’s solvency capital requirement has been met during 2016. At 31 December 2016, the Company’s Solvency II surplus at 31 December 2016 was £5.1 billion.

A summary of the reconciliation of the Company’s shareholder Solvency II position published in the Company’s 2016 Annual Report to the Solvency II position, incorporating the Company’s ring-fenced funds, included in the quantitative reporting templates attached to this document, is provided in section E. Additional information on the components of the Company’s own funds and solvency capital requirement is also provided in section E.

A. Business and performance

Unaudited

A.1 Business

A.1.1 Overview

Name and legal form

The Prudential Assurance Company Limited (‘PAC’, ‘the Company’, ‘we’) is a company limited by shares incorporated and registered in England and Wales.

PAC is a wholly owned subsidiary of Prudential plc. Prudential plc is a public limited company, limited by shares, incorporated and registered in England and Wales. Prudential plc is the parent company of the Prudential group (‘the Prudential Group’ or ‘the Group’). The Group is an international financial services group, with significant operations in Asia, the United States and the United Kingdom. Prudential plc has primary listings on the London and Hong Kong stock exchanges and secondary listings on Singapore and New York stock exchanges.

The address of the registered office of PAC and Prudential plc is:

Laurence Pountney Hill
London
EC4R 0HH

This Solvency and Financial Conduct Report (‘SFCR’) covers PAC on a solo entity basis.

Supervisory authority

The Company and the Group are supervised by the Prudential Regulation Authority (‘PRA’), the Company's lead supervisor in accordance with the Financial Services and Markets Act 2000 (‘FSMA’). The contact details are:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH
United Kingdom

The Company is authorised by the PRA to provide regulated products and services, including: carrying out contracts of insurance, accepting deposits, providing credit to consumers, giving investment advice, arranging deals in investments, safeguarding and administration of assets and establishing, operating or winding up a personal or stakeholder pension scheme.

External auditor

The Company is audited by KPMG LLP. The contact details are:

KPMG LLP
15 Canada Square
London
E14 5GL

United Kingdom

Holders of qualifying holdings

As at 31 December 2016, Prudential plc is the only holder of qualifying holdings in the Company (being holder of 10 per cent or more of the capital or voting rights).

A.1.2 Company structure

Material subsidiaries of the Company

The Company's material trading subsidiaries at 31 December 2016 are set out below:

	Main activity	**Country of incorporation**
Prudential Hong Kong Limited	Insurance	Hong Kong
Prudential Pensions Limited	Insurance	United Kingdom
Prudential International Assurance plc	Insurance	Ireland

The Company has 100 per cent of the voting rights of the subsidiaries listed above. The percentage of equity owned is the same as the percentage of the voting rights held.

A complete list of the Company's related undertakings is provided in Appendix A.

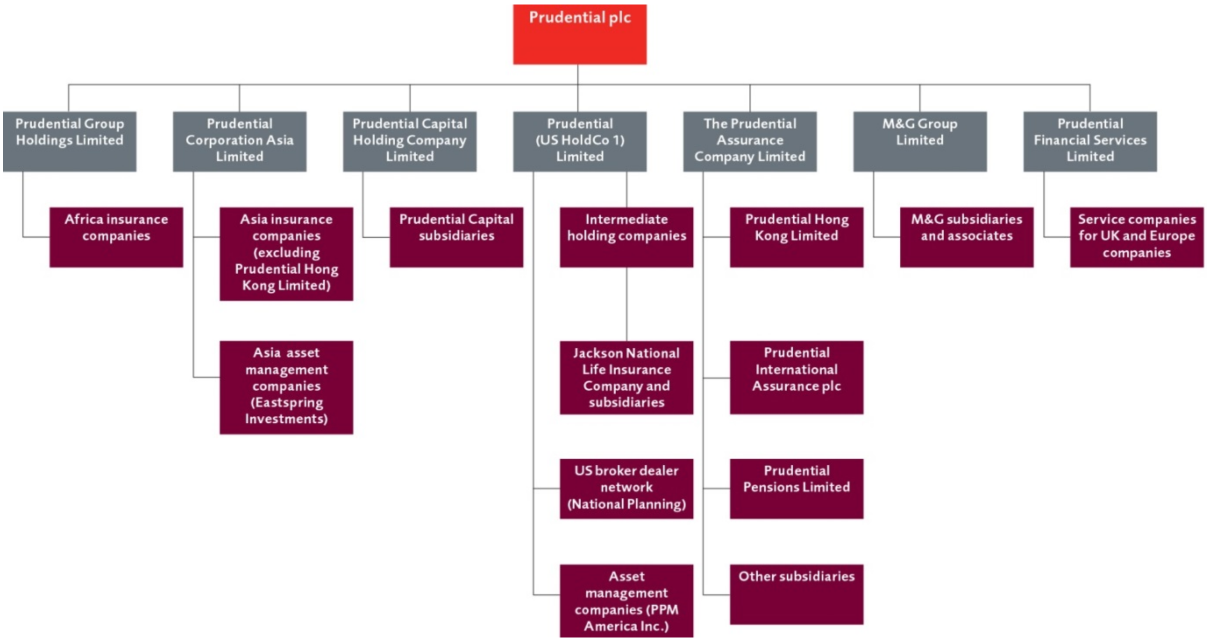
Prior to the Part VII transfer of business from Prudential Retirement Income Limited to the Company on 1 October 2016, Prudential Retirement Income Limited was a material subsidiary.

Legal structure of the Group and related undertakings

As noted above, the Company is part of a group. The Group is structured around four main business units: Prudential Corporation Asia, US, Prudential UK and Europe insurance operations and M&G (the UK and European fund manager of the Group).

Figure 1 below shows, in a simplified form, the direct subsidiary undertakings of the parent company, Prudential plc (shares held directly or via nominees) and Prudential's significant subsidiaries as at 31 December 2016.

Figure 1: Simplified structure of Prudential plc as at 31 December 2016



A.1.3 Business and performance

Material lines of business and material geographical areas

The Company transacts long-term insurance business in the United Kingdom ('UK'). Throughout 2016 the Company also owned several insurance subsidiary undertakings, including subsidiaries in Hong Kong and Ireland, and a branch in Poland that transacted insurance business in the UK and overseas.

In the UK, the Company offers a range of retail financial products and services, including long-term insurance and asset accumulation and retirement income products (life insurance, pensions and pension annuities), retail investment and unit trust products.

The Company's long-term products consist of life insurance, pension products and pension annuities. In common with other UK long-term insurance companies, the Company's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending on the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

The Company's Hong Kong subsidiary offers both participating and non-participating term, whole life, endowment and unit-linked policies, in addition to stand-alone health, disablement, critical illness and accident cover to supplement its core life products. The Company's Polish branch's core business is a life insurance product, Premiopolisa, an individual protected product offering capital guarantees with significant growth potential at maturity. The Company's Irish subsidiary, Prudential International Assurance plc (PIA), is a leading insurer in the offshore bond market while also providing risk insurance for its UK policyholders. PIA sells to both UK and non-UK nationals. Its focus in 2016 has been on the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe. The Company also has a UK subsidiary, Prudential Pensions Limited, consisting of unit-linked products.

A.1.4 Significant business or other events that have a material impact on the Company over the reporting period

In the UK we are seeing a large amount of change in the marketplace along with the introduction of Solvency II capital rules and the Company has adapted 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 focussed on delivering high quality products that meet our customers' evolving needs.

On 1 January 2016, the quota share reinsurance arrangement with the subsidiary Prudential Retirement Income Limited ('PRIL') was increased from 20% to 100%. On 1 October 2016 the business of PRIL was transferred into the Company following a Part VII transfer under the Financial Services and Markets Act 2000 and the quota share reinsurance then removed. In line with the scheme, following the transfer, PRIL has retained assets of £100 million to cover residual requirements which will remain in PRIL until liquidation. PRIL was de-authorised by the PRA on 16 December 2016.

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 UK GAAP profits of £332 million. Of this amount £197 million related to profit from additional longevity reinsurance transactions covering £5.4 billion of annuity liabilities on a UK GAAP basis, with the balance of £135 million reflecting the effect of repositioning the fixed income portfolio and other actions. At 31 December 2016, longevity reinsurance covered £14.4 billion of UK GAAP annuity liabilities equivalent to 42 per cent of total annuity liabilities.

Prudential is conducting a Past Business review of non-advised annuity sales made by the Company, and PRIL in respect of the Part VII transferred business, from 1 July 2008. This follows the Financial Conduct Authority's thematic review of non-advised annuity sales practices, which identified that Prudential's sales process and in particular its telephone interactions with customers, may not have provided adequate information about the customers' potential eligibility for an enhanced annuity and the benefits of shopping around for an enhanced annuity. A review of the treatment of legacy business is also currently underway following the FCA's thematic review of long-standing customers in the life insurance sector. This will address certain customer communications, the management of products and the customer outcomes demonstrated.

A.2 Underwriting performance

Operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns, which gives a more relevant measure of the performance of the business. Other items are excluded from operating profit to allow more relevant period on period comparisons of the trading operations of the Company, e.g. effects of material corporate transactions, such as the Part VII transfer of PRIL business, are excluded.

The Company uses UK GAAP to prepare its solo entity statutory financial statements, and IFRS to report the results of the Company to Prudential plc for inclusion in the Group results. The accounting policies under UK GAAP and IFRS are aligned where possible and as such there are no material differences in operating profit between these two bases. The performance results set out in section A are on a UK GAAP basis, consistent with the Company's solo entity statutory financial statements.

Operating profit broadly equates to premiums less claims (including change in technical provision) and expenses together with assumed longer-term investment returns. Given the linkage between the movement of technical provisions and movement in investments backing those liabilities (e.g. for unit-linked funds, investment return (whether positive or negative) results in a corresponding change in unit-linked technical provisions), the Company has defined operating profit as its underwriting performance as discussed in this section. Similarly, the core discussion of the investment performance of the Company in section A.3 is by reference to short-term fluctuations in investment returns.

An analysis of premiums, claims, expenses and investment return is given in section A.5.2 below.

A.2.1 Operating profit overview

Figure 2: Shareholder profit for the year-ended 31 December 2016 (with 31 December 2015 comparison)

	2016 £m	2015 £m	Change %
Operating profit based on longer-term investment returns	**1,902**	**453**	**320%**
Short-term fluctuations in investment returns	(586)	(29)	(1,921)%
Revaluation of shareholder subsidiaries	(1,005)	1,304	(177)%
Dividends from subsidiaries	89	278	(68)%
Other	(37)	1	(3,800)%
Profit before tax attributable to shareholders	**363**	**2,007**	**(82)%**
Tax charge attributable to shareholders' returns	(249)	(86)	(190)%
Profit for the year attributable to shareholders	**114**	**1,921**	**(94)%**

The Company's total operating profit was 320 per cent higher at £1,902 million. This increase is primarily due to the increase in the Prudential Retirement Income Limited quota share reinsurance on 1 January 2016, the effect of reinsurance transactions and other management actions to improve solvency offset by the establishment of a £175 million provision in relation to the costs of undertaking a review of past non-advised annuity sales practices and related potential redress.

Further detail on short-term fluctuations is set out in section A.3.1 and on investments in subsidiaries and dividends in section A.4.1.

A.2.2 UK GAAP operating profit analysed by Solvency II lines of business

UK GAAP operating profit, as discussed above, is allocated by material Solvency II lines of business as follows:

Figure 3: Operating profit before tax for the year-ended 31 December 2016 (with 31 December 2015 comparison)

	2016 £m	2015 £m	Change
Insurance with-profits participation[1]	269	269	-
Other (comprising index-linked and unit-linked insurance, other life insurance and life reinsurance)[2]	1,633	184	788%
Operating profit before tax	**1,902**	**453**	**320%**

(1) Insurance with-profits participation comprises the shareholders' transfer from the with-profits funds of the Company.
(2) Other comprises mainly profits relating to the shareholder annuity business.

A.3 Investment performance

A.3.1 Short-term fluctuations

In section A.2, the Company describes its UK GAAP performance by reference to operating profit and non-operating profit, the key component of which is UK GAAP short-term fluctuations in investment returns (as described below).

UK GAAP 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.

Included in non-operating results are losses of £586 million as a result of short-term fluctuations (2015: loss of £29 million). This comprises £220 million of losses on the partial equity hedge of the shareholder transfers in respect of future years (2015: profit of £32 million), realised and unrealised losses on bonds transferred from Prudential Retirement Income Limited following the Part VII transfer of £102 million. Also included is a loss of £173 million on the transfer of the equity release mortgages to Prudential Retirement Income Limited on 1 January 2016 and the reduction in value of the equity release mortgages retained in the Company of £36 million (2015: reduction of £1 million).

A.3.2 Investment management expenses

The total investment management expenses incurred by the Company's insurance operations, including those that were paid to the Company's asset management operations totalled £372 million (2015: £300 million).

An analysis of investment return in the income statement by asset class is given in section A.5.2.4.

A.3.3 Investments in securitisations

Certain of the securities classified as asset-backed securities meet the definition of securitisation under Solvency II for the purpose of the Solvency II capital requirements calculation. Investments in securitisation are subject to specific spread stresses in the calculation in order to ensure that risks arising from securitisation positions are reflected appropriately.

Of the £5,696 million of asset-backed securities at 31 December 2016, £4,185 million meet the definition of investment of securitisation for the purpose of the Solvency II capital requirement calculation.

A.4 Performance of other activities

A.4.1 Investments in subsidiaries and dividends

The contribution to non-operating profit by the Company's subsidiaries is as shown in the operating profit table in section A.2.1.

The value of shareholder subsidiaries has decreased by £1,005 million due to a reduction in the value of Prudential Retirement Income Limited following the Part VII transfer, partially offset by an increase in the value of other subsidiaries, the most material of these being Prudential Hong Kong Limited.

Dividends totalling £89 million (2015: £278 million) were received from subsidiaries during the year.

A.4.2 Leasing

The Company's operating and finance lease arrangements relate principally to properties.

The Company holds investment properties which are leased out to earn a return. Where the Company is acting as the lessee, the properties are being used as office space. Further information on the Company's leasing arrangements is provided below.

The Company does not hold any individually material leasing arrangements.

A.4.2.1 Operating leases

The Company as a lessor
Investment properties principally relate to the Company's with-profits funds and are carried at fair value. The Company's policy is to let investment properties to tenants through operating leases.

The 2016 income statement includes rental income from investment properties of £457 million (2015: £423 million) and direct operating expenses including repairs and maintenance arising from these properties of £62 million (2015: £37 million).

The Company as a lessee
The Company has no material operating leases where it is a lessee as these are transacted by the service company, Prudential Distribution Limited.

A.4.2.2 Finance leases

The Company as a lessee
The Company's portfolio of investment properties comprise both freehold and leasehold properties. As at 31 December 2016, investment properties of £4,193 million (2015: £3,941 million) are held under finance leases. These finance leases are arrangements which grant very long leases with a large payment made upfront with minimal ground rent payable on an annual basis.

The 2016 income statement includes £9.4 million in respect of finance lease charges (2015: £8.7 million).

The Company as a lessor
As at 31 December 2016, investment properties of £33 million (2015: £33 million) are held under finance lease assets.

The 2016 income statement includes rental income from investment properties of £2 million (2015: £2 million).

A.5 Any other information

A.5.1 Additional analysis of profits before tax by nature of revenue and charges

Total profit before tax attributable to shareholders for the year-ended 2016 is £363 million (2015: £2,007 million), representing operating profit of £1,902 million (2015: £453 million), as set out in Figure 2 and discussed in section A.2.1, and non-operating loss of £1,539 million (2015: profit of £1,554 million). Analysis of profit before tax is shown in Figure 4 below by nature of revenue and charges.

Figure 4: Total revenue and charges for the year-ended 31 December 2016 (with 31 December 2015 comparison)

	2016 £m	2015 £m
Gross premiums written	33,093	7,581
Outward reinsurance premiums	(635)	(320)
Earned premiums, net of reinsurance	**32,458**	**7,261**
Other income	**29**	**28**
Investment income	8,818	6,287
Unrealised gains (losses) on investments	9,161	(1,382)
Investment return	**17,979**	**4,905**
Total revenue, net of reinsurance	**50,466**	**12,194**
Claims paid – gross amount	(10,991)	(9,366)
Claims paid – reinsurers' share	985	694
Change in provision for claims - gross amount	(30)	(81)
Change in long-term business provision - gross amount	(37,179)	146
Change in long-term business provision - reinsurers' share	785	(520)
Change in technical provision for linked liabilities	(400)	276
Claims incurred and changes in other long-term business and technical provisions, net of reinsurance	**(46,830)**	**(8,851)**
Net operating expenses	(893)	(690)
Investment expenses and charges	(405)	(331)
Other charges	(23)	(22)
Tax attributable to the long-term business	(1,048)	(149)
Actuarial and other (losses) gains on pension schemes	(75)	29
Transfer to the fund of future appropriations	(1,175)	(263)
Profit before tax (being tax attributable to shareholders' and policyholders' returns)	**17**	**1,917**

	2016 £m	2015 £m
Tax credit attributable to the balance on the long-term business technical account	346	90
Profit on ordinary activities before tax	**363**	**2,007**

A.5.2 Premiums, claims, expenses and investment return

A.5.2.1 Comparison of gross earned premiums with the prior period

Figure 5: Premiums by Solvency II line of business for the year-ended 31 December 2016

	Health insurance £m	Insurance with-profits participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	Accepted life reinsurance £m	Total 2016 £m
Premiums earned - gross	22	8,304	400	544	23,823	33,093

Gross premiums for the Company increased by 337 per cent from £7,581 million in 2015 to £33,093 million in 2016. The comparison of total gross premiums for 2016 with those for 2015 is distorted by the premium recorded in respect of the increase in the quota share reinsurance with Prudential Retirement Income Limited from 20% to 100%, shown within Accepted life reinsurance in Figure 5.

The Company's strategy of extending customer access to PruFund's with-profits investment option via additional product wrappers continues to drive growth in sales. 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. The Company has seen notable success with the build out of PruFund through individual pensions, income drawdown and ISAs. 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.

Sales from new annuity business increased from £300 million in 2015 to £410 million in 2016. There has been a decline in the level of annuity new business written as Prudential's participation in the UK annuity market has been scaled down. However, due to the increase in quota share reinsurance with Prudential Retirement Income Limited, all new annuity business in 2016 was written within the Company. As a result, the Company's sales from new annuity business have increased when compared to 2015 when the majority of new business was written in Prudential Retirement Income Limited.

A.5.2.2 Comparison of benefits and claims (including the movement in unallocated surplus of with-profits funds) with the prior period

Figure 6: Benefits and claims by Solvency II line of business for the year-ended 31 December 2016

£m	Health insurance £m	Insurance with-profits participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	Accepted life reinsurance £m	Total 2016 £m
Claims incurred and changes in other long-term business and technical provisions, net of reinsurance	6	(18,949)	(1,522)	(29,700)	3,318	(46,847)

Claims incurred and changes in other long-term business and technical provisions (net of reinsurance) totalling £46,830 million in 2016 (as noted in Figure 4) includes £21 million of claims handling expenses and an adjustment for other charges of £38 million.

Claims incurred and changes in other long-term business and technical provisions (net of reinsurance) has increased by 429 per cent; this is principally driven by an increase in the long-term business provision as a result of the increase in the quota share reinsurance with Prudential Retirement Income Limited from 20% to 100% on 1 January 2016, shown in other life insurance in Figure 6, and an increase in in the long-term business provision relating to with-profits business from the positive investment return experienced over 2016, shown in insurance with-profits participation in Figure 6.

A.5.2.3 Acquisition costs and other expenditure

Total acquisition costs and other expenditure are comprised of net operating expenses, investment expenses and charges, less interest on bank borrowings £33 million (2015: £31 million). The expenses for the Company increased by 28 per cent from £990 million in 2015 to £1,265 million in 2016.

The year-on-year movements were primarily affected by an increase in investment management fees resulting from the higher level of assets following the increase in the quota share reinsurance with Prudential Retirement Income Limited and subsequent Part VII transfer. There was also an increase in performance related fees in 2016. In addition, 2016 expenditure includes 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.

A.5.2.4 Investment return by asset class

Figure 7: Investment return for the year-ended 31 December 2016 (with 31 December 2015 comparison)

	2016 £m	2015 £m
Income		
Investment properties	457	423
Loans	92	130
Equity securities and portfolio holdings in unit trusts	1,398	1,202
Debt securities	2,154	1,915
Other investments (including deposits)	5,648	605
Total income	**9,749**	**4,275**
Investment (depreciation) appreciation and other investment return		
Investment properties	(51)	717
Loans	(12)	(26)
Equity securities and portfolio holdings in unit trusts	7,629	7
Debt securities	4,058	(1,252)
Other investments (including deposits)	(3,394)	1,184
Total investment (depreciation) appreciation and other investment return	**8,230**	**630**
Total investment income	**17,979**	**4,905**

Investment return principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit and loss, including impairment losses.

Interest and dividend income increased by £5,474 million from £4,275 million in 2015 to £9,749 million in 2016 primarily as a result of the larger asset portfolio backing annuity business following the increase in the quota share reinsurance with Prudential Retirement Income Limited and subsequent Part VII transfer. The increase in “other investments (including deposits)” is primarily due to an increase in income relating to increase in the quota share reinsurance where the assets were deposited back with Prudential Retirement Income Limited prior to the Part VII transfer taking place.

The increase in “investment appreciation and other investment return” of £7,600 million from £630 million in 2015 to £8,230 million in 2016 principally reflects increased returns on equities and bonds in the with-profits funds.

Excluded from the above is £5 million (2015: £21 million) relating to investment appreciation on company-occupied properties which is recognised in other comprehensive income.

B. System of governance

Unaudited

B.1 General information on the system of governance

B.1.1 Board governance

As noted in section A.1.1, the Company is a material subsidiary of Prudential plc within the Prudential Group.

The Group consists of a number of material "Business Units" ('BU') who have management responsibility for the legal entities within the Group. Prudential UK & Europe ('UK&E') includes a number of sub-Business Units within the UK. Within Prudential UK&E, the Prudential UK & Europe Insurance Business Unit ('UK&EI') is the management structure for the Company (the principal operating entity within UK&EI) as well as its subsidiaries and associated entities.

The Chief Executive Officer, UK&EI ('ICEO') reports to the Chief Executive UK&E ('CEO UK&E'), who reports to the Prudential Group Chief Executive.

The ICEO holds the Senior Insurance Manager Function 1 ('SIMF1') role for the Company and has been delegated specific responsibilities by the Board. The ICEO is responsible for the day to day operational management of the Company and runs the business unit through the executive operating structure including an Executive Committee ('EXCOM') and other committees which reflect the three lines of defence model in operation across UK&E.

The Board has an independent non-executive Chairman. In addition, two other independent non-executive Board members hold roles of Chair of the Board Risk and Capital Committee ('BRCC') and Board Audit Committee ('BAC'). At least half of the Board of Directors (including the Chairman) are independent non-executive directors. The non-executive directors are responsible for both supporting and overseeing executive management whilst, as members of a unitary Board, sharing in the wider duty to promote the success of the Company and to ensure the Company continues to meet its Threshold Conditions. Whilst forming part of the Prudential Group, the appointment of independent non-executive directors on the Board recognises the need for the Company to maintain local entity integrity distinct from the Group.

The quorum for the Board consists of at least four members, which must include the Chairman (or a non-executive director nominated by the Chairman) and the Chief Executive (or an executive director nominated by the Chief Executive). The membership of the Board as at 31 December 2016 is detailed in Figure 8 below.

Figure 8: Membership of the PAC Board as at 31 December 2016

PAC Board members	Role
Paul Spencer	Chairman and Independent Non-Executive Director (SIMF 9)
Clive Adamson	Independent Non-Executive Director and Chairman of the Board Risk and Capital Committee (SIMF 10)
Richard Bennison	Independent Non-Executive Director and Chairman of the Audit Committee (SIMF 11)
Mike Yardley	Independent Non-Executive Director (Notified NED)
Joanne Dawson	Independent Non-Executive Director (Notified NED)

PAC Board members	Role
Clare Bousfield	PAC Director and ICEO (SIMF 1)
Jeremy Deeks	PAC Director and Insurance CFO (SIMF 2)
John Foley	PAC Director and UK&E CEO (SIMF 7)
Nic Nicandrou	PAC Director and Group CFO (SIMF 7)

The Board is authorised to exercise all the powers of the Company within any applicable legislation and the provisions of the Articles of Association subject to the limits imposed, approvals required and policy set by Prudential plc, including the Prudential Group Governance Manual.

The terms of reference for the Board are reviewed on an annual basis and an annual effectiveness review of the Board is also undertaken. This includes consideration of the effectiveness of the Board Risk and Capital Committee and the Board Audit Committee.

Material changes to the system of governance

During 2016, the constitution of the Board was changed with the appointment of the independent non-executive Chairman and the four other independent non-executive directors detailed above.

B.1.2 Board Committees and decision making

The Board has established a number of committees comprising non-executive directors and independent members to provide independent oversight, challenge and to assist the Board in discharging its responsibilities and operating effectively. The responsibilities of the principal committees are a key component of the governance framework.

The Board is responsible for:

1. **Strategy, Budgets and Business Plans**
   - approving the Company's strategy, long-term objectives, annual budgets and business plan prior to their submission to the Group;
   - monitoring the implementation of the Company's strategy and long-term objectives;
   - annual budgets and business plan as approved by the Prudential plc Board, and oversee any corrective action taken by the Company;

2. **Structure and Capital**
   - approving, subject to the Group Governance Manual, the following matters:
     - material changes to the Company's corporate structure, including decisions to cease operations in parts of the Company or to extend activities into new business or geographic areas;
     - material changes to the Company's capital structure, including reduction of capital, share issues and the reorganisation or restructuring of capital;
     - the raising of or committing to external finance and financing programmes;
     - material transactions and other matters that require referral to Prudential plc under the Group Governance Manual;

3. **Financial Reporting and Dividends**
   - approving the Company's Annual Report and Accounts;
   - approving the payment of dividends;
   - ensuring the Company adopts the Group's accounting policies;

- endorsing the proposed appointment, reappointment or removal of the Group's external auditor;
- regularly reviewing the overall financial condition of the Company and its subsidiaries;
- any relevant credit ratings and regulatory capital requirements;

4. Internal Control and Risk Management

- ensuring an effective system of internal control and risk management is in place, maintained and reviewed annually;
- ensuring the overall risk appetite and tolerance of the UK & Europe Insurance Business Unit adheres to the Group Risk Framework, policies and limits;
- approving the Company's risk appetite and risk framework and policies within the limits;
- overseeing and approving where applicable, material disclosures to, and regular reporting required by, regulators;

5. Board and other appointments

- taking the following actions, each in accordance with the Group Material Subsidiaries Corporate Governance Manual:
- ensuring, in conjunction with the Chief Executive, that there is a succession planning process in place for executive directors and senior management;
- ensuring an effective process for the ongoing refreshment of non-executive directors;

6. Governance

- ensuring the Company adheres to the Group's governance policies;
- ensuring that an evaluation of the Board's own performance, that of its committees and of all directors is undertaken in accordance with the Material Subsidiaries Corporate Governance Manual and that an appropriate plan of action is adopted to address matters identified in the evaluation;
- authorising any actual or potential conflict of interest situation applying to any director;
- authorising the Company Secretary to arrange for all directors to obtain, at the Company's expense, appropriate external professional advice where necessary;

7. Delegation of Authorities

- delegating authority to a number of standing and ad hoc committees of the Board and regularly reviewing the terms of reference for, and reports from, the committees, in adherence with the Material Subsidiaries Corporate Governance Manual;

The Chief Executive of the Company has responsibility for the operational management of the Company and its subsidiaries and may sub-delegate her authority as she determines.

8. With-Profits

- ensuring that the interests of the with-profits policyholders are appropriately considered in relation to matters affecting with-profits policyholders as a whole or as separately identifiable groups of policyholders;
- receiving advice from the With-Profits Committee to ensure compliance with the Company's Principles and Practices of Financial Management (PPFM);

9. Investment Strategy

- inputting into the development of, and approving, the UK & Europe Insurance Business Unit's ('UK&EI') investment strategy in the context of the UK&EI's business strategy; and

- monitoring the implementation of the UK&EI's investment strategy, and overseeing any corrective action taken by the Company.

Board Committees

The Board Audit Committee, Board Risk and Capital Committee, With-Profits Committee, Independent Governance Committee and the Scottish Amicable Board are the principal standing committees of the Board.

Each Board Committee has written terms of reference, which are reviewed during the course of the year to ensure that these remain in line with best practice and that each committee continues to have suitable delegated authority to fulfil their responsibilities without creating duplication of activities. The role of each Committee together with details of the current Chairman is summarised in Figure 9 below.

Figure 9: Summary of the role of each Board Committee and Chairman as at 31 December 2016

Board Committees	Role
Board Audit Committee	**Chair : Richard Bennison** The Board Audit Committee is accountable to the Board and assists the Board in meeting its responsibility for the integrity of the Company's financial statements, for the effectiveness of the Company's internal control and risk management systems and for monitoring the effectiveness and objectivity of the internal and external auditors.
Board Risk and Capital Committee	**Chair : Clive Adamson** The Board Risk and Capital Committee is accountable to the Board and assists the Board in meeting its responsibility for overseeing the effectiveness of risk and capital management frameworks for all financial and non-financial risks faced by UK&EI. The Committee also oversees compliance with the Group Risk Framework, related Group Risk Policies and Group Approved Limits.
With-Profits Committee	**Chair: Ronnie Bowie** The With-Profits Committee is an independent committee which acts in an advisory capacity to inform the decision-making of the Company to ensure that the interests of its with-profits policyholders are appropriately considered before decisions are made.
Independent Governance Committee	**Chair: Lawrence Churchill** The role of the Independent Governance Committee is to act solely in the interest of scheme members, to assess, raise concerns and report on the value for money of the Company's contract-based defined contribution workplace pension schemes and to focus on the quality of their schemes and ongoing review of regulatory and legislative requirements.
Scottish Amicable Board	**Chair: Bernard Solomons** The role of the Scottish Amicable Board is to observe and perform the terms of the Scheme and carrying out duties as members of the Scottish Amicable Board. To have regard solely to the interests and reasonable expectations of the holders of policies allocated to the Scottish Amicable Insurance Fund.

The key functional control areas of Risk, Internal Audit, Compliance and Actuarial report to the respective Board Committees in accordance with each Committee's terms of reference. It is the responsibility of the Board Audit Committee to review the resources of Internal Audit and Compliance through their review of annual plans and progress of their delivery during the year.

Further information of the key functions, e.g. Risk, Compliance, Group-wide Internal Audit and Actuarial is given in sections B.3.2, B.4.2, B.5 and B.6, respectively.

B.1.3 Remuneration Committee and Policy

The Remuneration Committee is a management committee with a remit to implement the remuneration policy and structures established by the Group Remuneration Committee.

The Group Remuneration Committee is responsible for ensuring that Business Units, i.e. UK&EI, comply with the Group Remuneration Policy and with applicable regulations.

The Solvency II requirement for the Company to have an independent remuneration committee is met by the UK&E Remuneration Committee reporting into the Group Remuneration Committee, which provides the independent oversight for the Group Remuneration Policy.

Prudential Group’s Remuneration Policy and practices ensure that the Business Units and the Group Head Office have an effective approach in place to reward our employees in an appropriate way that:

- aligns incentives to business objectives in order to support the delivery of Group and Business Unit business plans and strategies;
- enables the recruitment and retention of high calibre employees and incentivises them to achieve success for their Business Unit and the Group; and
- is consistent with the organisation's risk appetite.

Remuneration practices within the UK & Europe Insurance Business Unit and the statutory entities within it follow the Prudential Group Remuneration Policy and there is no separate remuneration policy at the Business Unit level.

The principles of the Remuneration Policy, implemented within the Company and the UK & Europe Insurance Business Unit are:

- Pay for Performance
- Tailored to the relevant market
- Interest in Prudential shares
- Business Unit and Group focus
- Shareholder value creation
- Fair and transparent system for all
- Designed to minimise regulatory and operational risk
- Safeguards to avoid conflicts of interest

Remuneration architecture

Both fixed and variable remuneration is assessed against market data and internal relativities on an annual basis and balanced so that the fixed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components and to mitigate unintended consequences and inappropriate behaviours to the detriment of customer outcome.

Variable remuneration available to employees includes short term-incentives (i.e. annual bonus, quarterly sales incentives for sales staff) and long-term incentive plan (‘LTIP’) awards.

Annual bonus measures include various combinations of UK & Europe Insurance Business Unit (‘UK&EI’) financial and / or strategic targets, Group financial targets, functional targets and individual performance reflecting the level, nature and scope of the role and the practice in the market in which UK&EI operates. Currently, annual bonus awards are based on Business Unit business and individual performance and potential, and market practice. This allows the Group and Business Units to operate a fully flexible bonus policy, including the possibility of not paying an annual bonus based on financial and non-financial criteria.

Awards made under the Group’s LTIP plans include Group and Business Unit financial metrics. The LTIP awards to senior executives are made under the Prudential LTIP and include a Group target to ensure their remuneration includes a link to the overall results of the Group.

Prudential does not operate supplementary pension or early retirement schemes at Group or UK&EI level. Two of the members of the UK&EI Executive Committee and one key function holder participate in one of the legacy defined benefits schemes. The scheme provides an accrual of 1/60 of final pensionable earnings subject to the earnings cap for each year of pensionable service. The defined benefit schemes are closed to new members.

Governance processes deliver robust oversight of reward, effective management of conflicts of interest and reflect the need to link remuneration decisions with risk appetite.

The Group Chief Risk Officer is actively involved in ensuring that remuneration across the business reflects the extent to which decisions were made within the organisation’s risk appetite. The Group Chief Risk Officer reports to the Group Remuneration Committee, in writing, at least once a year providing:

- input to the Committee’s decision on risk adjustment of bonus awards; and
- information on the performance of the Group against risk appetite.

Similarly, the UK & Europe Chief Risk and Compliance Officer provides written reports to UK & Europe Remuneration Committee on an annual basis, covering behaviours and adherence to risk appetite and providing input on variable remuneration outcomes for those employees within the remit of the Committee.

B.1.4 Material transactions with directors and shareholders

Transactions with Directors

In addition to remuneration for the role on the Board, executive officers and directors of the Company may from time to time purchase insurance, asset management or annuity products marketed by the Group’s 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.

Transactions with shareholders

A loan of £163 million (2015: £Nil) was repaid from Prudential plc to the Company during 2016.

There were no other material transactions with shareholders outside the normal course of business.

B.2 Fit and proper requirements

The UK & Europe Insurance Business Unit ensures that senior managers are fit and proper through the implementation of a Fit and Proper Policy.

There is an annual certification programme to demonstrate compliance with the Group Governance Manual, which includes the Fit and Proper Policy, and the system of internal control each year end by each Business Unit and the Group Head Office.

The Policy applies to:

- all persons approved as Prudential Regulation Authority Senior Insurance Management Functions;
- all persons approved as Financial Conduct Authority Significant Influence Functions;
- all persons defined as Key Function holders and notified to the regulator; and
- all persons defined as Notified Non-Executive Directors and notified to the regulator.

B.2.1 Fit and proper criteria

All individuals to whom the Fit and Proper Policy applies fulfil the following requirements:

- honesty, integrity and reputation, i.e. that they will be open and honest in their dealings and able to comply with the requirements imposed on them;
- competence and capability, i.e. that they have the necessary skills to carry on the function they are to perform; and
- financial soundness.

B.2.2 Processes for assessments

Processes for assessing fitness and propriety

Individuals

The Company has processes for assessing the fitness and propriety of persons covered under the Fit and Proper Policy. These processes are described below.

- Develop and maintain appropriate processes for assessing the fitness and propriety of persons covered under the Fit and Proper Policy, including Key Function Performers; this may involve a number of direct questions and independent checks.
- During the recruitment process and before any regulatory application is made, an assessment of the person’s fitness is conducted including:
    - The person’s professional and formal qualifications.
    - Knowledge and relevant experience within the insurance sector, other financial sectors or other businesses.
    - Where relevant, the insurance, financial, accounting, actuarial and management skills of the person.

- During the recruitment process and before any regulatory application is made, an assessment of the person's propriety is conducted including integrity, honesty, and financial soundness, based on evidence regarding their character, personal behaviour and business conduct, including any criminal, financial and supervisory checks.
- In relation to outsourced key functions, an individual who is responsible for assessing the fitness and propriety of the service provider is identified.

Ongoing assessment fitness and propriety

- Sufficient evidence is gathered at least annually, to assess the ongoing Fitness and Propriety of individuals captured by the Senior Insurance Managers Regime, including key function performers and notified non-executive directors. This includes an assessment of whether the individuals are adhering to the relevant Prudential Regulation Authority ('PRA') / Financial Conduct Authority ('FCA') Conduct Standards and Rules.
- The Compliance Function are notified where there is a change in the fit and proper status of any Senior Insurance Management Functions, Significant Influence Functions or Key Function Holder.
- The PRA and FCA are notified of any change to the fit and proper status of Senior Insurance Management Functions, Senior Influence Functions or Key Function Holders, including instances of where these individuals have been replaced because they are no longer fit and proper.
- The PRA and FCA is notified as soon as reasonably practicable when a breach has occurred in the Conduct Standards and Rules that has a material impact on the assessment of an individual's fitness and propriety.
- Compliance is notified as soon as reasonably practicable in the event of a breach of the Fit and Proper Policy requirements.

B.3 Risk management system including the ORSA

B.3.1 Risk governance, culture and our risk management cycle

The Company 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 company. As such, material risks will be retained selectively where we think there is value to do so, and where it is consistent with the Company'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 have been established to make decisions and control activities on risk-related matters. This encompasses individuals, key functions and committees involved in the management of risk.

(i) <u>Risk committees and governance structure</u>

The Company's risk governance structure is led by the Board Risk and Capital Committee, the members of which are independent non-executive directors. The Board Risk and Capital Committee assists the Board in providing leadership and oversight of the Company's overall risk appetite in addition to guidance on risk tolerance and strategy. The Committee oversees and advises the Board on the current and potential future risk exposures of the Company, reviewing and approving the Company's Risk Management Framework, monitoring its effectiveness and adherence to the various risk policies. The Board Risk and Capital Committee also supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk.

In addition, there are various executive risk forums to ensure risk issues are considered and escalated appropriately. These are led by the Executive Risk Committee which is supported by a number of technical sub-committees that have members with the specialist skills required.

(ii) Risk Management Framework

The Company'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 exposure to the key risk drivers is monitored and managed by the Risk Function whose responsibility it is to review, assess and report on the Company's risk exposure and solvency position.

The Risk Management Framework requires the establishment of processes for identifying, evaluating and managing the key risks faced by the company - the 'Risk Management Cycle' 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 Company'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.

(iii) Risk appetite, limits and triggers

The extent to which we are willing to take risk in the pursuit of our objective to create shareholder and policyholder value is defined by a number of risk appetite statements, operationalised through measures such as limits, triggers and indicators. The Company's risk appetite is approved by the Board and is set with reference to economic and regulatory capital, liquidity and earnings volatility. The Company's risk appetite is aimed at ensuring that we take an appropriate level of aggregate risk and covers all risks to shareholders and policyholders, including those from participating and third party businesses. 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. Limits operate within the risk appetite to constrain the material risks, while triggers and indicators provide further constraint and ensure escalation. The Chief Risk & Compliance Officer determines the action to be taken upon any breaches.

The 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 Shareholder and Policyholder Risk Appetite Framework.

The Company sets its risk appetite in order to assist the business in implementing the strategy and achieving business plan objectives, whilst operating within relevant tolerances and limits defined by the Board and the risk strategy. As part of this, the Company's risk appetite and limits are cascaded from the Group Approved Limits Framework but aligned with the actual risk profile and risk management objectives of the Company, with specific controls introduced as needed.

Key elements of the risk appetite framework are as follows:

- articulation of the aggregate level and types of risk the Company is willing to take in the pursuit of its business objectives. These risk appetites are further defined for the most significant financial and non-financial risk exposures arising from the shareholder and policyholder business;
- specific UK quantitative risk limits and granular risk triggers and controls are set to operationalise the qualitative risk appetites and facilitate risk monitoring against those; and
- monitoring against risk appetite is done through monthly risk management information presented to Board and Executive Risk committees or ad-hoc papers on material issues. Any changes to the risk appetite framework require Board approval.

(iv) Risk policies

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

There are core risk policies for credit, market, insurance, liquidity, operational and conduct risks, and a number of internal control policies covering internal model risk, underwriting, dealing controls and tax risk management.

(v) Risk standards

The Company adopts and complies with the Group-wide Operating Standards which 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 perspective 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:

(i) senior management articulate the need for good risk management as a way to realise long-term value and continuously support this through their actions.
(ii) 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
(iii) 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 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 throughout 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.

(i) Risk identification

Risk identification is derived through a number of processes, in particular the top risk, bottom-up risk, emerging risk, short- to medium-term horizon scanning, and own risk and solvency assessment processes. Each of these is designed to identify and assess risk from a different perspective to form an overall understanding of the business' risk profile and its evolution.

(ii) Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment Report pulls together the analysis performed by a number of risk and capital management processes, and provides quantitative and qualitative assessments of the Company's risk profile, risk management and solvency needs on a forward looking basis. The scope of the Own and Risk Solvency Assessment Report covers the full known risk universe of the Company.

(iii) Risk measurement, assessment, monitoring and reporting

Metrics used to measure risks include market values, best estimate liabilities, Solvency II regulatory capital requirements ('Pillar I') and economic capital requirements ('Pillar II') and impact on earnings. Point-in-time measures are supplemented by quarterly sensitivities and stress and scenario testing.

Operational risk is less easily quantifiable, however, a risk incident process is in place to ensure that incidents and risk events are identified and appropriately managed in a timely manner in line with the Operational Risk Framework.

Risk exposures are evaluated in terms of their relative position against the Company's risk appetite to assess materiality in order to determine the appropriate response. In addition, an ongoing system of risk monitoring and reporting is in place to communicate insight, enable risk-based decision-making, and drive action as needed.

B.3.2 The Risk Function

Risk management system

The Company's risk governance arrangements, which support the Board, the Board Risk and Capital Committee and the Board 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.

Within the Three Lines of Defence model, the Risk Function is structurally independent of the 1st Line of Defence ('1st Line') and is responsible for risk control and oversight. While the 1st Line has responsibility for risk-taking, which is constrained within clear parameters, the Risk

Function 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. The Risk Function also reviews and assesses the risk taking activities of the 1st Line, where appropriate challenging the actions being taken to manage and control risks and approving any significant changes to the controls.

Broadly, the Risk Function has the following main responsibilities but is not limited to:

- Co-ordinating identification and assessment of key risks to establish the risk profile used as a basis for setting qualitative risk appetite statements and quantitative limits, management information received by risk committees and the Board, assessment of solvency needs and determining appropriate stress and scenario testing.

- Providing an overall coordination and control of the effectiveness and efficiency of risk management processes and systems.

- Supporting the Board and management in embedding and maintaining a supportive culture in relation to the risk management.

- Through oversight and the internal model validation process, ensuring that the development of the internal model is within the framework of model governance and remains fit for purpose.

- Reporting on material exposures against risk appetite which also includes ongoing developments in the Company's top and emerging risks.

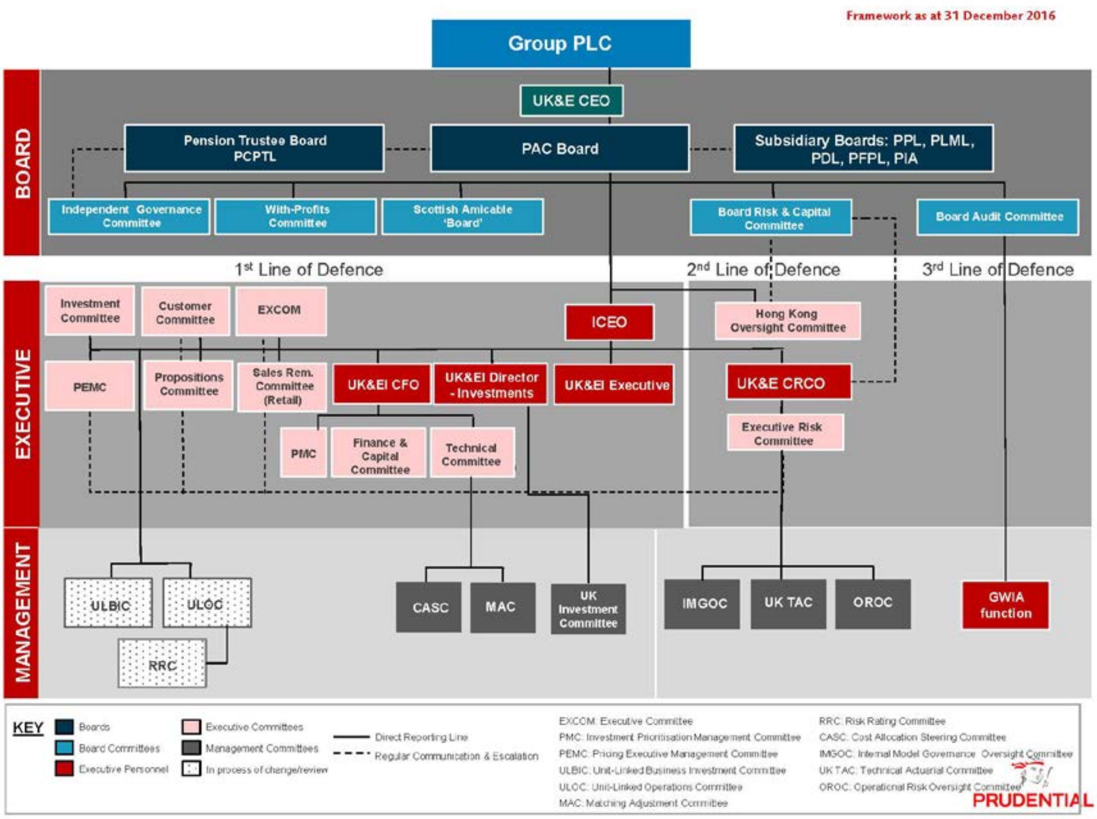
- Providing input and review of public and regulatory disclosures, such as the annual Solvency and Financial Condition Report.

- Performing Own Risk and Solvency Assessment, undertaking stress and scenario testing including Reverse Stress Testing and informing the key areas of risk based decision making.

- Considering material findings from regulatory reviews and interactions with regulators which impact on risk governance or risk management processes.

In order to fulfil these responsibilities, the Risk Function often liaises with other functions (e.g. Actuarial and Compliance), to provide technical expertise and advise throughout the risk management cycle.

Figure 10: UK & Europe Insurance Governance Structure as at 31 December 2016



B.3.3 Internal model

The Solvency II internal model is a key risk management tool and refers to the systems and processes used to identify, monitor and quantify risks for the purpose of calculating the Solvency II capital requirement ('SCR', 'Pillar I') and management's own assessment of economic capital ('ECap', 'Pillar II') requirements.

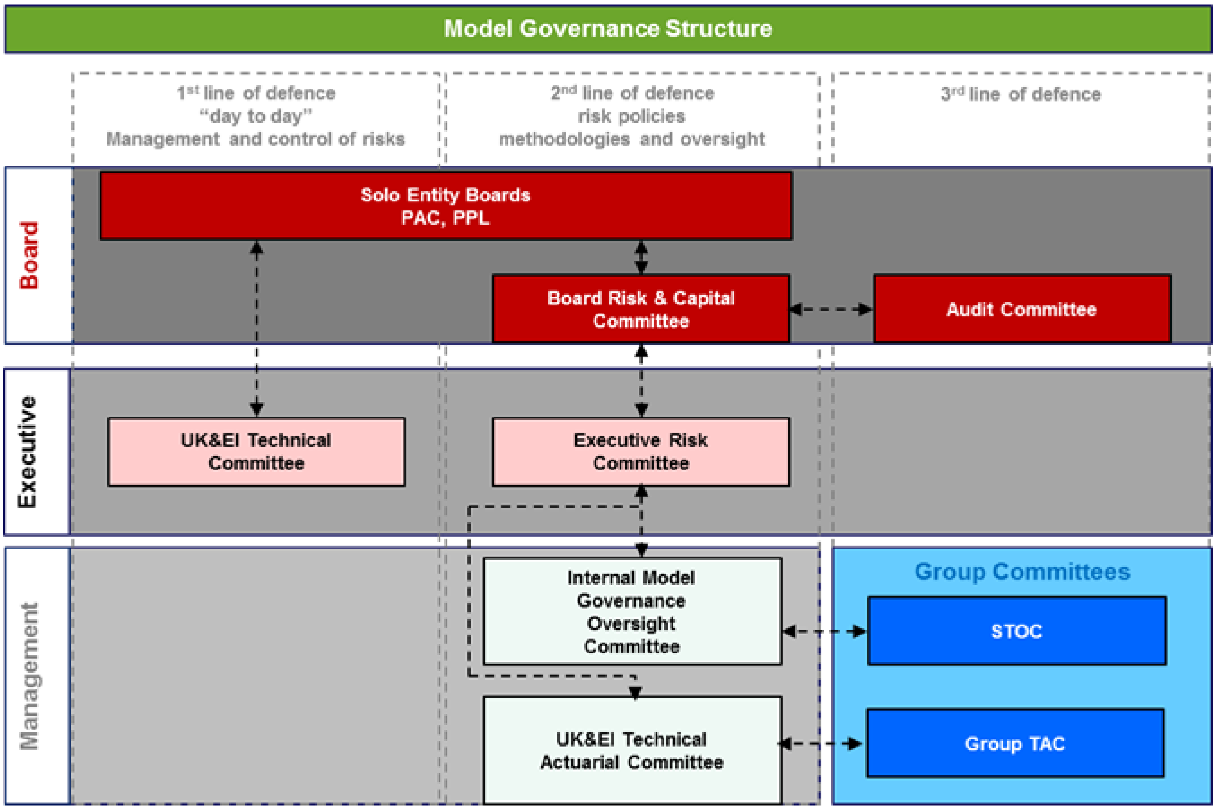
To ensure that the internal model is, and continues to be, suitable to support this assessment of risk and capital, UK & Europe Insurance has implemented a governance and control framework in relation to:

- model use: to provide that the model is widely used in the business, playing an important role in the system of governance and decision-making processes;
- model change: where changes to the internal model are required (e.g. adjustments, enhancements), these are enacted in a consistent and controlled manner with consideration of any potential implications;
- model limitations, assumptions and judgements: to note the circumstances under which the internal model does not work effectively, including where assumptions and judgements are made, making sure these are reasonable and understood by those who may rely upon any model output; and
- model validation: to confirm that the capital requirements resulting from the internal model remain appropriate through an annual schedule of rigorous and independent testing.

This model governance framework is implemented in accordance with the Prudential Group Internal Model Risk Policy which, in turn, is aligned with relevant requirements of the

Solvency II Directive. Further Policies and Operational Standards support the application of the Internal Model Risk Policy, with a committee structure in place to manage and oversee the framework as set out in Figure 11 below.

Figure 11: Committee Structure to oversee the Internal Model Governance



Validation process

The Internal Model Governance Oversight Committee ('IMGOC') and the UK Technical Actuarial Committee ('UK TAC') have responsibility for ensuring that the Internal Model is, and continues to be, suitable to support the assessment of risk and capital and that it complies with all regulatory requirements. The IMGOC is responsible for overseeing the Internal Model, including independent validation of the model. The UK TAC is responsible for reviewing and approving the methodology, and assumptions for the Internal Model, including any changes to the model. The IMGOC and UK TAC report to the UK&EI Executive Risk Committee, chaired by the UK&E Chief Risk and Compliance Officer. The Chief Risk and Compliance Officer reports to the Board(s) as necessary on matters relating to the Internal Model.

The model oversight and governance is supported by the implementation of the Internal Model Risk policy which forms part of UK&EI's risk management framework. The policy defines:

- minimum standards for effective model risk management by Business Units including Group Head Office;
- processes for UK&EI Risk functions and relevant management bodies to monitor and manage model risk and ensure the Internal Model is fit for purpose ("model governance"); and
- flows of management information required to manage model risk and to meet the needs of external stakeholders and in doing so, fulfil the relevant legislation and supervisory requirements and rating agency requests.

The policy is in line with the Prudential Group Internal Model Risk policy and the relevant requirements of the Solvency II regulations for Internal Models. The policy gives rise to the following key requirements with respect to governance of the Internal Model:

- establish controls for the Internal Model;
- ensure appropriate documentation of the model, methodology, assumptions and inputs. This should include identification of the models' limitations and weaknesses;
- ensure the users of the model have an adequate understanding of the Internal Model;
- establish and maintain a system for making and managing changes to the Internal Model; and
- establish and maintain a system for validation for the Internal Model.

Compliance with the policy is attested to, and overseen by the IMGOC, on an annual basis.

Material changes to the internal model governance

During 2016, the UK&EI Technical Actuarial Committee was established.

B.3.4 Own risk and solvency assessment

The Company defines the Own Risk and Solvency Assessment ('ORSA') as the ongoing process of identifying, assessing, controlling, monitoring and reporting the risks to which the business is exposed, and of assessing the own funds necessary to ensure that the Company's solvency needs are met at all times. Risk appetite and limits are the key controls that apply on the current and future risk profile, as a result of the Company's strategy and business plan, and ensure that the company complies with its solvency requirements on a continuous basis under a reasonable range of scenarios. This process is documented and evidenced through an ORSA report. The ORSA is performed at least annually, and more frequently if there is a significant change in the Company's risk profile following any internal actions or a change in the external environment.

The ORSA report combines the analysis performed by and the outcomes of the ongoing risk and capital management processes that are embedded and which have usually been reviewed by various Committees such as the Executive Risk Committee and Board Risk and Compliance Committee. It provides a quantitative and qualitative assessment of the Company's risk profile and solvency needs on a forward looking basis incorporating the Company's strategy and business plan.

The scope of the ORSA report covers all the known risks of the Company.

Figure 12 below sets out the key responsibilities of the ORSA stakeholders in the production of the ORSA report.

Figure 12: High level overview of ORSA responsibilities

Stakeholder	Roles
PAC Board	Steer and challenge throughout the ORSA process, approving the ORSA report.
Board Risk and Capital Committee	Review of the ORSA and recommendation to PAC Board for approval.
Executive Risk Committee	Review and comment upon the ORSA prior to submission to Board Risk and Capital Committee and PAC Board.
UK&EI Chief Risk and Compliance Officer	Ownership of the ORSA report.

Stakeholder	Roles
UK&EI Risk	Preparation of the ORSA report, collaborating with functional areas as needed.
UK&EI Finance	Preparation of quantitative inputs to ORSA report.

The ORSA is recognised as a valuable component of the Company's business, providing an integral framework to understand the interplays between strategy, risk and capital. In embedding the ORSA within the business, the centrality of the internal model within business decision making is considered a key attribute. Other important attributes include the integration of the ORSA with other key business processes, top-down understanding, steering and challenge of the process, and the use of ORSA related findings and conclusions in decision making.

B.4 Internal control system

B.4.1 Overview

The internal control system for the Company consists of the policies, processes, structures and other arrangements that are used – across the Three Lines of Defence – to give effect to the agreed approach to risk management. The internal control framework is a central part of the risk management system with a key role in the management of risks that are significant to the fulfilment of business objectives, and maintaining positions within agreed risk appetite and tolerance.

The purpose of the internal control system is to set the parameters and procedures that ensure the effectiveness and efficiency of operations, the reliability of reporting (both internal and external) and compliance with regulatory and other requirements.

The Board has delegated authority to the Board Audit Committee to review the framework and effectiveness of the systems of internal control. The Board Audit Committee is supported in this responsibility by the assurance work carried out by Group-wide Internal Audit.

B.4.2 Compliance Function

The purpose of the Compliance Function, which is part of the 2nd Line of Defence, is to advise on compliance with the laws, regulations and administrative provisions in respect of the Solvency II Directive by ensuring that the UK & Europe Insurance Business Unit internal control system remains effective and by reporting to the Board in respect of compliance with the Group Governance Manual.

The Compliance Function provides dedicated support for regulatory interactions, including co-ordinating regulatory activity across the business, and provision of support and advice to the business on regulatory matters as well as future policy developments. The Compliance Function also provides guidance, advice and feedback on regulation, as well as setting, and advising on, compliance standards. Routine monitoring and deep dive activities are carried out, to assess compliance with regulatory rules and legislation. In addition, the Compliance Function undertakes other activities which support the business and the wider governance framework, such as business education and training.

The Group Compliance Policy sets out the principles and minimum requirement by which the Company conducts its business and controls the scope covered by the policy. The policy includes requirements to:

- treat customers fairly openly and honestly;

- provide and promote a range of products and services that meet customer needs, are easy to understand and that deliver real value;
- maintain honest, constructive and open relationships with governments and regulators to ensure mutual trust, respect and understanding;
- comply with all Group Policies, as well as applicable laws, rules and regulations in every country in which we operate;
- accept responsibility in all its activities for compliance with the spirit as well as the letter of all applicable laws, rules and regulations;
- act with due skill, care and diligence;
- ensure that an effective compliance culture thrives and operates at all levels of the business; and
- maintain appropriate means of identifying, assessing, managing and reporting regulatory compliance risks within business units and on an aggregated basis across the Group.

B.5 Internal Audit Function

Internal Audit is implemented through a Group-wide Function, therefore, references to Group-wide Internal Audit ('GwIA') are relevant to the Company's Internal Audit Function.

How the Company's Internal Audit Function is implemented

The work of Group-wide Internal Audit is part of the overall Internal Control Framework of the Prudential Group in that it operates as a 3rd Line of Defence in providing independent and objective internal control assurance.

GwIA's primary objective is to assist the Board, Group Executive Committee, Group Audit Committee and Group Risk Committee in protecting the assets, reputation and sustainability of the organisation through the assessment and reporting of the overall effectiveness of risk management, control and governance processes across the Group; and by appropriately challenging Executive Management to improve the effectiveness of those processes.

The audit department is led by the UK & Europe Insurance Business Unit ('UK&EI') Audit Director whose primary reporting line is to the Group-wide Internal Audit Director, with a secondary administrative reporting line to the UK&EI Chief Executive Officer and with direct access to the Chair of the Board Audit Committee, as required. The global Group-wide Internal Audit function also has a Quality Assurance Director, whose primary role is to monitor and evaluate adherence to industry practice guidelines and Group-wide Internal Audit's own standards and methodology. Internal audit resources, plans, budgets and its work are overseen by both the Prudential Group Audit Committee and the Board Audit Committee.

Group-wide Internal Audit activity is not restricted in scope in any way and is empowered by the Prudential Group Audit Committee to audit all parts of the Prudential Group and has full access to any of the organisation's records, physical properties and personnel. All employees are required to assist Group-wide Internal Audit in fulfilling its roles and responsibilities.

The UK&EI Audit Director submits an annual audit plan to the Board Audit Committee for review and approval. The audit plan is also agreed with the Group Audit Committee. The annual audit plan is based on prioritisation of the identified 'audit universe' using an 'audit needs' risk-based methodology, incorporating input from Group and business unit stakeholders and is subject to ongoing review.

Group-wide Internal Audit adheres to the Institute of Internal Auditors requirements as set out in the Institute of Internal Audit’s 'Code of Ethics' and 'International Standards for the Professional Practice of Internal Auditing', and the Chartered Institute of Internal Auditor’s revised guidance, ‘Effective Internal Audit in the Financial Services Sector’.

Group-wide Internal Audit adheres to the requirements for internal audit functions set out in the Solvency II Directive 2009/138/EC (Level 1 text) Article 47 and Delegated Regulation (EU) 2015/35 (Level 2 text) Article 271.

Group-wide Internal Audit adheres to the requirements of the Senior Insurance Managers Regime and the Group’s Fit and Proper Policy.

How the Company’s Internal Audit Function maintains its independence and objectivity from the activities it reviews

Group-wide Internal Audit maintains its independence and objectivity in the discharge of its responsibilities, and appropriate reporting lines are in place to support this goal:

- The audit department is led by the UK&EI Audit Director who is accountable to the Board Audit Committee with direct access to the Chair of the Committee and reports to the Group-wide Internal Audit Director. For administrative purposes (excluding strictly all audit related matters) the UK&EI Audit Director is a direct report of the UK&EI Chief Executive Officer.
- The UK&EI Audit Director reports audit related matters to the Board Audit Committee and communicates directly with the Board Audit Committee through attendance at its meetings.
- The UK&EI Audit Director, in consultation with the UK&EI Chief Executive Officer, is empowered to attend and observe all or part of Board meetings and any other key management decision making committees and activities as appropriate.
- In accordance with the Group-wide Internal Audit Charter, UK&EI has an internal audit team, led by the UK&EI Audit Director who reports to the Group-wide Internal Audit Director as functional head, with direct access to the Chair of the Board Audit Committee. The Group-wide Internal Audit Director will consider the independence, objectivity and tenure of the UK&EI Audit Director when performing their appraisals.
- The function also has an autonomous Quality Assurance Director, whose primary role is to monitor and evaluate adherence to industry practice guidelines and Group-wide Internal Audit’s own standards and methodology.
- The assessment of the adequacy and effectiveness of the Risk, Compliance and Finance Functions is within the scope of Group-wide Internal Audit and as such Group-wide Internal Audit is independent of these functions and is neither responsible for, nor part of, them.
- Group-wide Internal Audit staff are expected to exhibit the highest level of professional objectivity in carrying out their duties; must make a balanced assessment of all relevant circumstances; remain impartial; and seek to avoid any professional or personal conflict of interest.
- Group-wide Internal Audit has a Conflicts of Interest Policy. Potential conflicts are recorded and monitored by the Group-wide Internal Audit Quality Assurance Director, including a quarterly review of reported conflicts to assess appropriate management oversight. Where deemed necessary, the Quality Assurance team will review audits where a potential conflict has been identified to ensure conformance with Group-wide Internal Audit Policy.

B.6 Actuarial Function

Within the UK & Europe Insurance Business Unit (‘UK&EI’), the Actuarial Function is defined as the Chief Actuary, his team within the Risk department, and specified individuals within the Finance Function who are responsible for carrying out the tasks of the Actuarial Function. The role of the Chief Actuary is a Prudential Regulation Authority Senior Insurance Management Function and has responsibility for all of the activities of the Actuarial Function. The UK&EI Chief Actuary and his team form part of Prudential Group’s Actuarial Function.

The need for, and the scope of, the Actuarial Function is defined in Article 48 of the Solvency II Directive. This sets out the tasks that the Actuarial Function is responsible for. In addition to the tasks defined in Article 48 of the Solvency II Directive, the Chief Risk and Compliance Officer as the head of the Risk Management Function has delegated a number of the Risk Management responsibilities to the Chief Actuary, in particular oversight of the calibration and calculation of the solvency capital requirement (’SCR’). This ensures that the Actuarial Function is embedded in the key stages of the risk management system in relation to the calculation of the capital requirements.

The key activities undertaken by the Actuarial Function to meet its responsibilities are summarised below:

Valuation of technical provisions

The UK&EI Finance Function propose the valuation methodology, assumptions and calculate the technical provisions. The Chief Actuary reviews the valuation methodology and assumptions, the models and data used in the calculation of the technical provisions and the technical provisions and advises the Board accordingly. The report to the Board constitutes a component report of the overall Actuarial Function Report.

Underwriting Policy

The Chief Actuary reviews and advises on all aspects of the Underwriting Policy on an ongoing basis. In addition, he carries out an annual review of specific aspects of the policy. The Chief Actuary provides an annual report to the Board expressing an opinion on the Underwriting Policy, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Reinsurance arrangements

The Chief Actuary reviews and advises on all aspects of the reinsurance arrangements on an ongoing basis. In addition, he carries out an annual review of specific aspects of the Reinsurance Policy. The Chief Actuary provides an annual report to the Board expressing an opinion on the adequacy of the reinsurance arrangements, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Capital requirements

The UK&EI Finance Function propose the valuation methodology and assumptions, and calculate the SCR. The Chief Actuary reviews the valuation methodology and assumptions and the SCR and advises the Board accordingly. The Chief Actuary also chairs the internal management committee with responsibility for internal capital model methodology and assumptions.

Actuarial Function Report

The Actuarial Function provides a written report at least annually to the Board to document the tasks that have been undertaken by the Actuarial Function and their results, to identify any deficiencies and provide recommendations as to how such deficiencies should be remedied. This report summarises the tasks described above and highlights the key areas of focus following the Actuarial Function's activities each year.

B.7 Outsourcing

The Company uses outsource and third party supply providers to allow focus on its core business strengths, reduce costs and manage its delivery risks. The Company recognises that the use of outsourcers (whether intra-group or external third parties) can impact its risk profile. There is a risk with outsourcing and third party supply arrangements that the outsourcer / supplier could fail, which could result in significant business interruptions, liability for losses and costs, reputational damage and regulatory breaches. The Company retains ultimate responsibility for any activity that is supplied or outsourced.

The Company has material external and intra-group outsource providers. The external providers supply customer servicing, policy administration, new business processing, claims activity and related IT support services located in the UK and India, and back office administration for pension schemes and annuities located in the UK. The intra-group outsourcers provide IT infrastructure support services and investment strategy and portfolio management services located in the UK.

The Company has an Outsourcing and Third Party Supply policy in place, which forms part of the overall Risk Management Framework and is aligned with the three lines of defence governance model. This policy sets out the requirements for the management of all outsourcing and third party supply arrangements across the UK & Europe Insurance Business Unit and is aligned with relevant policies, which address specific outsourcing topics, e.g. data security, information risk, and business continuity. It is compliant with regulatory requirements for outsourcing and covers the full lifecycle of managing outsourcers and third parties, from procurement to managing and monitoring and relationship, and exiting a contract. The Outsourcing and Third Party Supply Policy provides definitions of types of outsourcer (e.g. external, intra-group) and criticality of arrangements, along with minimum requirements to manage them. Attestation of compliance to the Outsourcing and Third Party Supply Policy is completed on an annual basis by the Chief Financial Officer and is overseen by UK&EI Risk.

B.8 Any other information

The effectiveness of the system of internal control and risk management is reviewed regularly and the outcomes are considered by the Board and its sub-committees. As part of the evaluation, the Chief Executive and Chief Financial Officer report on compliance with the Group's governance policies and the internal control and risk management requirements. The UK & Europe Insurance Business Unit 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, 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.

Prudential is conducting a Past Business review of non-advised annuity sales made by the Company, and PRIL in respect of the Part VII transferred business, from 1 July 2008. This follows the Financial Conduct Authority's thematic review of non-advised annuity sales practices, which identified that Prudential's sales process and in particular its telephone interactions with customers, may not have provided adequate information about the customers' potential eligibility for an enhanced annuity and the benefits of shopping around for an enhanced annuity. A review of the treatment of legacy business is underway following the FCA's thematic review of long-standing customers in the life insurance sector. This will address certain customer communications, the management of products and the customer outcomes demonstrated.

C. Risk profile

Unaudited

Under the Solvency II regime, companies are required to manage their solvency position in line with the Solvency II regulatory solvency capital requirement ('SCR'). Companies are also required to form their own views of the capital needed to ensure that they can meet liabilities as they fall due, allowing for the risks that they retain (Solvency II Pillar II or Economic Capital requirements). For the Company, the regulatory basis is the focus for the purpose of the capital assessments.

The charts below show the undiversified SCR risks in relation to the Company at 31 December 2016 separately for shareholder-backed and policyholder-backed business.

Figure 13: Undiversified SCR for PAC Shareholder business as at 31 December 2016

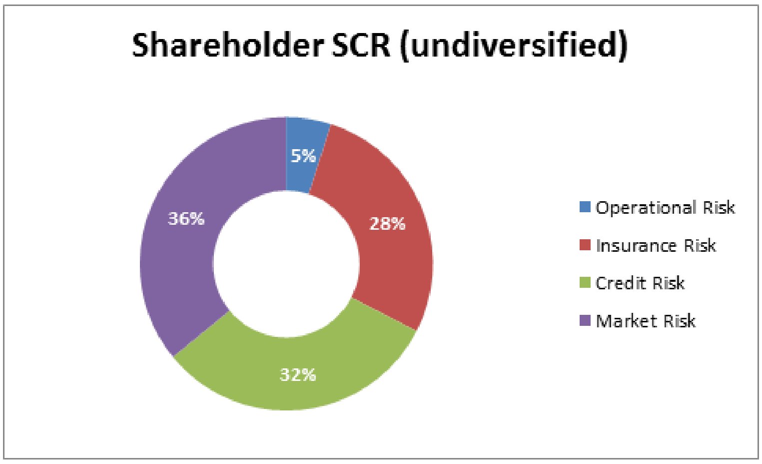
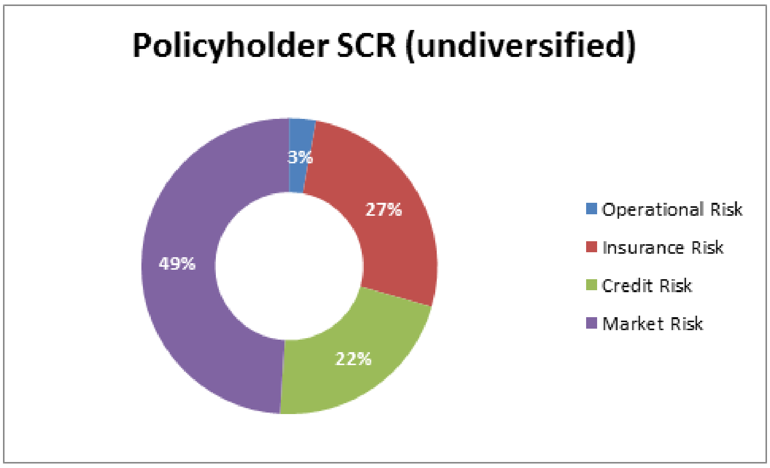


Figure 14: Undiversified SCR for PAC Policyholder business as at 31 December 2016



The key risk exposures are discussed in the following sections:

- Underwriting risk, or insurance risk, which includes persistency, longevity and expense (refer to section C.1).
- Market risk, which includes equity, interest rate and currency risks(refer to section C.2)
- Credit risk (refer to section C.3)
- Liquidity risks (refer to section C.4)
- Operational risk (refer to section C.5)
- Other risks (refer to section C.6)

Liquidity risk is not quantified in the Internal Model given this risk is not best managed through holding additional capital. Instead, a robust Liquidity Risk Management Framework is in place to ensure appropriate management and oversight of liquidity risk.

C.1 Underwriting risk

C.1.1 Risk exposure and mitigation

The Company's shareholder business is exposed to material levels of underwriting risk (or insurance risk) as a result of its insurance business operations. Given the large in-force annuity book, longevity remains the top insurance risk for shareholder business. The policyholder funds' exposure to longevity risk is material and also arises from annuity business.

Longevity risk for both shareholder-backed business and policyholder-backed business has been predominantly managed through:

- annual reviews of best estimate assumptions, supported by detailed assessments of actual mortality experience versus best estimate assumptions;
- longevity research;
- longevity risk transfer transactions, assessed against principles and guidance provided in the Reinsurance Appraisal Framework; and
- monthly monitoring of longevity exposure by the Executive Risk Committee and Board Risk and Capital Committee against the Company and Group limits, with no breaches having been reported for 2016.

Other insurance risks, such as persistency risk, expense risk and non-annuitant mortality risk are subject to similar regular reviews, with frequency and intensity proportionate to the materiality of the risk.

Special purpose vehicles
There are no special purpose vehicles that fall into the definition under Article 211 of Solvency II Directive.

C.2 Market risk

C.2.1 Risk exposure and mitigation

Market risk represents a material risk for the Company's shareholder-backed business, the risk primarily arises from potential adverse changes in equity and property prices, interest rates and foreign exchange rates. The policyholder funds are materially exposed to market risk arising from the mismatch between assets backing the asset shares and guarantees embedded in the corresponding liabilities.

The methods used to manage and mitigate market risks include the following:

- 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;
- asset and liability management programmes that are in place;
- use of derivative programmes, including, for example, interest rate swaps, options, and hybrid options for interest rate risk; and
- use of currency hedging.

Investment risk

The delivery of long-term investment returns is an important component of the Company's business model. It underpins the success of our insurance activities by helping customers grow and protect their savings and investments, it generates returns on portfolios invested on behalf of the shareholders and it drives the fee income secured from assets under management. The likelihood of PAC not achieving the expected long-term investment returns on any investment or investment strategy continues to be a significant risk.

Investment performance is a central consideration for the Company with customer outcomes as the primary focus. Investment performance is constantly monitored and challenged through a robust governance process.

The Company is enhancing the investment risk oversight framework which focuses on the integrity and effectiveness of the investment processes, governance and controls, as well as appropriateness of resourcing and compliance of processes with applicable regulatory requirements (e.g. Prudent Person Principles set out in Solvency II Directive).

Interest rate risk

As the solvency position remains sensitive to interest rates, the Company continues to closely monitor and manage its interest rate exposures, in particular through:

- careful monitoring of projected liability cash-flows to achieve close asset-liability matching;
- maintenance of a Market Risk Policy which defines the principles for effective asset liability management;
- review of the tactical limits set out in the Investment Management Agreements;
- regular reviews of investment and hedging strategies;
- analysis of product offerings in 2016 and the value for money offered in a low interest rate environment;
- adherence to the interest rate risk limit for the Company's shareholder business included in the Group Approved Limit Framework;
- monitoring of the interest rate changes that would drive the Company's solvency ratio to various levels of solvency relative to Risk Appetite; and
- establishment of a revised investment strategy for both the assigned and non-assigned investment portfolios of non-profit annuities.

Currency risk

The Company's material currency translation risk exposure arises from holding the Hong Kong business and investment in non-Sterling assets. The Company has a limited appetite for currency risks and where appropriate, has limits and controls in place to monitor and manage the risk. Where currency risk arises outside risk appetite, currency borrowings, swaps and other derivatives are used to manage the exposure.

C.3 Credit risk

C.3.1 Risk exposure and mitigation

Credit risk is a significant risk for the shareholder business and primarily arises due to the substantial volume of corporate bonds held.

The Company operates a robust credit risk framework, which has been enhanced and further embedded over 2016. The framework contains risk policies, risk appetite statements, processes and controls, including:

- the credit rating processes operated by the Group's asset management companies used by the Company;
- investment constraints on the asset portfolios, in relation to credit rating, seniority, sector and issuer;
- investment constraints on counterparties in particular for derivatives, reinsurance and cash;
- an average credit quality target for the assets;
- a credit risk limit for the shareholder business;
- activity and oversight from the Executive Risk Committee and Board Risk and Capital Committee and from the Group Credit Risk Committee (featuring membership from the Company's Risk Function), with a number of forward-looking indicators being monitored to identify potential counterparty risk materialising in the future;
- the invested credit sector reviews; and
- performing deep dive reviews.

C.4 Liquidity risk

C.4.1 Risk exposure

The Company defines liquidity risk as the risk of not generating sufficient cash resources at an acceptable cost to meet financial obligations as they fall due in business as usual and stressed scenarios. The Company's exposure to liquidity risk primarily arises from:

- higher than expected policyholder withdrawals and collateral requirements;
- surrenders and processing delays;
- unexpected cash outflows; and
- lower than expected market liquidity for assets.

The Company's liquidity risk is considered to be relatively small because of the nature of the operating model.

C.4.2 Risk measurement and mitigation

A robust liquidity risk management framework is in place to ensure appropriate management and oversight of liquidity risk. This includes but is not limited to a risk policy, limits and risk appetite statements. Robust processes and controls are in place to ensure compliance with the framework, including quarterly monitoring of exposures, under both base and various stressed scenarios, against Liquidity Coverage Ratios triggers / limits and annual attestation of compliance with policy requirements.

In 2016, liquidity sources remained sufficient to meet financial obligations as they fell due both under the base and stressed scenarios.

C.4.3 Expected profit included in future premiums

The Company is required to calculate and report the expected profit included in future premiums ('EPIFP') included within its own funds, in accordance with Article 260 of the Delegated Regulation. This calculation requires an assessment of the impact of an increase in insurance liabilities (excluding the risk margin) if future premiums relating to in-force business were not received, regardless of the legal or contractual rights of the policyholder to discontinue the policy. The calculation is carried out at the level of homogeneous risk groups, as defined in Article 35 of the Delegated Regulation.

At the end of 2016, the EPIFP was £11.4 million.

Solvency II recognises EPIFP as high quality (Tier 1) capital, reflecting that future premiums on in-force business are a core part of the valuation of long-term insurance contracts, along with the related claims and expenses relating to those future premiums.

C.5 Operational risk

C.5.1 Risk exposure and mitigation

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 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 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.

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 transaction errors having a material cost;
- the risk that errors within models and user-developed applications used 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 due to a significant unexpected external event;
- 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.

The calculation of the overall capital requirement for operational risk is based on scenarios that focus on extreme, yet plausible events.

C.6 Other material risks

C.6.1 'Macro' risks

Some of the risks that the Company is exposed to are necessarily broad given the external influences which may impact on the company. 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 company 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.

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

C.6.2 Global Regulatory and Political Risk

The Company's 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; and
- Board strategy sessions that consider risk themes.

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. The Company may be impacted by a UK withdrawal from the EU.

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.

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

C.6.3 Cyber security

Cyber risk is an area of increased security 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 transaction 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 Company. 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 financial services industry, with potentially significant impact on business continuity, our customer relationship and our brand reputation.

The Board, Board Risk and Capital Committee and Executive Risk Committee receive periodic updates on cyber risk management. The current Group-wide Cyber Risk Management Strategy and the associated Group-wide Coordinated Cyber Defence Plan was approved by the Prudential plc Board in 2016.

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.

C.7 Any other information

There are no special purpose vehicles that fall into the definition under Article 211 of Solvency II Directive.

C.7.1 Risk sensitivity

Stress and scenario testing is embedded in the Company’s risk management framework. It is performed in order to:

- assess the Company’s ability to withstand significant deterioration in financial and non-financial conditions;
- provide feedback to the decision making process by identifying areas of potential business failure;

- demonstrate to external stakeholders that the Company has adequate capital and liquidity levels;
- demonstrate that the Company has appropriate and plausible management actions available to cover potential losses incurred during extreme, but plausible events; and
- to assist in the monitoring of adherence to the Company's and the Group's risk appetite.

To evaluate the Company's resilience to significant deteriorations in market and credit conditions and other shock events, the risks facing the company as described in the sections above are grouped together into severe but plausible scenarios. In addition, the Company conducts an annual reverse stress test which gives the directors an understanding of the maximum resilience 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 Company's approved risk appetite are considered. In the scenarios tested, sufficient actions were available to management to maintain the viability of the Company over the three-year period under assessment.

Core economic stress scenarios

The Company has a set of core stress scenarios that are based on external economic stresses outside the control of the company. These scenarios are simplistic stresses that have been applied consistently over time, allowing year-on-year comparisons of results for individual risk exposures.

The summary results from stress testing show that:

- the Company is exposed to interest rate movements. A number of actions have been taken during 2016 to reduce the sensitivity of the balance sheet;
- by way of its UK annuity business, the Company is exposed to downgrades in the credit portfolio and lighter mortality experience;
- in practice we would expect a number of events to happen simultaneously. The analysis has shown that it would take a strong event to reduce the capital coverage ratio below 100%. At 100% capital coverage, the Company would have sufficient capital to withstand a 1 in 200 year event;
- the Company continues to be exposed to equity and credit risk and management action is being taken to reduce equity and credit risk; and
- the balance sheet is materially exposed to longevity risk. In practice, longevity events are expected to emerge over a number of years, and are therefore less of a concern in the short term than changes in market conditions.

C.7.2 Risk concentration

The Company's review of significant risk concentration encompasses a review of its exposure to various balance sheet asset classes, individual counterparties, group of interconnected individual counterparties, specific geographical areas and industry sectors.

The Company complies with the Group's Global Counterparty Limits, which limit significant concentration risks arising from various balance sheet asset classes. These asset classes are assigned a notional weighting that has been derived to reflect the relative riskiness of each asset class.

The Company also has in place a process whereby invested credit and counterparty credit risk outside the scope of the Group Global Counterparty Limits is limited on a single name basis. Under this process, the Group Chief Risk Officer's approval is required for the undertaking of new or additional exposure greater than predefined thresholds. These thresholds are defined for the company and vary by asset class/counterpart exposure and by credit rating. Timebound exemptions from these thresholds may be approved by the Group Chief Risk Officer based on the merits of the individual cases.

As at 31 December 2016, the four largest counterparties the shareholder business had exposure to are:

- United Kingdom of Great Britain and Northern Ireland
- European Investment Bank
- Federal Republic of Germany
- French Republic

As at 31 December 2016, the four largest counterparties the policyholder business had exposure to are:

- United Kingdom of Great Britain and Northern Ireland
- United States of America
- European Investment Bank
- Bank of America Corporation

There is no other material risk concentration other than counterparty exposure. The Company continues to closely monitor the potential impacts of Brexit and recent banking reforms on the Company's counterparty exposure assessment.

C.7.3 Prudent person principle

The Company has an investment risk oversight framework which ensures that the Company's investment risks are managed effectively and efficiently. The framework focuses on the integrity and effectiveness of the investment processes, governance and controls, as well as appropriateness of resourcing and compliance of processes with applicable regulatory requirements (e.g. prudent person principles set out in the Solvency II Directive).
The investment risk oversight framework comprises a risk appetite statement, standards, processes and controls, which ensures investment risk is managed appropriately in regards to the Company's risk appetite.
The Company outsources investment management to an intra-group business. That business is governed by a common Group-wide Governance framework. The following information provides details on the Group-wide approach to the prudent person principles an insurance entity should apply when making investment decisions.

Prudential Group's policies provide a common framework for the oversight of financing and investment activities across the Group. It is designed to provide general, prudent and principle-based guidance for both shareholder-backed business and policyholder-backed business.

The Group Risk Framework covers all aspects of risk management across the Group and includes minimum standards, controls and requirements for risk management across all Business Units. The Group Risk Framework is supported by further documents including specific policies that cover credit, market, insurance, liquidity, operational and investment risk. Accompanying these are a number of Group-wide Operating Standards and other documents including the Group Approved Limits that specify limits on individual credit and counterparty exposures, average credit quality and amount of market risk taken across the Group.

The Group Investment Policy sets out the framework for management and oversight of investment performance and investment related risk across the Group. It focuses on ensuring that all of the Group's business units have appropriate policies and procedures in place to manage, monitor and report on the investment risk that they have taken on.

The Independent Price Verification Group-wide Operating Standards sets out the minimum operating standards for Business Units within the Group to develop processes to verify the accuracy and independence of market prices or model inputs, incorporating local legislations / regulations / best practices as applicable. Documenting the effectiveness of risk transfer using derivatives (non-routine hedging) is covered by the Risk Transfer Group-wide Operating Standard, The Group Dealing Controls Policy provides detail of the controls and monitoring in place in relation to all trading operations, including the operational controls around derivative collateral management. The policy also sets out uniform controls across all asset classes (including non-listed and securitised investments) and clarifies the responsibility of Business Units to ensure full compliance with all local regulations and requirements.

D. Valuation for solvency purposes

D.1 Valuation of assets

D.1.1 Overview

The 2016 balance sheet valued under both the statutory accounts basis (UK GAAP) and the Solvency II basis is summarised in Figure 15 below:

Figure 15: Solvency II and UK GAAP balance sheets for the year-ended 31 December 2016

	Statutory accounts – UK GAAP	Presentation differences (note a)	Ring-fenced funds (note b)	Other valuation differences (note c)	Solvency II
	£m	£m	£m	£m	£m
Assets					
Deferred acquisition costs and intangible assets	71		(5)	(66)	-
Deferred tax assets	108	(57)	(75)	24	-
Investments (other than participations)	132,679	10,434			143,113
Participations	10,119			(1,322)	8,797
Assets held for index-linked and unit-linked contracts	18,495	(9,527)			8,968
Loans and mortgages	11,589	173	69	31	11,862
Reinsurance recoverables	7,358	149	97	(1,019)	6,585
Cash and cash equivalents	1,402				1,402
Other(1)	3,793	(951)	(25)		2,817
Total assets	**185,614**	**221**	**61**	**(2,352)**	**183,544**
Liabilities					
Technical provisions	161,259		(114,554)	(46,705)	**-**
Best estimate liability	-	149	103,540	45,718	149,407
Risk margin	-		620	480	1,100
Other liabilities					
Borrowings	-				-
Deferred tax liabilities	1,258	(57)	(95)	(62)	1,044
Debts owed to credit institutions	3,306				3,306
Financial liabilities other than debts owed to credit institutions	163			(51)	112
Subordinated liabilities not in basic own funds	-				-
Subordinated liabilities in basic own funds	-				-
Other(2)	6,005	129	(192)	448	6,390
Total liabilities	**171,991**	**221**	**(10,681)**	**(172)**	**161,359**
Excess of assets over liabilities	**13,623**	**-**	**10,742**	**(2,180)**	**22,185**

(1) Other assets include: property plant and equipment held for own use, pension benefit surplus, Insurance and intermediary receivables, reinsurance receivables, receivables (trade, not insurance), own shares, and other assets.

(2) Other liabilities includes provisions other than technical provisions, pension benefit obligations, derivatives liabilities, deposits from reinsurers, insurance and intermediaries payable, reinsurance payables, payables (trade, not insurance) and contingent liabilities.

Notes:

(a) *Presentation differences* represent movements between line items with no overall impact on the excess of assets over liabilities. The main item relates to assets held by the index-linked funds which are presented together in a single line on the UK GAAP statutory accounts balance sheet rather than within each individual asset / liability category. The index-linked funds are reported differently on the Solvency II balance sheet due to the different definitions of index-linked between the two bases – for Solvency II reporting, business is only classified as index-linked where the policyholder takes the risk, which is not the case for the Company's index-linked business.

(b) *Ring-fenced funds* represent the impact on the balance sheet of changes in value and presentation of the policyholder asset and liabilities before any restrictions are applied. For UK GAAP purposes, although the individual assets and liabilities are valued, the overall impact of ring-fenced funds on UK GAAP shareholders' funds is not significant. The £10,742 million represents the excess of assets over liabilities on a Solvency II basis before any restrictions are applied and includes the amount attributable to shareholders for the value of future shareholder transfers from the with-profits business.

(c) *Other valuation differences* represent the key changes to the excess of assets over liabilities between UK GAAP and Solvency II. These are analysed within the reconciliation set out within section E.1.4.

D.1.2 Valuation of assets

D.1.2.1 Determination of fair value

Within the Solvency II balance sheet, assets are valued using valuation methods that are consistent with the valuation approach set out in the Solvency II Directive. The overall principle when valuing assets and liabilities under Solvency II is to use a fair value, as set out in Article 75 of the Directive. There have been no changes to the recognition and / or valuation basis of assets and other non-insurance liabilities in the Solvency II balance sheet during the year.

When valuing assets and liabilities in accordance with Solvency II, the fair valuation hierarchy set out below is followed, which is consistent with the fair value measurement hierarchy as applied under UK GAAP:

(a) Quoted market prices in active markets for the same assets or liabilities

As the default valuation method, assets and liabilities are valued using quoted market prices in active markets for the same assets or liabilities, where available.

The investments of the Company that are valued using this method include exchange listed equities, collective investment undertakings with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active.

(b) Quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences

Where quoted market prices in active markets for the same assets or liabilities are not available, the Company applies either of the following two valuation methods on a case by case basis:

- using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect factors specific to the asset or liability such as condition or volume or level of activity in the markets; or
- using an alternative valuation method with the significant inputs that are observable for the asset directly (i.e. as prices) or indirectly (i.e. derived from prices).

The majority of the assets of the Company that are valued using these valuation methods are corporate bonds, collateralised securities and other non-national government bonds, together with over-the-counter derivatives such as forward exchange contracts and non-quoted collective investment undertakings.

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 capability of being executed. 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 that 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 (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in this note with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as being based on alternative valuation methods. Alternative valuation methods use observable market data where available; where unavailable, unobservable inputs may be used (as further described below).

The Company holds an interest in three Lifetime Mortgage portfolios which are valued using an alternative valuation method due to the absence of an active market for these assets or suitably comparable assets. The alternative valuation method primarily uses market observable inputs in the determination of the fair value of these assets.

(c) Alternative valuation methods – inputs not based on observable market data

The majority of the investments of the Company that are valued using alternative valuation methods with significant unobservable inputs are held by the Company's ring-fenced funds.

These investments of the Company's ring-fenced funds' principally comprise:

- Investments in properties 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 Company's investment properties. As the comparisons are not with properties which are virtually identical to Company'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.
- Private equity and venture investments which were valued internally based on management information available for these investments.

As these investments are held by the Company's ring-fenced funds, where the contribution to the Company's own funds is restricted to the amount required to cover the ring-fenced funds' solvency capital requirement (as described further in section E), a change in the fair value of these investments from input changes will only impact the Company's own funds if the change exceeds the amount of the restriction.

D.1.2.2 Valuation bases under Solvency II compared with UK GAAP

Deferred acquisition costs and intangibles

The value of deferred acquisition costs and other intangible assets, such as distribution rights and software are nil for Solvency II purposes. For UK GAAP purposes deferred acquisition costs and other intangible assets are recognised at cost less amortisation.

Deferred tax assets

Deferred tax assets, other than the carry forward of unused tax credits and losses, are calculated based upon the differences between the values given to assets and liabilities for tax purposes and their values in the Solvency II balance sheet. The principles of UK GAAP are applied to calculate the extent of deferred tax applicable to those value differences. Changes in the valuation of underlying assets or liabilities will give rise to a change in deferred tax balances. Recoverability is assessed on the basis of the balances held and consideration is given to the probability of taxable profit being available against which the underlying recoverable can be offset.

There is no deferred tax asset on the Solvency II balance sheet as at 31 December 2016.

Investments (other than participations)

Investments (other than participations) comprise the following asset classes as included in the Solvency II balance sheet:

Figure 16: Investments (other than participations) for the year-ended 31 December 2016

	£m
Property (other than for own use)	8,849
Equities	30,259
Bonds	76,656
Collateralised securities	5,723
Collective investment undertakings	18,112
Derivatives	2,877
Deposits other than cash equivalents	637
Total	**143,113**

All of these investments are valued at fair value within both the Solvency II balance sheet and the Company's UK GAAP financial statements.

Participations

Article 13 of the Solvency II Directive defines a 'participation' as the ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking.

Under Solvency II rules the adjusted equity method is applied to all investments in subsidiary undertakings apart from those classified as financial and credit institutions. The adjusted equity method is based on the excess of assets over liabilities for each subsidiary, with the subsidiaries' individual assets and liabilities valued in accordance with the Solvency II Directive. Where the related undertaking is an insurance undertaking technical provisions are valued in accordance with Articles 76 to 85 of the directive. Financial and credit institutions are valued using sectoral rules.

Included within the value of participations is the impact of transitional measures, volatility adjustments and matching adjustments, as applicable to participations which are insurance undertakings. These items are covered further in sections D.2.4.

The solvency capital requirement ('SCR') related to participations that are insurance undertakings are not included within the participation line in the balance sheet, and are included in the Company's SCR.

Assets held for index-linked and unit-linked contracts

These assets are held to cover linked liabilities where the policyholders bear the investment risk of the assets. Under both UK GAAP and Solvency II these assets are recorded in aggregate as a single line entry on the balance sheet. The difference between UK GAAP and Solvency II relates to the different definitions of index-linked between the two bases – for Solvency II reporting, business is only classified as index-linked where the policyholder takes the risk and this is not the case for the Company's index-linked business. There is also a small difference in relation to investment contracts without discretionary participation features, which is treated as reinsurance under Solvency II but as investments under UK

GAAP. The individual assets and non-insurance liabilities of the linked business are valued in accordance with the Solvency II principles set out in this section.

Loans and mortgages

Loans and mortgages include the Company's loans to individuals (e.g. policy loans), as well as interests in residential and commercial mortgage portfolios.

Under UK GAAP, these loans are accounted for at amortised cost net of impairment. The exceptions include interests in certain mortgage loans which have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis.

Within the Solvency II balance sheet, these loans and mortgages are valued on a "mark-to-model" valuation basis using the discounted present value of the future cash flows.

Other assets

Other assets comprise the following asset classes as included in the Solvency II balance sheet:

Figure 17: Other assets for the year-ended 31 December 2016

	£m
Insurance and intermediaries receivables	23
Reinsurance receivables	6
Receivables (trade, not insurance)	2,653
Other	135
Total	**2,817**

Other assets in the Solvency II balance sheet are measured at fair value determined using alternative valuation methods that are market consistent and represents the realisable value of individual assets on transfer to a third party. If the UK GAAP value is a good proxy for fair value no adjustment is made.

D.1.3 Leasing

The Company's operating and finance lease arrangements relate principally to properties. Further information on the Company's leasing arrangements is provided in section A.4.2.

D.2 Technical provisions

To the extent these disclosures relate to the risk margin, transitional measures and/or the Solvency Capital Requirement, they are not subject to audit and have not been audited.

D.2.1 Overview

As a general principle, technical provisions are valued at the amount for which they could theoretically be transferred to a third party in an arm's length transaction. The technical provisions consist of the best estimate liability and the risk margin, reduced by the "transitional measures on technical provisions" where relevant.

The best estimate liability corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money (i.e. the expected present value of future cash-flows), using the risk-free interest rate term structure published by the European Insurance and Occupation Pension Authority with allowance for a matching adjustment or a volatility adjustment where relevant. The calculation of the best estimate liability is based upon up-to-date and credible information and realistic assumptions (derived from data analysis and expert judgement) and is performed using appropriate actuarial and statistical methods. The cash-flow projection used in the calculation of the best estimate liability takes account of all the cash in- and out-flows required to settle the insurance obligations over their lifetime. The cash-flows included in the best estimate liability calculation are derived after applying Solvency II "contract boundary" rules, which determine whether future cash-flows can be recognised as part of the in-force business. The best estimate liability is calculated before deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately (see section D.2.8).

The risk margin is calculated in line with Solvency II requirements, and aims to ensure that the total technical provisions are equivalent to the cost of ceding the insurance obligations to a third party. The calculation assumes a 6 per cent per annum cost of capital and applies to non-hedgeable risks only, with no diversification between the risks in different legal entities. This calculation includes simplified methods and requires assumptions as to the run-off profile of non-hedgeable capital requirements for each line of business in each entity, in line with Article 58 of the Delegated Regulation, rather than a full projection of solvency capital requirements ('SCR'). The SCR for each non-hedgeable risk is assumed to run-off in-line with suitable profiles which differ depending on the types of non-hedgeable risks. The SCR each year is aggregated using a simplified correlation matrix.

Technical provisions at 31 December 2016

Figure 18: Value of technical provisions at 31 December 2016

	Best estimate liability £m	Risk margin £m	Total £m
Insurance with-profit participation	84,333	258	84,591
Index-linked and unit-linked insurance	14,171	132	14,303
Other life insurance	45,563	704	46,267
Accepted reinsurance	5,225	6	5,231
Health insurance	(34)	-	(34)
Non-life business	149	-	149
Total	**149,407**	**1,100**	**150,507**

The technical provisions shown in Figure 18 above include the impact of the transitional measures for technical provisions (see section D.2.4.1), which are included within the risk margin column. The transitional measures for technical provisions reduce the Company's technical provisions by £4,200 million as at 31 December 2016.

D.2.2 Methodology and assumptions

Further details of the methodology and assumptions used for each material line of business are discussed below. The methods chosen for each line of business are proportionate to the nature, scale and complexity of the underlying risks.

The key assumptions required in the valuation of technical provisions are:

(i) economic assumptions, most of which are published by European Insurance and Occupational Pension Authority and set by reference to market data at the valuation date;
(ii) non-economic assumptions, used to derive non-market related best estimate liability cash-flows (for example future claims and expenses); and
(iii) assumptions in respect of dynamic management actions and policyholder behaviour.

D.2.2.1 Economic assumptions

The principal economic assumption is the risk-free interest rate term structure. The risk-free curves at which best estimate liability cash-flows are discounted are specified by the European Insurance and Occupational Pension Authority. These curves are based on market swap rates, with a "credit risk adjustment". The resulting 10-year risk-free spot rates for the material currencies are given below, after the credit risk adjustment.

Figure 19: 10 year risk-free rates at 31 December 2016 (with comparison to 31 December 2015)

Currency	31 December 2016	31 December 2015	Change
British Pound	1.08%	1.92%	(0.84)%
United States Dollar	2.23%	2.15%	0.08%
Hong Kong Dollar	2.50%	1.71%	0.79%
Euro	0.57%	0.92%	(0.35)%

For most non-profit annuity business, a matching adjustment is applied to the risk-free curve to discount the best estimate liability cash-flows (see section D.2.4.3). In line with Solvency II requirements, the matching adjustment is not applied when calculating the risk margin. The matching adjustment calibration for UK shareholder annuities at 31 December 2016 allowed for 62 basis points per annum of credit provision, including allowances for mismatching.

D.2.2.2 Non-economic assumptions

Persistency, mortality and expense assumptions are derived from analysis of recent historic experience data, and also reflect expected future experience. Where relevant and material, allowance is also made for how policyholder behaviour is expected to vary in line with economic conditions.

D.2.3 Details on methodology and assumptions by lines of business

D.2.3.1 Participating business

The best estimate liability for participating business is, in most cases, calculated based on a retrospective calculation of accumulated asset shares, adjusted to reflect any future policy-related liabilities and other outgoings that cannot be charged to asset shares (for example, the excess of projected expenses over any fixed charges). Asset shares broadly reflect the policyholders' share of the participating fund assets attributable to their policies. For some business, a retrospective asset share calculation is not appropriate (for example, business where expected future benefit payments are not based on asset shares) and a prospective valuation approach is used, based on discounting expected future benefit and expense cash-flows.

The future policy related liabilities include a market-consistent stochastic valuation of the cost of all of material guarantees, options and smoothing, less any related charges. The stochastic projections allow for realistic management actions consistent with the operation of the participating funds. Examples of these management actions include:

- *Dynamic adjustments to reversionary and terminal bonus rates*. This includes adjusting reversionary bonuses to target a specified range of terminal bonus cushion at maturity, or to maintain the solvency ratio of the participating fund in stressed conditions. For terminal bonuses, smoothing rules apply limiting the year-on-year change for the same bonus series.
- *Market Value Reductions.* For some accumulating with-profits policies, market value reductions may apply, subject to certain limits.
- *Suspension of smoothing.* The usual smoothing rules can be suspended to maintain the solvency ratio of the participating fund in stressed conditions.
- *Dynamic investment strategy.* Switching into lower-risk assets to maintain the solvency of the fund in stressed conditions.
- *Dynamic new business strategy.* Restricting the volume of new business written to maintain the solvency of the fund in stressed conditions.

D.2.3.2 Non-profit annuity business

The best estimate liability for non-profit annuity business is a discounted value (including a matching adjustment where relevant) of expected future annuity payments and associated expenses. The key assumptions relate to mortality rates, including expectations of future mortality improvements, and the level of credit provisions allowed for within the matching adjustment calibration as prescribed by the European Insurance and Occupational Pension Authority (see section D.2.4.3).

Some index-linked non-profit annuity business contains a guarantee that the annuity payment will not reduce during periods of deflation. A simulation method (i.e. stochastic model) was used to determine the embedded guarantee cost.

Mortality assumptions for non-profit annuity business are set in light of recent population and internal experience. The assumptions used are base assumptions as percentages of standard actuarial mortality tables, with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, assumptions are set to reflect experience, including the appropriate level of impairment.

Since 2009, new mortality improvement projection models have been released regularly by the Continuous Mortality Investigation. The mortality improvement assumptions in the 31 December 2016 technical provisions have been derived from the Continuous Mortality Investigation 2014 model, calibrated to reflect the Company's view of future mortality improvements, including a 0.25 per cent per annum uplift to initial rates of mortality improvement.

D.2.3.3 Unit-linked business

The best estimate liability for these contracts reflects both the value of policyholder unit funds and the non-unit liability. The non-unit liability can be negative, and reflects the discounted value of fee income from the unit funds less allowances for expenses. Assumptions are also made for expected mortality and morbidity experience, as relevant, where the products include insurance riders.

Some unit-linked business contains a financial guarantee. A simulation method (i.e. stochastic model) was used to determine the guarantee cost.

D.2.3.4 Other business

For 'other business' the best estimate liability is calculated as the present value of expected future benefit payments and associated expenses less the value of expected future premium income. Assumptions are made for expected persistency and mortality / morbidity experience, as relevant.

Included within other business is an immaterial amount of non-life legacy business which is fully reinsured.

D.2.4 Long-term guarantee measures on technical provisions

D.2.4.1 Transitional measures

The Company's technical provisions at 31 December 2016 include transitional measures on technical provisions ('TMTP'), in accordance with Article 308d. Transitional measures on technical provisions are also applied to PAC's participation in Prudential Hong Kong Limited and Prudential Pensions Limited. The impact of these transitional measures is to increase the Company's Solvency II surplus by £2,927 million.

The transitional measures are considered high-quality capital, and are a core part of the Solvency II reporting regime. The Company has received the necessary approvals from the Prudential Regulation Authority ('PRA') in respect of the transitional measures.

The 31 December 2016 technical provisions and own funds do not include a transitional on the risk-free interest rate term structure.

D.2.4.2 Volatility adjustment

For Hong Kong with-profits business denominated in USD, a volatility adjustment (as published by the European Insurance and Occupational Pension Authority) is applied to the risk-free curve to discount the best estimate liability cash-flows, following approval by the PRA in 2016. In line with Solvency II requirements, the volatility adjustment is not applied when calculating the risk margin. The volatility adjustment is a core part of the Solvency II Directive.

D.2.4.3 Matching adjustment

The matching adjustment is a core part of the Solvency II Directive. A matching adjustment may be applied to the risk-free interest rate term structure if the conditions in Article 77b of the Solvency II Directive are met and approval has been obtained. The risk-free yield curve used to discount most of the Company's non-profit annuity liability cash-flows is increased to include a matching adjustment, as approved by the PRA. The matching adjustment is calculated by reference to the credit spreads on the assigned portfolio of assets, with deductions for the "fundamental spread" (i.e. credit risk allowance) as published by the European Insurance and Occupational Pension Authority and for cash-flow mismatch allowances.

Separate portfolios are maintained for the Company's shareholder-backed non-profit annuities, the business subject to the Part VII transfer from Prudential Retirement Income Limited and the Company's policyholder-backed non-profit annuities, as well as a separate portfolio in respect of an internal quota share reinsurance arrangement.

D.2.4.4 Impact of transitional measures and long-term guarantees

The impact of the transitional measures for technical provisions (‘TMTP’) and the long-term guarantees (volatility adjustment (‘VA’) and matching adjustment (MA’)) on the Company’s Solvency II results at 31 December 2016 are shown in the table below:

Figure 20: Impact on Solvency II results of excluding the TMTP, VA of MA at 31 December 2016

	As reported in QRTs £m	Impact of removing TMTP £m	Impact of removing VA £m	Impact of removing MA £m	Total excluding TMTP, VA and MA £m
Technical Provisions	150,507	4,200	0	5,483	160,190
Basic Own Funds	18,306	(2,469)	(322)	(4,221)	11,294
Own Funds eligible to cover SCR	18,306	(2,469)	(322)	(4,221)	11,294
Solvency Capital Requirement (SCR)	13,208	458	244	4,462	18,372
Own Funds eligible to cover MCR	18,306	(2,469)	(322)	(4,221)	11,294
Minimum Capital Requirement (MCR)	3,302	114	61	1,116	4,593

D.2.5 Assumption changes

In 2016, the changes to the assumptions underlying the Company’s calculation of technical provisions include:

- market-driven changes to economic parameters, including changes to risk-free rates as shown in section D.2.2.1;
- changes to the matching adjustment allowance in line with changes in the allowances published by the European Insurance and Occupational Pension Authority and regulatory approvals;
- changes to the mortality assumptions used for valuing non-profit annuities to reflect recent mortality experience; and
- changes to renewal expense and investment management expense assumptions to reflect updated contractual arrangements and expense experience.

D.2.6 Level of uncertainty

The valuation of technical provisions relies upon the Company’s best estimate of future liability cash-flows, including the projection of the future level of the solvency capital requirement in the calculation of the risk margin. These cash-flows are derived using best estimate assumptions, which are set using a combination of experience data, market data and expert judgement.

Uncertainty exists in the technical provisions as to whether the actual future cash-flows will match those expected under the Company’s best estimate assumptions. Over time, experience may differ from the best estimate assumptions or the Company’s forward-looking expectations may evolve, such that assumptions will be updated with a consequent change in the value of future technical provisions.

D.2.7 Reconciling Solvency II technical provisions to the financial statements

Figure 21: Comparison of technical provisions between UK GAAP and Solvency II for the year-ended 31 December 2016

	Insurance with-profits participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	Accepted life reinsurance £m	Health insurance (1) £m	Non-life £m	Total 2016 £m
UK GAAP liabilities (as reported in financial statements)							
	92,926	23,928	39,041	5,248	(33)	149	161,259
As reported in the template S.02.01.02							
Solvency II technical provisions	**84,591**	**14,303**	**46,267**	**5,231**	**(34)**	**149**	**150,507**

(1) Including participating, non-profit annuity and non-profit protection business.

The movement in technical provisions between the UK GAAP financial statements and Solvency II is discussed below:

(a) Surplus assets in with-profits funds are not included as a liability within the technical provisions for Solvency II but are within the UK GAAP financial statements as "Fund for future appropriations" on the balance sheet.

(b) The UK GAAP liabilities are valued using a basis that includes margins for risk and uncertainty within the non-economic assumptions (mortality, morbidity, persistency and expenses) as well as different economic assumptions to the Solvency II technical provisions. The method of calculation can also differ between the bases.

The most significant differences between UK GAAP and Solvency II assumptions and methodology are described below:

- UK GAAP liability cash flows for shareholder-backed non-profit annuity business are valued using a discount rate derived from the yield on the corresponding assets minus a prudent allowance for defaults of 43 bps at 31 December 2016. Under Solvency II, the discount rate is expressed as a risk free yield plus a matching adjustment.
- Longevity assumptions for non-profit annuity business contain margins under UK GAAP compared to the best estimate assumptions applied under Solvency II.

(c) The UK GAAP liabilities do not include an explicit risk margin as the allowance for risk is included within the non-economic assumptions. The risk margin is explicit under Solvency II so is added in here. The impact of the transitional measures for technical provisions to restore the surplus of the Company to broadly equivalent levels as those established under the previous Solvency I Pillar II (Individual Capital Adequacy Standards) regime has been offset against this explicit risk margin.

D.2.8 Reinsurance recoverables

The Company primarily uses reinsurance to manage insurance risk exposure, particularly in respect of longevity risk.

In the Solvency II balance sheet, the full expected cost of claims is included within the technical provisions and the corresponding reinsurance recoverables are shown as an asset.

The valuation methods and assumptions for reinsurance recoverables are consistent with the methods and assumptions for the corresponding technical provisions (see sections D.2.1 to D2.3). The value of the reinsurance recoverable asset is the Company's best estimate of future reinsurance cash flows, where this figure allows for the probability of partial or total default by the reinsurer. In accordance with Article 61 of the Delegation Regulations, a simplified approach to calculating the counterparty default adjustment has been adopted.

The difference in the value of reinsurance recoverables between Solvency II and the UK GAAP financial statements stems from two sources:

- Reinsurers' share of value of technical provisions. This is calculated on a basis consistent with the underlying technical provisions and, for Solvency II, includes an allowance for the probability of reinsurer default; and
- Reclassification of reinsurers' share of investment contracts liabilities without discretionary participation features. For the purposes of the financial statements, the Company applies deposit accounting for investment contracts without discretionary participation features (as defined under UK GAAP) and accordingly presents the reinsurers' share of its liabilities within investments.

D.3 Valuation of other liabilities

D.3.1 Valuation of other liabilities

Other liabilities for solvency purposes are valued separately using valuation methods that are consistent with the valuation approach set out in the Solvency II Directive. Unless otherwise stated, valuation of other liabilities are carried out in conformity with UK GAAP, where this is consistent with the objectives of Solvency II.

D.3.2 Valuation bases under Solvency II compared to UK GAAP

The valuation basis of each material class of other liabilities are described below:

Debt liabilities

"Debt liabilities" includes the following line items from the Solvency II balance sheet:

- Debts owed to credit institutions; and
- Financial liabilities other than debts owed to credit institutions.

Debt liabilities in the UK GAAP financial statements are valued at amortised cost and valued at adjusted fair value for the Solvency II balance sheet. The Solvency II valuation basis allow changes in fair value due to changes in interest and exchange rates, but does not take into account changes in own credit risk, as measured by credit spreads.

Deferred tax liabilities

Deferred tax liabilities are calculated based upon the differences between the values given to liabilities in the Solvency II balance sheet and their values for tax purposes. The principles of FRS 102 section 29 are applied to calculate the extent of deferred tax applicable to those value differences. Changes in the valuation of underlying liabilities between UK GAAP and Solvency II give rise to deferred tax value differences. Further information on deferred tax valuation differences is provided in Section D.1.2.2 above under the heading "Deferred tax assets".

The aggregate (£86 million) of the Other valuation differences for deferred tax (£24 million increase in deferred tax assets, £62 million decrease in deferred tax liabilities) between UK GAAP and Solvency II represents the change in the value of the net deferred tax principally as a result of valuation changes relating to the establishment of the risk margin.

The net deferred tax liability of £1,044 million (£57 million deferred tax asset offset against gross liabilities of £1,101 million) principally relates to realised gains on investments. These gains will mainly fall due when the underlying assets are sold.

Other liabilities

Figure 22: Other liabilities for the year-ended 31 December 2016

	£m
Provisions other than technical provisions	218
Pension benefit obligations	238
Derivatives	1,730
Insurance and intermediaries payable	689
Reinsurance payables	35
Payables (trade, no insurance)	2,062
Other liabilities	1,567
Total	**6,539**

Other liabilities, with the exception of provisions other than technical provisions, pension benefit obligations and derivatives, in the Solvency II balance sheet are measured at fair value determined using alternative valuation methods that are market consistent and represent the value to settle the liabilities with the third party. Where the UK GAAP valuation is a good proxy for fair value no adjustment is made.

Provisions other than technical provisions

Provisions other than technical provisions of £218 million include a provision for review of past annuity sales of £175 million. The Company has agreed with the Financial Conduct Authority 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 has commenced in 2017 and is expected to 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 Company on the review remains uncertain. Although the Company'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.

Derivative liabilities

Derivative liabilities are valued using quoted prices if exchange listed, quotations from third parties or valued using market consistent alternative valuation techniques.

Pension benefit obligations

The Company does not have any individually material obligations in respect of defined contribution plans, other long-term employee benefits or termination benefits.

Employees of the Company are members of the Prudential Group’s pension schemes. The largest scheme is the Prudential Staff Pension Scheme (‘PSPS’). This scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the scheme. They are instead enrolled in the defined contribution section of the scheme. At 31 December 2016, the underlying PSPS liabilities account for 82% (2015: 84%) of the aggregate liabilities of the Prudential Group’s defined benefit schemes.

Pension benefit obligations for defined benefit schemes are initially valued using the relevant FRS 102 valuation rules.

Under the FRS 102 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 UK GAAP financial position recorded, reflects the higher of any underlying FRS 102 deficit and any obligation for committed deficit funding where applicable.

Under the Solvency II basis, no pension surplus is recognised.

The FRS 102 valuation prescribes market-based assumptions for the valuation of assets and liabilities. Within the market-based framework, the FRS 102 prescribes that the discount rate for liabilities should be based on high quality corporate bonds (interpreted as corporate bonds with a credit rating of AA).

Methodology and assumptions

The actuarial assumptions used in determining the benefit obligations and the net periodic benefit costs for the year-ended 31 December were as follows:

Figure 23: Pension scheme actuarial assumptions

	2016 %	2015 %
Discount rate[1]	**2.6**	3.8
Rate of increase in salaries	**3.2**	3.0
Rate of inflation[2]		
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
SASPS	**3.2**	3.0

(1) 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.

(2) 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.

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:

Figure 24: Plan assets

	2016		2015	
	£m	%	£m	%
Equities				
UK	**37**	**-**	152	2
Overseas	**545**	**6**	386	5
Bonds				
Government	**5,742**	**68**	5,078	69
Corporate	**1,314**	**16**	1,045	14
Asset-backed securities	**145**	**2**	156	2
Derivatives	**250**	**3**	178	2
Properties	**116**	**1**	70	1
Other assets	**279**	**4**	331	5
Total value of assets	**8,428**	**100**	7,396	100
Of which relate to PSPS	**7,627**		6,727	
Of which relate to SASPS	**801**		669	

Contingent liabilities

Under UK GAAP, contingent liabilities (as determined in accordance with FRS 102) are disclosed but not recognised. For the Solvency II balance sheet, contingent liabilities (under the same definition as UK GAAP) are required to be recognised where they are material. The material contingent liabilities are recognised on Solvency II balance sheet as the probability-weighted average of future cash-flows required to settle the contingent liability over the lifetime of that liability, discounted at a relevant risk-free interest rate structure.

There was a contingent liability of £20 million in relation to a legal case recognised on the Solvency II balance at 31 December 2016. The outcome of litigation is always uncertain but the Company believes it has good grounds to defend this claim and the outcome will not have a material adverse effect on the Company's financial condition.

Leases

There are no material liabilities recognised on the Solvency II balance sheet arising as a result of operating and finance leasing arrangements of the Company. Further information on the leasing arrangements of the Company is disclosed in section A.4.2.

D.4 Alternative methods for valuation

The use of alternative methods for valuation by the Company is discussed in sections D.1 to D.3 above.

The Group has developed Group-wide Independent Price Verification procedures - which covers all investment asset classes owned by the Business Units of the Group, including the Company, and set minimum requirements for the governance surrounding valuation pricing. These standards require that processes are established to verify the accuracy and independence of model inputs and market prices provided by third parties. Where mark to mark valuations are not available from independent price sources, the Independent Price Verification standards set minimum requirements for mark to model valuations. The Independent Price Verification standards require the documentation and monitoring of all assumptions, inputs and any mathematical modelling, using market observable standards and inputs where possible.

Valuation uncertainty refers to the variability of the fair value measurement that exists at any given reporting date/time for a financial instrument or portfolio of positions. The Independent Price Verification standards require documentation of the process for assessing valuation uncertainty, including the controls surrounding valuation models and an understanding of the model assumptions and limitations.

D.5 Any other information

There is no other information.

E. Capital management

E.1 Own funds

E.1.1 Objectives, policies and processes for managing own funds
Unaudited

The Company manages its Solvency II own funds as its measure of capital. The Company's own funds at 31 December 2016 in the regulatory template is £18,306 million. A reconciliation from the Solvency II capital position published in the Annual Report to the Solvency II capital position disclosed in the regulatory template is provided in section E.1.2 below. The Company's basic, available and eligible own funds to cover the Company's solvency capital requirement and minimum capital requirement at 31 December 2016 are shown in section E.1.3 below.

The Company manages its Solvency II capital to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements.

The Company prepares a projected capital position as part of its business planning process. The business plan is prepared annually on a rolling basis and covers a three-year period. There were no material changes in the objectives, policies or processes for managing the Company's own funds during the year.

E.1.2 Shareholder Solvency II capital position
Unaudited

Reconciliation of Solvency II capital position published in the Annual Report to the QRTs

The Company disclosed the estimated Solvency II capital surplus as at 31 December 2016 in the Company's 2016 Annual Report and Financial Statements of £4,643 million. An adjustment to remove the impacts of a recalculated TMTP of £455 million has been made in determining a Solvency II capital surplus, as disclosed in S.23.01.01, of £5,098 million.

E.1.3 Analysis of the components of own funds

The following components make up the Company's basic, available and eligible own funds amounts. The Company has no ancillary own funds.

Figure 25: Analysis of components of own funds for the year-ended 31 December 2016

	Total £m	Tier 1 unrestricted £m	Tier 1 restricted £m	Tier 2 £m	Tier 3 £m
Ordinary share capital(b)	330	330			
Share premium related to ordinary share capital(b)					
Surplus funds(c)	8,903	8,903			
Preference shares	1			1	
Reconciliation reserve before deduction for participations(d)	9,072	9,072			
Total eligible own funds to meet the SCR(a)	18,306	18,305		1	
Total eligible own funds to meet the minimum SCR (excluding other financial sector)(a)	**18,306**	**18,305**		**1**	

(a) The Company's basic own funds principally comprise the capital instruments explained in the notes (b) to (d) below. The Company's available own funds are derived by adding the ancillary own funds to the total basic own funds. As at 31 December 2016, the Company has no ancillary own funds and hence the Company's basic own funds are equal to the total available own funds. The eligible own funds are derived by applying Solvency II tiering limits to the tiered available own funds. As at 31 December 2016, the Company's tier 1 restricted and tier 2 available own funds have not exceeded the tiering limits and hence the Company's total available own funds are equal to the total eligible own funds.

As at 31 December 2016, the limits on eligible Tier 2 capital, Tier 3 capital and restricted Tier 1 capital did not have an impact on the Company as the Company's own funds were within those limits and therefore no restrictions were required.

(b) Ordinary share capital
The Company's ordinary share capital represents the nominal value of 25p each fully paid equity shares issued.

(c) Surplus funds
Surplus funds arise from the Company's with-profit funds (i.e. surplus funds arise from the Company's certain ring-fenced funds). The value of surplus funds reported represents the excess of assets over liabilities (excluding the risk margin) of those ring-fenced funds after deducting the present value of the expected future shareholder transfers (net of any related tax borne by the funds).

In accordance with the template S.23.01.01 (Own Funds) presentation requirements, the value of surplus funds reported on the face of the template is prior to ring-fencing related restrictions being applied. The related restrictions are included as a deduction in the Reconciliation Reserve under *"Restrictions applied to own funds due to ring-fencing"*. As such, the contribution of surplus funds towards the Company's own funds is lower than what is reported on the face of the Own Funds template.

(d) Reconciliation reserve
The reconciliation reserve represents the residual of excess of assets over liabilities after deducting (i) equity share capital comprising ordinary share capital and (ii) surplus funds and the restriction applied to own funds due to ring fencing.

E.1.4 Reconciliation of the UK GAAP shareholders' equity to the excess of assets over liabilities on the Solvency II balance sheet and to Solvency II eligible own funds

The "excess of assets over liabilities" on the Solvency II balance sheet is not equivalent to own funds as a number of adjustments are made on the own funds template to restrict the valuation.

The reconciliation of the Company's UK GAAP shareholders' equity to the excess of assets over liabilities on the Solvency II balance sheet to Solvency II eligible own funds value of the Company is in Figure 26 below:

Figure 26: Reconciliation of UK GAAP shareholder's equity to Solvency II for the year-ended 31 December 2016

	£m
UK with-profits funds	
Fund for future appropriations	11,933
Value of shareholder transfers	(2,271)
Impact of risk margin (net of TMTP)	(620)
Other valuation differences	(572)
UK GAAP total equity	
Shareholders' equity	13,623
Impact of risk margin (net of TMTP)	(480)
Value of shareholder transfers	3,242
Asset valuation differences	(2,387)
Other valuation differences	(369)
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	86
Restrictions on ring-fenced funds	(3,879)
Eligible own funds at 31 December 2016	**18,306**
Excess of assets over liabilities as recorded in the Solvency II balance sheet[1]	**22,185**

(1) Difference between excess of assets over liabilities as recorded in the Solvency II balance sheet and eligible own funds at 31 December 2016 being restriction on ring-fenced funds.

E.1.5 Significant restriction to the fungibility and transferability of own funds

Unaudited

Restriction to own funds arising from ring-fenced funds

The Company has considered the specific provisions of national law, insolvency law, contract law and product regulation of the insurance subsidiary's jurisdiction of operations in determining the appropriate treatment of ring-fenced funds.

For ring-fenced funds, own funds are adjusted to reflect that the funds have a reduced capacity to fully absorb losses on a going-concern basis due to their lack of fungibility within the insurance company. The contribution to own funds from a ring-fenced fund is restricted such that the contribution to own funds from the ring-fenced fund is equal to the notional SCR for that ring-fenced fund. The impact of ring-fenced funds on the Company's solvency position in shown in Figure 26 above.

The Company have considered the specific provisions of national law, insolvency law, contract law and product regulation of the insurance subsidiary's jurisdiction of operations in determining the appropriate treatment of ring-fenced funds.

Fungibility and transferability of own funds

Capital fungibility relates to the extent to which own funds in one entity is able to absorb losses arising in another entity, whereas capital transferability relates to the extent to which economic surplus in a subsidiary can be transferred to parent company. The Company has no fungibility restrictions in relation to own funds.

E.2 SCR and MCR

Unaudited

E.2.1 Overview

For the purpose of Solvency II regulatory reporting and disclosures, risk management, and calculation of any free surplus generation, the Company has approval to use an internal model for calculating the solvency capital requirement ('SCR'). The assets and liabilities are valued on a Solvency II basis.

E.2.2 Components of SCR

At 31 December 2016, the SCR was £13,208 million.

Figure 27 below shows the undiversified SCR by risk components and the benefit of diversification in relation to the Company at 31 December 2016.

Figure 27: SCR for PAC at 31 December 2016

Risk component	SCR £m
Interest rate risk	4,726
Equity risk	3,739
Property risk	1,271
Spread risk	8,191
Concentration risk	32
Currency risk	2,788
Diversification within market risks	(7,719)
Other counterparty risk	314
Mortality risk	202
Longevity risk	4,698
Disability-morbidity risk	136
Mass lapse	1,015
Other lapse risk	867
Expense risk	1,494
Life catastrophe	80
Diversification within life underwriting risks	(4,424)
Other non-life underwriting risk	4
Operational risk	1,228
Loss-absorbing capacity of deferred tax	(1,464)
Other adjustments	(395)
Total undiversified components	**16,786**
Diversification between market and underwriting risks	**(3,577)**
Total diversified SCR	**13,208**

The minimum capital requirement (‘MCR’) is a formulaic calculation, which is subject to a cap and a floor that are both expressed relative to the SCR. At 31 December 2016, the Company’s MCR was £3,302 million. The inputs used to calculate the MCR are detailed in Quantitative Reporting Template S.28.02.01.

The MCR is currently 25% of the SCR.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

Unaudited

The Company has not used the duration-based equity risk sub-module in the calculation of its SCR as it is a standard formula approach and not applicable to an internal model firm.

E.4 Differences between the standard formula and internal model

Unaudited

E.4.1 Overview

The Company's internal model, which is calibrated to the rules and requirements of the Solvency II Directive, is a key risk management tool and refers to the collection of systems and processes used to identify, monitor and quantify risks for the purpose of calculating the Solvency II solvency capital requirement and economic capital requirements. This is a risk-based measure and, compared to the standard formula (as described below), has the advantage of better reflecting the specifics of the Company's business and risks.

The standard formula capital refers to the capital that is calculated in line with the standard formula rules provided by the Solvency II Directive. Even though the standard formula, as part of Solvency II, represents a risk-based measure, it is based on a set of prescribed parameters, calibrated for European insurers and therefore it does not fully reflect the characteristics of PAC and the specific structure and risks the Company is exposed to.

The Company's internal model is used in areas where risk-based decision making or risk-related considerations are required, such as capital management, investment strategy, product development and management.

E.4.2 Internal model application

The Company applied to use an internal model in late June 2015. In early December 2015 the application was approved by the Prudential Regulation Authority ('PRA'). This was followed by an application to the PRA for a "major model change" to the internal model in 2016, which was approved by the PRA to be effective for full year 2016 reporting.

The Company's internal model is described as "partial" because the Group's US insurance companies are aggregated into the Group SCR using method 2: deduction and aggregation. Integration techniques are not required.

As required in Article 101 of Directive 2009/138/EC, the solvency capital requirement from the approved internal model is calculated as the value-at-risk of the basic own funds of an (re)insurance undertaking at a confidence level of 99.5 per cent over a one-year period. The main risk categories allowed for in the internal model are shown in section E.2.2. Within these categories, underlying "risk drivers" are specified as the result of an annual risk identification process. A model is defined and calibrated for each underlying risk driver and these are combined with an appropriate dependency structure and simulated to generate multiple thousands of combined risk scenarios. These risk scenarios are applied to all the assets and liabilities of the Company (for each entity within the scope of the internal model) to generate a wide range of possible outcomes. For simplicity, and to avoid circularity, the risk margin is held constant in all these risk scenarios. The resulting probability distribution is used to calculate the internal model solvency capital requirement, by subtracting the 99.5th worst percentile outcome from the unstressed balance sheet.

The data used in the internal model covers the following:

- liability data;
- asset data;
- finance data;
- operational risk data;
- policyholder data;
- data used in setting assumptions, including demographic, economic and other; and
- other relevant data required by the internal model and technical provisions.

The quality of the data is subject to the internal model data quality framework to ensure the accuracy, completeness, appropriateness and timeliness of the data.

E.4.3 Internal model vs standard formula

Key differences between the calculation of the internal model SCR and the standard formula SCR include:

- Whereas the standard formula stresses and correlations are prescribed, the internal model risk scenarios reflect the Company's specific risk profile and are derived from a combination of data analysis and expert judgement, subject to the internal model tests and standards required by the Solvency II Directive (see further detail in Figure 28 below).
- Although the same broad risk categories are used to group risk drivers in the internal model, the internal model risk drivers within each category are typically much more granular than the broad risk categories considered under the standard formula. For example, the internal model risk drivers typically vary by country, as well as by other attributes of the risk, whereas many of the standard formula stresses do not vary by country.
- The internal model also covers some risks that are not included in the standard formula (for example, equity implied volatility risk, interest rate implied volatility risk and government bond spread risk).
- The internal model SCR is derived by combining underlying risk drivers together into combined stress scenarios, and then ranking the outcomes of applying these stress scenarios to the Company's balance sheet to derive the 99.5th worst percentile outcome. Conversely, the standard formula SCR is derived by calculating the impact on the balance sheet of each prescribed stress separately and then aggregating these outcomes using prescribed correlation matrices. Therefore, the internal model allows for the impact on the balance sheet of combinations of risks occurring together, whereas the standard formula only considers each risk in isolation.
- The internal model allows for the matching adjustment ring-fence to vary in each risk scenario, reflecting changes in the value of the corresponding liabilities. Therefore, diversification is allowed for between risks inside and risks outside the matching adjustment portfolio. Conversely, because the standard formula does not consider the impacts of combinations of risks occurring together, it requires that no diversification is recognised between risks inside the matching adjustment portfolio and risks outside the matching adjustment portfolio.

Figure 28: Overview of standard formula and internal model differences

Risk category	Standard formula	Internal model
Equity	Stresses vary between "Type 1" (listed EEA and OECD stocks) and "Type 2" (other countries, unlisted equities and alternative equity investments). A symmetric adjustment is applied to the level of stress to smooth out significant movements in markets close to the calculation date.	The model includes more granular stresses with calibrations set for each main equity benchmark index. At least one equity index is calibrated for each relevant global economy. Private equity, infrastructure equity and hedge funds are modelled using specific calibrations. Equity implied volatility is also modelled. No symmetric

Risk category	Standard formula	Internal model
		adjustment is applied.
Credit	For corporate bonds, loans and non-exempt sovereign bonds, credit risk is modelled by stressing credit spreads, with stresses varying by rating and duration bucket. European sovereign bonds are exempt from stress. Stresses on assets with an element of securitisation receive higher stresses, as do bonds with no credit rating. The matching adjustment is allowed for by a factor-based reduction of the spread stresses by rating.	Credit spreads, ratings migrations, defaults and fundamental spreads (for the UK matching portfolio) are all explicitly modelled. The spread stresses vary by credit rating, with calibrations differentiated by economy, product and duration bucket where appropriate. Internal credit assessments are used for bonds and loans without an agency rating and to uplift stresses for assets where structuring introduces additional risk. Spread stresses are applied to sovereign bonds, taking into account the credit risk of the issuing government. The matching adjustment is calculated dynamically based on the bond yields and fundamental spread being modelled in each risk scenario.
Yields	Interest rate stresses are defined as bi-directional stresses to the base risk-free curve which vary by term but not by country.	Stresses are calibrated for each relevant global economy, and stresses to the shapes of risk-free yield curves are modelled using an industry-standard 'principal component' methodology. Stressed curves are re-extrapolated beyond the last liquid point for each economy using the methodology specified by EIOPA. Interest rate implied volatility and inflation risk are also modelled.
Property	There is a single property stress applied globally to the value of all assets classified as property.	Property stresses are differentiated by type of property, with separate calibrations for commercial and residential property. The model also separates the risks relating to contractually fixed rental income from that relating to capital growth where this is relevant for the matching adjustment.
Currency	A pair of up and down stresses is applied to the non-GBP net asset value in each business, and then aggregated. This approach also implicitly captures any asset-liability currency mismatch in each country.	A calibration is derived for each currency relative to GBP. Currency outcomes are simulated and used to translate all assets and liabilities into sterling in each risk scenario, thereby including the effect of currency "translation" as well as asset-liability currency mismatches within countries.
Concentration	The capital charge is based on the relative size of individual exposures as a proportion of the overall asset portfolio. Some non-EEA sovereigns	A similar approach is used as for the standard formula, with a more risk-based approach adopted for Asia sovereigns.

Risk category	Standard formula	Internal model
	are included, depending on their credit rating.	
Counterparty default risk	Counterparty default risk is calculated taking into account the loss-given-default and probability of default, using fixed factors. Separate parameters and different aggregation approaches are applied for Type 1 exposures (e.g. derivatives, reinsurance, deposits) compared to Type 2 exposures (e.g. receivables from intermediaries).	A stochastic portfolio model (calibrated by credit rating) is used to capture counterparty risk, allowing for stochastic default and recovery rates. The model allows for counterparty exposures to increase under stressed conditions arising from other market and insurance risks.
Lapse	Policyholder lapse rates are stressed in both directions and a mass lapse stress is also applied. The capital charge is based on the largest of these impacts. The stresses are fixed for all countries and products (except for "group policies" which have a higher capital charge).	The lapse calibration is more granular and includes stresses to lapse assumptions and mass lapses. The stresses vary by product type as appropriate.
Longevity	A downward stress to mortality rates is applied to all relevant business.	The longevity calibration is more granular and includes stresses to base mortality rates and longevity trend assumptions separately. Calibrations are differentiated by gender and by different blocks of business, as appropriate.
Mortality & Life catastrophe	An increase in best estimate mortality rates and an instantaneous catastrophe risk stress are applied to all relevant business.	The mortality calibration allows for stresses to both best estimate mortality rates and catastrophe risks.
Morbidity	An increase in long-term morbidity rates is applied, including a reduction in morbidity recovery rates. The same stresses apply for all relevant business.	An increase to the best estimate morbidity rates for all future years.
Expense	Both the level of expenses and level of expense inflation are stressed under the standard formula. The same stresses apply to all business.	Expense level and expense inflation risks are modelled, with stresses calibrated by product type where appropriate.
Operational	Operational risk is calculated using a factor based approach applied to premiums, technical provisions and unit linked expenses.	Individual operational risks are assessed bottom-up, and modelled using a frequency-severity model. These are combined with correlation assumptions to produce aggregate probability distributions of potential operational losses.

E.5 Non-compliance with the MCR and with the SCR

The Company's solvency capital requirement and minimum capital requirements have been met during 2016.

E.6 Any other information

There is no other information.

Appendix A – List of subsidiaries and related undertakings

The following is a list of subsidiaries and related undertakings of the Company at 31 December 2016.

(i) Direct subsidiary undertakings

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Cardinal Distribution Park Management Limited	Ordinary Shares	66%	United Kingdom	5th Floor Cavendish House 39 Waterloo Street Birmingham, B2 5PP
Carraway Guildford General Partner Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Central Square Leeds Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Cribbs Mall Nominee (1) Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Edger Investments Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Euro Salas Properties Limited	Ordinary Shares	100%	United Kingdom	7 West George Street, Glasgow, G2 1BA
Greenpark (Reading) Limited Partnership (The)	Limited Partnership Interest	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Manchester Nominee (1) Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Minster Court Estate Management Limited	Ordinary Shares	56%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
NAPI REIT, Inc.	Ordinary Shares	99%	USA	The Corporation Trust Incorporated 300 E Lombard Street Baltimore, MD 21202 Maryland USA
Optimus Point Management Company Limited	Ordinary Shares	99.95%	United Kingdom	Barrat House Cartwright Way, Bardon Hill, Coalville, Leicestershire, LE67 1UF
Pacus (UK) Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
PPMC First Nominees Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prudential Dublin Investment Ltd	Ordinary Shares	100%	Ireland	IFSC, North Wall Quay, Dublin 1
Prudential Investments (Luxembourg) 2 S.à r.l.	Ordinary shares	100%	Luxembourg	34-38, Avenue de la Liberté Luxembourg, L-1930
Prudential Properties Trusty Pty Limited	Unclassified Shares	100%	Australia	Darling Park Tower 2 Sydney, Australia
Prudential Property Investments Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prudential Real Estate Investments 2 Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH

Prudential Real Estate Investments 3 Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prutec Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
PVM Partnerships Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Sealand (No 1) Limited	Ordinary Shares	100%	Jersey	PO Box 87, 22 Grenville Street St Helier, Jersey
Sealand (No 2) Limited	Ordinary Shares	100%	Jersey	PO Box 87, 22 Grenville Street St Helier, Jersey
Smithfield Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
The Hub (Witton) Management Company Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Three Snowhill Birmingham S.a.r.l	Ordinary Shares	100%	Luxembourg	5 Rue Guillaume Kroll, L-1882, Luxembourg
Two Snowhill Birmingham S.a.r.l.	Ordinary shares	100%	Luxembourg	5 Rue Guillaume Kroll, L-1882, Luxembourg
Wessex Gate Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Westwacker Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH

Insurance

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential General Insurance Hong Kong Limited	Ordinary Shares	100%	Hong Kong	59/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential Hong Kong Limited	Ordinary Shares	100%	Hong Kong	59/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Assurance plc	Ordinary Shares	100%	Ireland	Montague House, Adelaide Road, Dublin 2, Ireland
Prudential Pensions Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH

Pension

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Corporate Pensions Trustee Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prudential Retirement Income Limited	Ordinary Shares	100%	United Kingdom	Craigforth, Stirling, Scotland, FK9 4UE

Holding company

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Holborn Life	Ordinary	100%	United Kingdom	Laurence Pountney Hill

Limited	Shares			London, EC4R 0HH

Mortgage lending

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Lifetime Mortgages Limited	Ordinary Shares	100%	United Kingdom	Craigforth, Stirling, Scotland, FK9 4UE

Financing

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Scottish Amicable Finance plc	Ordinary Shares	100%	United Kingdom	Craigforth, Stirling, Scotland, FK9 4UE

Service

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential International Management Services Limited	Ordinary Shares	100%	Ireland	Montague House, Adelaide Road, Dublin 2, Ireland

In liquidation

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
MM&S (2375) Limited	Ordinary Shares	100%	United Kingdom	Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB
Prudential Annuities Limited	Ordinary Shares	100%	United Kingdom	Mazars LLP, 45 Church Street, Birmingham, B3 2RT
Scottish Amicable ISA Managers Limited	Ordinary Shares	100%	United Kingdom	Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB
Empire Holding S.a.r.l.	Ordinary Shares	100%	Luxembourg	5 Rue Guillaume Kroll, L-1882, Luxembourg
LIPP S.à r.l.	Ordinary Shares	100%	Luxembourg	5 Rue Guillaume Kroll, L-1882, Luxembourg

Dormant

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Scottish Amicable Life Assurance Society	No Share Capital	100%	United Kingdom	Craigforth, Stirling, Scotland, FK9 4UE
Warren Farm Office Village Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH

(iii) Other subsidiaries, associated undertakings, joint ventures and significant holdings

Investment

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
BOCHK Aggressive Growth Fund	Ordinary shares	56.67%	Hong Kong	27th Floor Bank of China Tower Central and Western District, Hong Kong
BOCHK Balanced Growth Fund	Ordinary shares	43.57%	Hong Kong	12th Floor and 25th Floor Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai, Hong Kong
BOCHK China Equity Fund	Ordinary shares	60%	Hong Kong	12th Floor and 25th Floor Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai, Hong Kong
BOCHK Conservative Growth Fund	Ordinary shares	47.1%	Hong Kong	12th Floor and 25th Floor Citicorp Centre, 18 Whitfield Road, Causeway Bay, Wan Chai, Hong Kong
BWAT Retail Nominee (1) Limited	Ordinary Shares	50%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
BWAT Retail Nominee (2) Limited	Ordinary Shares	50%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Calera Capital Partners IV - A AIV I, L.P.	Limited Partnership Interest	32.87%	USA	Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801 Delaware, USA
Carraway Guildford (Nominee A) Limited	Ordinary Shares	100%	Jersey	13 Castle Street, St Helier, JE4 5UT
Carraway Guildford (Nominee B) Limited	Ordinary Shares	100%	Jersey	13 Castle Street, St Helier, JE4 5UT
Carraway Guildford Investments Unit Trust	Units	100%	Jersey	C/o Sanne Group 13 Castle Street, St Helier, Jersey JE4 5UT
Carraway Guildford Limited Partnership	Limited partnership interest	100%	United Kingdom	Lloyds Chambers 1 Portsoken Street London E1 8HZ
Centaurus Retail LLP	Limited Partnership Interest	50%	United Kingdom	40 Broadway, London, SW1H 0BU
Centre Capital Non-Qualified Investors IV AIV Orion, L.P.	Membership Interest	45.74%	USA	2711 Centerville Road, Ste 400, Wilmington, DE, 19808, Delaware, USA
Centre Capital Non-Qualified Investors IV AIV-ELS, L.P.	Membership Interest	45.92%	USA	2711 Centerville Road, Ste 400, Wilmington, DE, 19808, Delaware, USA
Centre Capital Non-Qualified Investors IV AIV-RA, L.P.	Membership Interest	45.92%	USA	2711 Centerville Road, Ste 400, Wilmington, DE, 19808, Delaware, USA
Centre Capital Non-Qualified Investors IV, L.P.	Membership Interest	45.67%	USA	2711 Centerville Road, Ste 400, Wilmington, DE, 19808,

				Delaware, USA
Centre Capital Non-Qualified Investors V AIV-ELS LP	Membership Interest	36.58%	USA	2711 Centerville Road, Ste 400, Wilmington, DE, 19808, Delaware, USA
Centre Capital Non-Qualified Investors V LP	Membership Interest	32.65%	USA	2711 Centerville Road, Ste 400, Wilmington, DE, 19808, Delaware, USA
CF Prudential European QIS Fund	Ordinary Shares	97.73%	United Kingdom	17 Rochester Row, London SW1P 1QT
CF Prudential Japanese QIS Fund	Ordinary Shares	97.73%	United Kingdom	17 Rochester Row, London SW1P 1QT
CF Prudential North American QIS Fund	Ordinary Shares	97.9%	United Kingdom	135 Bishopsgate, London EC2M 3UR
CF Prudential Pacific Markets Trust Fund	Ordinary Shares	97.91%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
CF UK Growth Qualified Investor Scheme	Ordinary Shares	98.6%	United Kingdom	17 Rochester Row, London SW1P 1QT
Cribbs Causeway JV Limited	Ordinary Shares	50%	United Kingdom	40 Broadway, London SW1H 0BU
Cribbs Causeway Merchants Association Ltd	Limited by Guarantee		United Kingdom	Management Offices, The Mall at Cribbs Causeway, Bristol
Eastspring Investments - Asia Pacific Equity Fund	Ordinary Shares	76.21%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Asian Bond Fund	Ordinary Shares	21.61%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Asian Dynamic Fund	Ordinary shares	40.15%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Asian Equity Fund	Ordinary shares	59.43%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Asian High Yield Bond Fund	Ordinary shares	22.93%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Asian Low Volatility Equity Fund	Ordinary shares	100%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments China Equity Fund	Ordinary shares	39.98%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Emerging EMEA Dynamic Fund	Ordinary shares	57.74%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Global Emerging Markets Bond Fund	Ordinary shares	44.63%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Global Market Navigator Fund	Ordinary shares	89.69%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Global Multi Asset Income Plus Growth Fund	Ordinary shares	100%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Greater China Equity Fund	Ordinary shares	73.25%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449

Eastspring Investments Hong Kong Equity Fund	Ordinary shares	99.57%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments India Equity Fund	Ordinary shares	78.95%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Japan Fundamental Value Fund	Ordinary shares	67.09%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments Latin American Equity Fund	Ordinary shares	33.18%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments North America Value Fund	Ordinary shares	67.62%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments SICAV-FIS - Alternative Investments Fund	Ordinary shares	51.71%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments SICAV-FIS - Asia Pacific Loan Fund	Ordinary shares	56.81%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments SICAV-FIS Universal USD Bond Fund	Ordinary shares	100%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments US Corporate Bond Fund	Ordinary shares	59.05%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Eastspring Investments World Value Equity Fund	Ordinary shares	83.64%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Fashion Square ECO LP	Limited Partnership Interest	50%	USA	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801, Delaware, USA
Foudry Properties Limited	Ordinary Shares	50%	United Kingdom	Clearwater Court, Vastern Road, Reading RG1 8DB
Global Low Volatility Equity fund D Acc	Ordinary shares	94.59%	Luxembourg	26, Boulevard Royal Luxembourg, L-2449
Infracapital Partners	Limited partnership interest	33.04%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Infracapital Partners II LP	Limited partnership interest	25.98%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Jefferies Capital Partners V, L.P.	Limited Partnership Interest	5.48%	USA	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801, Delaware, USA
JNL Strategic Income Fund LLC	Ordinary Shares	100%	USA	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange St, Wilmington, DE 19801, Delaware, USA
Lion Credit Opportunity Fund III	Ordinary Shares	32.26%	Ireland	3rd Floor Kilmore House, Park Lane, Dublin 1, Dublin, D01 YE64, Ireland
Lion Credit Opportunity Fund XII	Ordinary Shares	32.26%	Ireland	3rd Floor Kilmore House, Park Lane, Dublin 1, Dublin, D01 YE64, Ireland

MCF S.r.l.	Ordinary shares	45%	Italy	Via Romagnosi 18/a, 00196 Roma, Italy
M&G Asia Property Fund	Ordinary Shares	40.35%	Luxembourg	34-38 Avenue de la Liberté, L-1930 Luxembourg
M&G Corporate bond Fund	Ordinary shares	24.4%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Dividend Fund	Ordinary Shares	54.67%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Emerging Markets Bond Fund	Ordinary Shares	23.85%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Episode Defensive Fund	Ordinary Shares	94.62%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Episode Macro Fund	Ordinary Shares	31.22%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G European Credit Investments Fund	Ordinary Shares	100%	Luxembourg	80, Route d'Esch Luxembourg, L-1470
M&G European High Yield Credit Investments Fund	Ordinary Shares	100%	Luxembourg	80, Route d'Esch Luxembourg, L-1470
M&G European Property Fund SICAV-FIS	Ordinary Shares	68.06%	Luxembourg	34-38, Avenue de la Liberté Luxembourg, L-1930
M&G European Secured Property Income Fund	Units	51.12%	Luxembourg	34-38, Avenue de la Liberté Luxembourg, L-1930
M&G European Select Fund	Ordinary Shares	37.3%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Gilt & Fixed Interest Income Fund	Ordinary shares	41.11%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Global Select Fund	Ordinary shares	23.69%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Global Corporate Bond Fund	Ordinary Shares	61.98%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Global Credit Investments Fund	Ordinary Shares	100%	Luxembourg	80, Route d'Esch Luxembourg, L-1470
M&G Managed Growth Fund	Ordinary Shares	26.4%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Pan European Dividend Fund	Ordinary Shares	21.6%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Property Portfolio Feeder	Ordinary Shares	28.25%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
M&G Real Estate Debt Fund LP	Limited partnership interest	29.15%	Guernsey	Ground Floor, Dorey Court, Admiral Park, St Peter Port, GY1 2HT
M&G Traditional Credit Fund	Ordinary Shares	45.41%	Ireland	78 Sir John Rogerson's Quay Dublin 2 Dublin, D02 RK57, Ireland
M&G UK Companies Financing Fund II LP	Limited partnership interest	48.32%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Manchester JV Limited	Ordinary Shares	50%	United Kingdom	40 Broadway, London, SW1H 0BU
Old Kingsway, LP	Limited	100%	USA	Corporation Service Company

	Partnership Interest			2711 Centreville Road, suite 400, Wilmington, DE 19808 Delaware USA
PPM America Private Equity Fund LP	Limited Partnership Interest	45.23%	USA	c/o United Corporate Services, 774 Walker Road, Suite C, Dover, DE 19904
PPM America Private Equity Fund II LP	Limited Partnership Interest	49.75%	USA	c/o United Corporate Services, 774 Walker Road, Suite C, Dover, DE 19904
PPM America Private Equity Fund III LP	Limited Partnership Interest	49.75%	USA	c/o United Corporate Services, 774 Walker Road, Suite C, Dover, DE 19904
PPM America Private Equity Fund IV LP	Limited Partnership Interest	49.88%	USA	c/o United Corporate Services, 774 Walker Road, Suite C, Dover, DE 19904
PPM America Private Equity Fund V LP	Limited Partnership Interest	49.88%	USA	c/o United Corporate Services, 774 Walker Road, Suite C, Dover, DE 19904
PPM America Private Equity Fund VI LP	Limited Partnership Interest	45.34%	USA	c/o United Corporate Services 874 Walker Road, Suite C, Dover, Delaware 19904
Property Partners (Two Rivers) Limited	Ordinary Shares	50%	United Kingdom	Bow Bells House, 1 Bread Street, London
Prudential Credit Opportunity SCSp	Ordinary shares	100%	Luxembourg	1, Rue Hildegard von Bingen, L - 1282, Luxembourg
Prudential Development Management Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill, London, EC4R 0HH, United Kingdom
Prudential Dynamic 10-40 Portfolio	Ordinary Shares	31.74%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic 20 - 55 Portfolio	Ordinary Shares	35%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic 40-80 Portfolio	Ordinary Shares	38.61%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic 0-30 Portfolio	Ordinary Shares	29.95%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic 60-100 Portfolio	Ordinary Shares	40.41%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic Focused 0-30 Portfolio	Ordinary Shares	66.09%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic Focused 10-40 Portfolio	Ordinary Shares	42.44%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic Focused 20 - 55 Portfolio	Ordinary Shares	50.4%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic Focused 40-80 Portfolio	Ordinary Shares	49.92%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Dynamic Focused 60-100 Portfolio	Ordinary Shares	70.93%	United Kingdom	17 Rochester Row, London SW1P 1QT
Prudential Equity Release Mortgages Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prudential Greenfield LP	Limited	100%	United Kingdom	Laurence Pountney Hill

	partnership interest			London, EC4R 0HH
Prudential M&G UK Companies Financing Fund LP	Limited partnership interest	34.42%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prudential UK Real Estate Nominee 1 Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prudential UK Real Estate Nominee 2 Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Prudential UK Real Estate Investments 1 Limited	Ordinary Shares	100%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
Randolph Street LP	Limited Partnership Interest	100%	USA	Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington, Delaware 19808
Sectordate Limited	Ordinary Shares	33%	United Kingdom	5th Floor Cavendish House 39 Waterloo Street Birmingham, B2 5PP
SMLLC	Limited Partnership Interest	100%	USA	Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington, Delaware 19808
St Edward Homes Limited	Ordinary Shares	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Cobham, Surrey KT11 1JG
The Car Auction Unit Trust	Ordinary shares	50%	Guernsey	Dorey Court, Admiral Park St Peter Port GY1 3BG, Guernsey
The Heights Management Company Limited	Ordinary Shares	50%	United Kingdom	Laurence Pountney Hill London, EC4R 0HH
The St Edward Homes Partnership	Limited Partnership Interest	50%	United Kingdom	Berkeley House, 19 Portsmouth Road, Cobham, Surrey KT11 1JG
The Strand Property Unit Trust	Units	50%	Jersey	Liberte House, 19-23 La Motte Street, St Helier, Jersey, Channel Islands, JE2 4SY
The Two Rivers Trust	Units	50%	Jersey	Liberte House, 19-23 La Motte Street, St Helier, Jersey, Channel Islands, JE2 4SY
US Strategic Income Bond Fund D USD Acc	Ordinary shares	100%	Luxembourg	26, Boulevard Royal, Luxembourg, L-2449
US Total Return Bond Fund D USD Acc	Ordinary shares	100%	Luxembourg	26, Boulevard Royal, Luxembourg, L-2449
Wynnefield Private Equity Partners II, LP	Limited Partnership Interest	99%	USA	The Corporation Trust Company Corporation Trust Centre 1209 Orange St., Wilmington, DE 19801 Delaware, USA

In liquidation

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Europe Assurance Holdings Limited	Ordinary Shares	100%	United Kingdom	Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB
Scottish Amicable PEP and ISA Nominees Limited	Ordinary Shares	100%	United Kingdom	Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB

Financing

Name	Classes of Shares held	Proportion held	Country of Incorporation	Address
Prudential Vietnam Finance Company Limited	Ownership Interest	100%	Vietnam	25/F, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam

Statement of directors' responsibilities

The directors of The Prudential Assurance Company Limited acknowledge their responsibility for preparing the Solo SFCR in all material respects in accordance with the PRA rules and Solvency II Regulations.

The directors are satisfied that:

(a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable at the level of the Company; and

(b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future.

Signed on behalf of the Board of Directors

Mr J Deeks
Chief Financial Officer
17 May 2017

Independent Auditor's Report

Report of the external independent auditor to the Directors of Prudential Assurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by Prudential Assurance Company Limited as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Prudential Assurance Company Limited as at 31 December 2016, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S12.01.01, S17.01.02, S22.01.21, S23.01.01 and S28.02.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- information relating to 31 December 2015 voluntarily disclosed by the Company in the 'Valuation for solvency purposes' section of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S19.01.21 S.25.02.21;
- information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report where disclosed;
- the written acknowledgement by the directors of their responsibilities, including for the preparation of the solvency and financial condition report ('the Responsibility Statement').

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Prudential Assurance Company Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Matters on which we are required to report by exception

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of The Prudential Assurance Company Limited's statutory financial statements.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) 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 through its governing body, for our audit, for this report, or for the opinions we have formed.

KPMG LLP

KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

17 May 2017

The maintenance and integrity of Prudential plc's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo internal model

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of template S.02.01.02:

- Row R0090: Amount of transitional measure on technical provisions in relation to the technical provisions of Prudential Hong Kong Limited (PHKL)
- Row R0550: Technical provisions - non-life (excluding health) - risk margin
- Row R0590: Technical provisions - health (similar to non-life) - risk margin
- Row R0640: Technical provisions - health (similar to life) - risk margin
- Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
- Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

The following elements of template S.12.01.02

- Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
- Rows R0110 to R0130 – Amount of transitional measure on technical provisions

The following elements of template S.17.01.02

- Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
- Rows R0290 to R0310 – Amount of transitional measure on technical provisions

The following elements of template S.22.01.21

- Column C0030 – Impact of transitional measure on technical provisions
- Row R0010 – Technical provisions
- Row R0020 - Adjustment for restricted own fund items in respect of ring fenced funds of the Company and the ring fenced funds of Prudential Hong Kong Limited (PHKL)
- Row R0090 – Solvency Capital Requirement

The following elements of template S.23.01.01

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of template S.28.02.01

- Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as ‘Unaudited’.

Templates Provided in the SFCR Implementing Technical Standard

S.02.01.02 Balance Sheet

All amounts are in £'000

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	136,092
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	151,910,026
R0080	*Property (other than for own use)*	8,848,501
R0090	*Holdings in related undertakings, including participations*	8,796,763
R0100	*Equities*	30,259,449
R0110	*Equities - listed*	30,216,752
R0120	*Equities - unlisted*	42,696
R0130	*Bonds*	82,379,094
R0140	*Government Bonds*	18,883,163
R0150	*Corporate Bonds*	57,772,659
R0160	*Structured notes*	0
R0170	*Collateralised securities*	5,723,272
R0180	*Collective Investments Undertakings*	18,112,371
R0190	*Derivatives*	2,876,688
R0200	*Deposits other than cash equivalents*	637,159
R0210	*Other investments*	-
R0220	Assets held for index-linked and unit-linked contracts	8,967,641
R0230	Loans and mortgages	11,861,746
R0240	*Loans on policies*	5,606
R0250	*Loans and mortgages to individuals*	1,615,118
R0260	*Other loans and mortgages*	10,241,022
R0270	Reinsurance recoverables from:	6,584,807
R0280	*Non-life and health similar to non-life*	148,948
R0290	*Non-life excluding health*	148,948
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	1,347,753
R0320	*Health similar to life*	1,814
R0330	*Life excluding health and index-linked and unit-linked*	1,345,939
R0340	*Life index-linked and unit-linked*	5,088,106
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	23,361
R0370	Reinsurance receivables	5,617
R0380	Receivables (trade, not insurance)	2,652,772
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	1,402,425
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	183,544,485

S.02.01.02 - Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	149,359
R0520	*Technical provisions - non-life (excluding health)*	149,359
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	149,359
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	136,055,200
R0610	*Technical provisions - health (similar to life)*	-33,954
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-34,061
R0640	*Risk margin*	107
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	136,089,154
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	135,121,435
R0680	*Risk margin*	967,719
R0690	Technical provisions - index-linked and unit-linked	14,302,807
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	14,170,867
R0720	*Risk margin*	131,941
R0740	Contingent liabilities	20,000
R0750	Provisions other than technical provisions	218,233
R0760	Pension benefit obligations	237,605
R0770	Deposits from reinsurers	1,548,183
R0780	Deferred tax liabilities	1,043,792
R0790	Derivatives	1,730,088
R0800	Debts owed to credit institutions	3,306,383
R0810	Financial liabilities other than debts owed to credit institutions	111,668
R0820	Insurance & intermediaries payables	539,329
R0830	Reinsurance payables	35,032
R0840	Payables (trade, not insurance)	2,061,838
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	161,359,517
R1000	**Excess of assets over liabilities**	22,184,968

S.05.01.02 Premiums claims and expenses by line of business

Unaudited

All amounts are in £'000

	Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	*Gross - Direct Business*																	0
R0120	*Gross - Proportional reinsurance accepted*																	0
R0130	*Gross - Non-proportional reinsurance accepted*																	0
R0140	*Reinsurers' share*																	0
R0200	*Net*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Premiums earned																	
R0210	*Gross - Direct Business*																	0
R0220	*Gross - Proportional reinsurance accepted*																	0
R0230	*Gross - Non-proportional reinsurance accepted*																	0
R0240	*Reinsurers' share*																	0
R0300	*Net*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Claims incurred																	
R0310	*Gross - Direct Business*				6,347				1,189									7,536
R0320	*Gross - Proportional reinsurance accepted*																	0
R0330	*Gross - Non-proportional reinsurance accepted*																	0
R0340	*Reinsurers' share*				6,347				1,189									7,536
R0400	*Net*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Changes in other technical provisions																	
R0410	*Gross - Direct Business*																	0
R0420	*Gross - Proportional reinsurance accepted*																	0
R0430	*Gross - Non-proportional reinsurance accepted*																	0
R0440	*Reinsurers' share*																	0
R0500	*Net*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0550	**Expenses incurred**																	0
R1200	**Other expenses**																	
R1300	**Total expenses**																	0

S.05.01.02 Premiums, claims and expenses by line of business

	Life	Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	*Gross*	22,568	8,303,677	399,555	544,051			0	23,823,512	33,093,363
R1420	*Reinsurers' share*	1,940	75,268	25,143	533,385			0	0	635,736
R1500	*Net*	20,628	8,228,410	374,412	10,666			0	23,823,512	32,457,628
	Premiums earned									
R1510	*Gross*	22,568	8,303,677	399,555	544,051			0	23,823,512	33,093,363
R1520	*Reinsurers' share*	1,940	75,268	25,143	533,385			0	0	635,736
R1600	*Net*	20,628	8,228,410	374,412	10,666			0	23,823,512	32,457,628
	Claims incurred									
R1610	*Gross*	6,812	6,537,933	1,183,525	2,169,043			0	1,107,224	11,004,537
R1620	*Reinsurers' share*	3,975	2,131	40,740	944,240			0	1,009	992,096
R1700	*Net*	2,837	6,535,802	1,142,785	1,224,803			0	1,106,215	10,012,442
	Changes in other technical provisions									
R1710	*Gross*	-17,596	12,397,324	958,847	28,777,505			0	-4,424,085	37,691,995
R1720	*Reinsurers' share*	-8,472	-16,399	580,022	302,067			0	0	857,218
R1800	*Net*	-9,124	12,413,723	378,825	28,475,438			0	-4,424,085	36,834,777
R1900	**Expenses incurred**	-2,651	664,077	146,575	445,333			0	-2,484	1,250,850
R2500	**Other expenses**									25,754
R2600	**Total expenses**									1,276,603

S.12.01.02 Life and Health SLT Technical Provisions

All amounts are in £'000

		Insurance with profit participation	Index-linked and unit-linked insurance	Index-linked and unit-linked insurance: Contracts without options and guarantees	Index-linked and unit-linked insurance: Contracts with options or guarantees	Other life insurance	Other life insurance: Contracts without options and guarantees	Other life insurance: Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)	Health insurance (direct business): Contracts without options and guarantees	Health insurance (direct business): Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	0			0			0	0	0	0			0	0	0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0			0			0	0	0	0			0	0	0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	84,333,167		13,434,678	736,189		31,476,150	14,086,472	0	5,225,646	149,292,302		-15,212	-18,849	0	0	-34,061
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		5,088,106	0		851,874	481,793	0	12,273	6,434,045		2,731	-917	0	0	1,814
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	84,333,167		8,346,572	736,189		30,624,276	13,604,679	0	5,213,373	142,858,257		-17,943	-17,932	0	0	-35,875
R0100	**Risk margin**	871,298	131,941			4,279,725			0	16,833	5,299,797	107			0	0	107
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	0	0			0			0	0	0	0			0	0	0
R0120	Best estimate	0		0	0		0	0	0	0	0		0	0	0	0	0
R0130	Risk margin	-613,357	0			-3,575,788			0	-10,993	-4,200,138	0			0	0	0
R0200	**Technical provisions - total**	84,591,109	14,302,807			46,266,560			0	5,231,486	150,391,961	-33,954			0	0	-33,954

S.17.01.02 Non-Life Technical Provisions

All amounts are in £'000

		Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**																	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross																	0
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0150	**Net Best Estimate of Premium Provisions**																	0
	Claims provisions																	
R0160	Gross				23,558				125,801									149,359
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				23,188				125,760									148,948
R0250	**Net Best Estimate of Claims Provisions**				371				41									411
R0260	**Total best estimate - gross**				23,558				125,801									149,359
R0270	**Total best estimate - net**				371				41									411
R0280	**Risk margin**				0				0									0
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**				23,558				125,801									149,359
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				23,188				125,760									148,948
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				371				41									411

S.19.01.21 Non-Life insurance claims

Unaudited

All amounts are in £'000

Total Non-life business

Z0010 **Accident year / underwriting year** 2

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											2,573	2,573	2,573
R0160	N-9													
R0170	N-8													
R0180	N-7													
R0190	N-6													
R0200	N-5													
R0210	N-4													
R0220	N-3													
R0230	N-2													
R0240	N-1													
R0250	N													
R0260												Total		

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											149,359	115,469
R0160	N-9												
R0170	N-8												
R0180	N-7												
R0190	N-6												
R0200	N-5												
R0210	N-4												
R0220	N-3												
R0230	N-2												
R0240	N-1												
R0250	N												
R0260												Total	

S.22.01.21 Impact of long term guarantees measures and transitionals

All amounts are in £'000

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	150,507,367	4,200,138	0	0	5,482,669
R0020	**Basic own funds**	18,305,646	-2,469,352	0	-321,864	-4,220,689
R0050	**Eligible own funds to meet Solvency Capital Requirement**	18,305,646	-2,468,352	0	-321,864	-4,220,689
R0090	**Solvency Capital Requirement**	13,208,253	457,505	0	244,128	4,462,299
R0100	**Eligible own funds to meet Minimum Capital Requirement**	18,305,646	-2,468,352	0	-321,864	-4,220,689
R0110	**Minimum Capital Requirement**	3,302,063	114,376	0	61,032	1,115,575

S.23.01.01 Own Funds

All amounts are in £'000

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	329,517	329,517		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	8,902,990	8,902,990			
R0090	Preference shares	1,000		0	1,000	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	9,072,139	9,072,139			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	18,305,646	18,304,646	0	1,000	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	18,305,646	18,304,646	0	1,000	0
R0510	Total available own funds to meet the MCR	18,305,646	18,304,646	0	1,000	
R0540	Total eligible own funds to meet the SCR	18,305,646	18,304,646	0	1,000	0
R0550	Total eligible own funds to meet the MCR	18,305,646	18,304,646	0	1,000	
R0580	**SCR**	13,208,253				
R0600	**MCR**	3,302,063				
R0620	**Ratio of Eligible own funds to SCR**	1.3859				
R0640	**Ratio of Eligible own funds to MCR**	5.5437				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	22,184,968				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges	0				
R0730	Other basic own fund items	9,233,507				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	3,879,321				
R0760	**Reconciliation reserve**	9,072,139				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	11,405				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0				
R0790	**Total Expected profits included in future premiums (EPIFP)**	11,405				

S.25.02.21 Solvency Capital Requirement
– for undertakings using the standard formula and partial internal model

Unaudited

All amounts are in £'000

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0080	C0090
1	103	Interest rate risk	4,725,625	4,725,625		
2	104	Equity risk	3,739,497	3,739,497		
3	106	Property risk	1,270,849	1,270,849		
4	107	Spread risk	8,191,039	8,191,039		
5	108	Concentration risk	32,154	32,154		
6	109	Currency risk	2,787,842	2,787,842		
7	110	Other market risk	0	0		
8	199	Diversification within market risk	-7,718,635	-7,718,635		
9	203	Other counterparty risk	314,406	314,406		
10	301	Mortality risk	202,145	202,145		
11	302	Longevity risk	4,697,793	4,697,793		
12	303	Disability-morbidity risk	136,467	136,467		
13	304	Mass lapse	1,015,491	1,015,491		
14	305	Other lapse risk	867,121	867,121		
15	306	Expense risk	1,493,928	1,493,928		
16	308	Life catastrophe risk	80,064	80,064		
17	309	Other life underwriting risk	0	0		
18	399	Diversification within life underwriting risk	-4,423,653	-4,423,653		
19	505	Other non-life underwriting risk	4,475	4,475		
20	701	Operational risk	1,228,366	1,228,366		
21	801	Other risks	0	0		
22	802	Loss-absorbing capacity of technical provisions	0	0		
23	803	Loss-absorbing capacity of deferred taxes	-1,464,152	-1,464,152		
24	804	Other adjustments	-395,250	-395,250		

S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	16,785,571
R0060	Diversification	-3,577,318
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	13,208,253
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	13,208,253
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	-13,210,289
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-1,464,152
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	1,217,376
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	3,653,177
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	8,337,700
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.02.01 Minimum Capital Requirement – Both life and non-life insurance activity

All amounts are in £'000

		Non-life activitie	Life activities
		$MCR_{(NL,NL)}$ Result	$MCR_{(NL,L)}$ Result
		C0010	C0020
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	36	0

		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
R0020	Medical expense insurance and proportional reinsurance	0	0	0	0
R0030	Income protection insurance and proportional reinsurance	0	0	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	371	0	0	0
R0060	Other motor insurance and proportional reinsurance	0	0	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0	0	0
R0090	General liability insurance and proportional reinsurance	41	0	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0	0	0
R0120	Assistance and proportional reinsurance	0	0	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0	0	0
R0140	Non-proportional health reinsurance	0	0	0	0
R0150	Non-proportional casualty reinsurance	0	0	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0	0	0
R0170	Non-proportional property reinsurance	0	0	0	0

		$MCR_{(L,NL)}$ Result	$MCR_{(L,L)}$ Result
		C0070	C0080
R0200	**Linear formula component for life insurance and reinsurance obligations**	0	-970,411

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0090	C0100	C0110	C0120
R0210	Obligations with profit participation - guaranteed benefits	0		29,388,772	
R0220	Obligations with profit participation - future discretionary benefits	0		59,280,368	
R0230	Index-linked and unit-linked insurance obligations	0		9,082,761	
R0240	Other life (re)insurance and health (re)insurance obligations	0		45,070,481	
R0250	Total capital at risk for all life (re)insurance obligations		0		21,034,376

	Overall MCR calculation	C0130
R0300	Linear MCR	-970,375
R0310	SCR	13,208,253
R0320	MCR cap	5,943,714
R0330	MCR floor	3,302,063
R0340	Combined MCR	3,302,063
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	3,302,063

	Notional non-life and life MCR calculation	C0140	C0150
R0500	Notional linear MCR	36	-970,411
R0510	Notional SCR excluding add-on (annual or latest calculation)	-486	13,208,739
R0520	Notional MCR cap	-219	5,943,932
R0530	Notional MCR floor	-122	3,302,185
R0540	Notional combined MCR	-219	3,302,185
R0550	Absolute floor of the notional MCR	3,332	3,332
R0560	**Notional MCR**	3,332	3,302,185