07

Additional information

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I. IFRS profit and loss information

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I IFRS profit and loss information

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

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

- Spread income represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
- Fee income represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.
- With-profits business represents the gross of tax shareholders' transfer from the with-profits fund for the year.
- Insurance margin primarily represents profits derived from the insurance risks of mortality and morbidity.
- Margin on revenues primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.
- Acquisition costs and administration expenses represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance, as well as items that are more appropriately included in other sources of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
- DAC adjustments comprise DAC amortisation for the year, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

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

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

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

See notes at the end of this section.

Additional unaudited financial information
Continued

I IFRS profit and loss information continued

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

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

See notes at the end of this section.

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

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

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

See notes at the end of this section.

Analysis of Asia operating profit drivers:

- Spread income increased on a constant exchange rate basis by 17 per cent to £192 million in 2016 (AER: 29 per cent), predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
- Fee income increased by 2 per cent on a constant exchange rate basis to £174 million in 2016 (AER: 13 per cent), broadly in line with the increase in movement in average unit-linked liabilities.
- Insurance margin increased on a constant exchange rate basis by 24 per cent to £1,040 million in 2016 (AER: 38 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. Insurance margin includes non-recurring items of £49 million (2015: £17 million on CER basis; £15 million on AER basis).
- Margin on revenues increased by £98 million on a constant exchange rate basis from £1,821 million to £1,919 million in 2016, primarily reflecting higher regular premium income recognised in the year.
- Acquisition costs increased on a constant exchange rate basis by 8 per cent to £1,285 million in 2016, (AER: 19 per cent) compared to the 19 per cent increase in APE sales (AER: 33 per cent increase), resulting in a decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE sales. If with-profits APE sales were excluded from the denominator the acquisition cost ratio would become 70 per cent, which is broadly in line with the 69 per cent on a constant exchange rate basis in 2015.
- Administration expenses increased on a constant exchange rate basis by 13 per cent to £832 million in 2016 (AER: 24 per cent) as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has increased from 279 basis points in 2015 to 287 basis points in 2016, the result of changes in country and product mix.

Additional unaudited financial information
Continued

I IFRS profit and loss information continued

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

Margin analysis of long-term insurance business – US

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

See notes at the end of this section.

Analysis of US operating profit drivers:

— Spread income declined on a constant exchange rate basis by 5 per cent to £802 million in 2016 (AER increased by 8 per cent). The reported spread margin decreased to 217 basis points from 241 basis points in 2015, primarily due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 153 basis points (2015 CER: 167 basis points and AER: 166 basis points).

— Fee income increased on a constant exchange rate basis by 3 per cent to £1,942 million in 2016 (AER: 16 per cent), primarily due to positive net inflows from variable annuity business and fund appreciation during the second half of the year. Fee income margin has remained broadly in line with the prior year at 190 basis points (2015 CER and AER: 192 basis points).

— Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin of £888 million in 2016 was broadly in line with last year on a constant exchange rate basis, with higher income from the variable annuity guarantees offset by a decline in the contribution from the closed books of acquired business.

— Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 17 per cent at a constant exchange rate basis, largely due to lower sales in 2016.

— Administration expenses increased to £959 million in 2016 compared to £934 million for 2015 at constant exchange rates (AER £828 million), primarily as a result of higher asset-based commissions . These are paid on policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be 34 basis points (2015 CER and AER: 36 basis points).

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

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

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

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

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

a) Spread business is the net operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.

b) Fee business represents profits from variable annuity products. As well as fee income, revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.

c) Life and other business includes the profits from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs. Insurance margin forms the vast majority of revenue.

Additional unaudited financial information
Continued

I IFRS profit and loss information continued

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

Margin analysis of long-term insurance business – UK

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

See notes at the end of this section.

Analysis of UK operating profit drivers:

— Spread income reduced from £258 million in 2015 to £177 million in 2016, mainly due to lower annuity sales. Spread income has two components:
  – A contribution from new annuity business which was lower at £41 million in 2016 compared to £123 million in 2015, as we withdrew our participation from this business. IFRS accounting (based on grandfathered GAAP) permits up front recognition of a considerable proportion of the spread to be earned over the entire term of the new contracts.
  – A contribution from in-force annuity and other business, which was broadly in line with last year at £136 million (2015: £135 million), equivalent to 42 basis points of average reserves (2015: 43 basis points).

— Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arises within our UK asset management business. Excluding these schemes, the fee margin on the remaining balances was 40 basis points (2015: 43 basis points).

— The lower 2016 insurance margin mainly reflects the more positive experience variance seen in 2015 compared to 2016, together with the fall in annual mortality profits following the extension of our longevity reinsurance programme in 2015 and 2016.

— Margin on revenues represents premium charges for expenses and other sundry net income received by the UK.

— Acquisition costs incurred were broadly consistent with 2015 at £89 million, equivalent to 8 per cent of total APE sales in 2016 (2015: 8 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. The year on year comparison of the ratio is therefore impacted by the level of with-profits business (where acquisition costs are funded by the estate) in the year and the contribution from the bulk annuities transactions in the prior year. Acquisition costs expressed as a percentage of shareholder-backed APE sales (excluding the bulk annuity transactions) were 37 per cent (2015: 36 per cent).

— The contribution from longevity reinsurance and other management actions to improve solvency during 2016 was £332 million (2015: £400 million). Further explanation and analysis is provided in Additional Unaudited IFRS Financial Information section I(d).

— The 2016 provision for the cost of undertaking a review of past non-advised annuity sales and potential redress of £175 million is explained in note C11, 'Provisions'.

Notes to sources of earnings tables

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

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

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

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

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

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

I IFRS profit and loss information continued

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

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

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

Notes

(i) Analysis of operating profit between new and in-force business.
The result for insurance operations comprises amounts in respect of new business and business in force as follows:

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

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

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

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

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

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

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

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

Notes

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

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

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

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

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

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

‡ Institutional includes internal funds.

I IFRS profit and loss information continued

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

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

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

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

IFRS operating profit of UK long-term business

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

Underlying free surplus generation of UK long-term business*

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

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

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

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

II Other information

II(a) Holding company cash flow*

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

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

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

II Other information continued

II(b) Funds under management

(a) Summary

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

Notes

(i) Prudential Group funds under management comprise:

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

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

(b) Investment products – external funds under management

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

Note

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

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

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

Note

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

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

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

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

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

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

— Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital requirement. As agreed with the Prudential Regulation Authority, this is incorporated in the result above as follows:
  – Own funds: represents Jackson's local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level);
  – Solvency Capital Requirement: represents 150 per cent of Jackson's local US Risk Based Capital requirement (Company Action Level); and
  – No diversification benefits are taken into account between Jackson and the rest of the Group.
— Matching adjustment for UK annuities and volatility adjustment for US dollar denominated Hong Kong with-profits business, based on approvals from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority; and
— UK transitional measures, which have been recalculated at the valuation date, reducing the estimated Group shareholder surplus from £12.9 billion to £12.5 billion. The formal Quantitative Reporting Templates (Solvency II regulatory templates) will include transitional measures without this recalculation.

The Group shareholder Solvency II capital position excludes:

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

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

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

II Other information continued

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

Analysis of movement in Group capital position

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

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

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

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

Analysis of Group Solvency Capital Requirements

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

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

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

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

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

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

Sensitivity analysis

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

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

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

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

II Other information continued

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

UK Solvency II capital position[1,2]

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

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

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

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

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

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

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

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

Annual regulatory reporting

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

Statement of independent review

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

Notes

1 The UK shareholder capital position represents the consolidated capital position of the shareholder funds of The Prudential Assurance Company Ltd (PAC) and all its subsidiaries.
2 The UK with-profits capital position includes the PAC with-profits sub-fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund.

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus

The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (less than 3 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2016 results.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2016, the tables also present the expected future free surplus to be generated from the investment made in new business during 2016 over the same 40-year period.

(i) Expected transfer of value of in-force business (VIF) and required capital to free surplus

	2016 £m							
	Undiscounted expected generation from all in-force business at 31 December*				Undiscounted expected generation from new business written*			
Expected period of emergence	Asia†	US	UK	Total	Asia†	US	UK	Total
2017	1,320	1,446	675	3,441	188	270	27	485
2018	1,247	1,279	669	3,195	157	116	29	302
2019	1,202	1,273	636	3,111	170	123	29	322
2020	1,167	1,281	622	3,070	158	136	31	325
2021	1,142	1,282	606	3,030	170	151	33	354
2022	1,122	1,152	591	2,865	148	84	30	262
2023	1,122	1,116	576	2,814	159	79	29	267
2024	1,098	1,067	557	2,722	154	165	29	348
2025	1,076	914	534	2,524	148	144	28	320
2026	1,050	865	508	2,423	160	159	27	346
2027	1,001	708	486	2,195	137	110	24	271
2028	991	597	451	2,039	142	100	23	265
2029	958	547	434	1,939	135	82	22	239
2030	940	424	409	1,773	132	72	21	225
2031	921	351	381	1,653	146	70	20	236
2032	879	321	490	1,690	130	53	18	201
2033	859	215	465	1,539	130	36	18	184
2034	834	162	438	1,434	127	35	17	179
2035	821	153	413	1,387	123	31	16	170
2036	805	118	392	1,315	130	30	15	175
2037-2041	3,905	699	1,542	6,146	621	55	65	741
2042-2046	3,564	–	1,053	4,617	607	–	66	673
2047-2051	3,257	–	554	3,811	593	–	14	607
2052-2056	2,999	–	301	3,300	585	–	8	593
Total free surplus expected to emerge in the next 40 years	34,280	15,970	13,783	64,033	5,350	2,101	639	8,090

* The analysis excludes amounts incorporated into VIF at 31 December 2016 where there is no definitive timeframe for when the payments will be made or receipts received. In particular, it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2056.
† Asia operations exclude the cash flows in respect of the held for sale Korea life business.

The above amounts can be reconciled to the new business amounts as follows:

	2016 £m			
	Asia	US	UK	Total
Undiscounted expected free surplus generation for years 2017 to 2056	5,350	2,101	639	8,090
Less: discount effect	(2,968)	(746)	(259)	(3,973)
Discounted expected free surplus generation for years 2017 to 2056	2,382	1,355	380	4,117
Discounted expected free surplus generation for years 2056+	292	–	1	293
Less: Free surplus investment in new business	(476)	(298)	(129)	(903)
Other items‡	(168)	(267)	16	(419)
Post-tax EEV new business profit	2,030	790	268	3,088

‡ Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

Additional unaudited financial information
Continued

II Other information continued

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

The undiscounted expected free surplus generation from all in-force business at 31 December 2016 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2015 as follows:

Group	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055:								
As previously published	**2,621**	2,463	2,383	2,378	2,388	2,369	36,173	50,775
Effect of Solvency II implementation†	**46**	55	49	45	43	48	1,350	1,636
	2,667	2,518	2,432	2,423	2,431	2,417	37,523	52,411
Less: Amounts expected to be realised in the current year	**(2,667)**	–	–	–	–	–	–	(2,667)
Less: Contribution from the held for sale Korea life business‡	–	(40)	(40)	(37)	(35)	(33)	(537)	(722)
Add: Expected free surplus to be generated in year 2056*	–	–	–	–	–	–	394	394
Foreign exchange differences	–	370	355	350	354	346	5,023	6,798
New business	–	485	302	322	326	354	6,304	8,093
Operating movements	–	11	18	(16)	5	(36)		
Non-operating and other movements	–	97	128	69	(11)	(18)	(521)	(274)
2016 expected free surplus generation for years 2017 to 2056	–	3,441	3,195	3,111	3,070	3,030	48,186	64,033

Asia	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055	**1,015**	962	926	905	871	889	20,640	26,208
Less: Amounts expected to be realised in the current year	**(1,015)**	–	–	–	–	–	–	(1,015)
Less: Contribution from the held for sale Korea life business‡	–	(40)	(40)	(37)	(35)	(33)	(537)	(722)
Add: Expected free surplus to be generated in year 2056*	–	–	–	–	–	–	358	358
Foreign exchange differences	–	179	172	163	158	157	3,737	4,566
New business	–	188	157	170	158	170	4,507	5,350
Operating movements	–	33	34	8	24	(23)		
Non-operating and other movements	–	(2)	(2)	(7)	(9)	(18)	(503)	(465)
2016 expected free surplus generation for years 2017 to 2056	–	1,320	1,247	1,202	1,167	1,142	28,202	34,280

US	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055:	**1,120**	991	951	970	1,018	982	6,665	12,697
Less: Amounts expected to be realised in the current year	**(1,120)**	–	–	–	–	–	–	(1,120)
Foreign exchange differences	–	191	183	187	196	189	1,286	2,232
New business	–	270	116	123	136	151	1,305	2,101
Operating movements	–	(5)	(5)	(15)	(15)	(7)		
Non-operating and other movements	–	(1)	34	8	(54)	(33)	153	60
2016 expected free surplus generation for years 2017 to 2056	–	1,446	1,279	1,273	1,281	1,282	9,409	15,970

UK	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Other £m	Total £m
2015 expected free surplus generation for years 2016 to 2055								
As previously published	**486**	510	506	503	499	498	8,868	11,870
Effect of Solvency II implementation†	**46**	55	49	45	43	48	1,350	1,636
	532	565	555	548	542	546	10,218	13,506
Less: Amounts expected to be realised in the current year	**(532)**	–	–	–	–	–	–	(532)
Add: Expected free surplus to be generated in year 2056*	–	–	–	–	–	–	36	36
New business	–	27	29	29	31	33	490	639
Operating movements	–	(17)	(11)	(9)	(4)	(6)		
Non-operating and other movements	–	100	96	68	53	33	(169)	134
2016 expected free surplus generation for years 2017 to 2056	–	675	669	636	622	606	10,575	13,783

* Excluding 2016 new business.
† In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).
‡ The contribution from the Korea life business has been removed from expected free surplus generation following its reclassification as held for sale.

At 31 December 2016, the total free surplus expected to be generated over the next five years (2017 to 2021 inclusive), using the same assumptions and methodology as those underpinning our 2016 embedded value reporting was £15.8 billion, an increase of £3.3 billion from the £12.5 billion expected over an equivalent period from the end of 2015, after allowing for the effect of the implementation of Solvency II on the opening balance sheet.

This increase primarily reflects the new business written in 2016, which is expected to generate £1,788 million of free surplus over the next five years.

At 31 December 2016, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £64.0 billion, up from the £52.4 billion expected at the end of 2015, after allowing for the effect of the implementation of Solvency II on the opening balance sheet, reflecting the effect of new business written across all three business operations of £8.1 billion and a positive foreign exchange translation effect of £6.8 billion. These positive effects have been offset by the negative impact of £(0.7) billion for the removal of the contribution from the Korea life business following its reclassification as held for sale and a £(0.3) billion net effect reflecting operating, market assumption changes and other items. In Asia, these include the negative impact from movements in long-term interest rates and other regular operating assumption changes. In the US, these mainly reflect the positive effect of higher future separate account growth due to the increase in interest rates and the impact of an increase in equity market returns in 2016, partially offset by the negative effect from the acceleration of free surplus from the contingent financing of specific US statutory reserves. In the UK, these mainly arise from the positive effect of higher than assumed investment returns on with-profits funds, partially offset by the negative effect of longevity reinsurance transactions entered into during the year. The longevity reinsurance transactions executed this year had the effect of accelerating the generation of future free surplus into 2016. The overall growth in the Group's undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2016 from life business in-force at the end of 2016 was £4.0 billion including £0.8 billion of changes in operating assumptions and experience variances. This compares with the expected 2016 realisation at the end of 2015 of £2.7 billion. This can be analysed further as follows:

	Asia £m	US £m	UK £m	Total £m
Transfer to free surplus in 2016	1,157	1,223	680	3,060
Expected return on free assets	39	47	13	99
Changes in operating assumptions and experience variances	14	596	214	824
Underlying free surplus generated from in-force life business in 2016	**1,210**	**1,866**	**907**	**3,983**
2016 free surplus expected to be generated at 31 December 2015	1,015	1,120	532	2,667

II Other information continued

II(d) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

	2016 £m							
	Discounted expected generation from all in-force business at 31 December				Discounted expected generation from long-term 2015 new business written			
Expected period of emergence	Asia	US	UK	Total	Asia	US	UK	Total
2017	1,262	1,371	659	3,292	180	261	26	467
2018	1,113	1,141	628	2,882	137	105	27	269
2019	1,007	1,069	572	2,648	141	105	27	273
2020	916	1,009	535	2,460	124	108	28	260
2021	843	952	496	2,291	127	116	28	271
2022	769	803	458	2,030	104	60	25	189
2023	724	734	423	1,881	107	52	23	182
2024	664	658	387	1,709	99	101	21	221
2025	612	531	349	1,492	89	83	19	191
2026	562	477	314	1,353	91	90	17	198
2027	508	365	282	1,155	73	56	15	144
2028	476	292	245	1,013	72	48	14	134
2029	436	251	222	909	65	36	12	113
2030	408	185	197	790	60	30	11	101
2031	381	147	173	701	63	28	10	101
2032	346	131	218	695	55	19	9	83
2033	322	80	197	599	52	12	8	72
2034	299	61	178	538	49	11	7	67
2035	282	57	160	499	46	9	6	61
2036	266	43	148	457	47	8	6	61
2037-2041	1,154	199	515	1,868	203	17	24	244
2042-2046	853	–	197	1,050	163	–	12	175
2047-2051	638	–	129	767	131	–	3	134
2052-2056	473	–	58	531	104	–	2	106
Total discounted free surplus expected to emerge in the next 40 years	15,314	10,556	7,740	33,610	2,382	1,355	380	4,117

The above amounts can be reconciled to the Group's financial statements as follows:

	2016 £m
Discounted expected generation from all in-force business for years 2017 to 2056	33,610
Discounted expected generation from all in-force business for years after 2056	1,115
Discounted expected generation from all in-force business at 31 December 2016	34,725
Add: Free surplus of life operations held at 31 December 2016	5,351
Less: Time value of guarantees	(998)
Expected free surplus generation from the sale of Korea life business	76
Other non-modelled items	1,430
Total EEV for life operations	40,584

(ii) Expected emergence of risk margin release and amortisation of transitional

The 31 December 2016 Solvency II own funds included £2.5 billion of transitional relief (recalculated at the valuation date), the majority of which relates to UK annuity business in force on 1 January 2016, established to substantially mitigate the impact of recognising the related risk margin on transition to Solvency II. The following table sets out the expected UK annuity business risk margin release net of the related transitional amortisation over the next 15 years.

	2016 £m			
	Undiscounted expected generation from all in-force business at 31 December			
	Shareholder-backed annuity business			
Expected period of emergence	Risk margin release	Amortisation of transitional	Other*	Total UK
2017	163	(116)	628	675
2018	153	(116)	632	669
2019	143	(116)	609	636
2020	141	(116)	597	622
2021	136	(116)	586	606
2022	134	(116)	573	591
2023	132	(116)	560	576
2024	127	(116)	546	557
2025	122	(116)	528	534
2026	117	(116)	507	508
2027	114	(116)	488	486
2028	104	(116)	463	451
2029	102	(116)	448	434
2030	97	(116)	428	409
2031	91	(116)	406	381
UK free surplus expected to emerge by 2031	1,876	(1,740)	7,999	8,135
Total UK free surplus expected to emerge from 2032 to 2056				5,648
Total UK free surplus expected to emerge in the next 40 years (note B(i))				13,783

* Including other UK business lines and other cash flows from annuity business.

The UK annuity risk margin release and related transitional amortisation, together with associated tax reconcile to the amounts shown in the Group Solvency II balance sheet (note II(c) of the IFRS additional unaudited financial information) as follows:

	Risk margin release £bn	Amortisation of transitional £bn
Annuity in-force business:		
– Risk margin release less amortisation of transitional expected to emerge by 2031	1.9	(1.7)
– Risk margin release expected to emerge after 2031 and gross up for tax	1.1	(0.4)
	3.0	(2.1)
Risk margin release and transitional for other business operations (pre-tax)	2.9	(0.4)
Total (pre-tax)	**5.9**	**(2.5)**

II Other information continued

II(e) Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV metrics analysis by contribution by currency group:

Free surplus and IFRS 2016 results

	Underlying free surplus generated for total insurance and asset management operations note (2) %	Pre-tax operating profit notes (2),(3),(4) %	Shareholders' funds notes (2),(3),(4) %
US$ linked note (1)	15	21	19
Other Asia currencies	9	17	17
Total Asia	24	38	36
UK£ sterling notes (3),(4)	32	14	51
US$ note (4)	44	48	13
Total	100	100	100

EEV 2016 results

	Post-tax new business profits %	Post-tax operating profit notes (2),(3),(4) %	Shareholders' funds notes (2),(3),(4) %
US$ linked note (1)	55	46	36
Other Asia currencies	10	12	13
Total Asia	65	58	49
UK£ sterling notes (3),(4)	9	6	29
US$ note (4)	26	36	22
Total	100	100	100

Notes

(1) US$ linked comprising the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.

(2) Includes long-term, asset management business and other businesses.

(3) For operating profit and shareholders' funds, UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.

(4) For shareholders' funds, the US$ grouping includes US$ denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

II(f) Option schemes

The Group presently grants share options through four schemes, and exercises of the options are satisfied by the issue of new shares. Executive directors and eligible employees based in the UK may participate in the UK savings-related share option scheme. Executives and eligible employees based in Asia as well as eligible employees based in Europe can participate in the international savings-related share option scheme, while agents based in certain regions of Asia can participate in the international savings-related share option scheme for non-employees. Employees based in Dublin are eligible to participate in the Prudential International Assurance sharesave plan, which currently has no outstanding options in issue. Further details of the schemes and accounting policies are detailed in Note B3.2 of the IFRS basis consolidated financial statements.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- UK savings-related share option scheme: 16 May 2023;
- International savings-related share option scheme: 31 May 2021;
- Prudential International Assurance sharesave plan: 3 August 2019; and
- International savings-related share option scheme for non-employees 2012: 17 May 2022.

The weighted average share price of Prudential plc for the year ended 31 December 2016 was £13.56 (2015: £15.49).
Particulars of options granted to directors are included in the Directors' remuneration report on page 109.
The closing price of the shares immediately before the date on which the options were granted during the year was £13.71.
The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2016.

UK savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
25 Sep 08	4.38	01 Dec 15	31 May 16	3,071	–	(3,071)	–	–	–	–
27 Apr 09	2.88	01 Jun 16	30 Nov 16	154,981	–	(154,948)	–	–	(33)	–
28 Sep 10	4.61	01 Dec 15	31 May 16	45,959	–	(45,290)	–	–	(669)	–
16 Sep 11	4.66	01 Dec 16	31 May 17	160,392	–	(115,689)	(653)	(6,536)	(1,508)	36,006
21 Sep 12	6.29	01 Dec 15	31 May 16	215,520	–	(211,172)	–	(2,862)	(1,486)	–
21 Sep 12	6.29	01 Dec 17	31 May 18	127,520	–	(3,426)	–	(3,101)	(1,107)	119,886
20 Sep 13	9.01	01 Dec 16	31 May 17	324,479	–	(230,295)	(9,992)	(6,050)	(4,330)	73,812
20 Sep 13	9.01	01 Dec 18	31 May 19	70,590	–	(749)	–	(332)	749	70,258
23 Sep 14	11.55	01 Dec 17	31 May 18	870,308	–	(14,177)	(53,204)	(22,430)	(21,409)	759,088
23 Sep 14	11.55	01 Dec 19	31 May 20	440,551	–	(6,485)	(17,566)	(7,997)	(17,742)	390,761
22 Sep 15	11.11	01 Dec 18	31 May 19	1,039,759	–	(3,801)	(74,163)	(14,618)	(13,936)	933,241
22 Sep 15	11.11	01 Dec 20	31 May 21	234,607	–	(585)	(2,970)	(4,590)	(2,655)	223,807
21 Sep 16	11.04	01 Dec 19	31 May 20	–	728,729	–	(9,582)	–	–	719,147
21 Sep 16	11.04	01 Dec 21	31 May 22	–	166,084	–	(1,358)	(298)	–	164,428
				3,687,737	894,813	(789,688)	(169,488)	(68,814)	(64,126)	3,490,434

The total number of securities available for issue under the scheme is 3,490,434 which represents 0.135 per cent of the issued share capital at 31 December 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £14.40.

The weighted average fair value of options granted under the plan in the period was £3.02.

II Other information continued

International savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
16 Sep 11	4.66	01 Dec 16	31 May 17	17,617	–	–	–	–	(16,895)	722
21 Sep 12	6.29	01 Dec 15	31 May 16	249,429	–	(224,996)	–	–	(21,708)	2,725
21 Sep 12	6.29	01 Dec 17	31 May 18	14,501	–	–	–	–	–	14,501
20 Sep 13	9.01	01 Dec 16	31 May 17	571,967	–	(395,294)	(32,330)	(3,907)	(8,756)	131,680
20 Sep 13	9.01	01 Dec 18	31 May 19	47,004	–	–	(3,328)	–	–	43,676
23 Sep 14	11.55	01 Dec 17	31 May 18	8,643	–	–	(934)	–	–	7,709
23 Sep 14	11.55	01 Dec 19	31 May 20	4,464	–	–	–	–	–	4,464
22 Sep 15	11.11	01 Dec 18	31 May 19	24,284	–	–	(469)	–	(259)	23,556
22 Sep 15	11.11	01 Dec 20	31 May 21	3,240	–	–	–	–	–	3,240
21 Sep 16	11.04	01 Dec 19	31 May 20	–	15,516	–	–	–	–	15,516
				941,149	15,516	(620,290)	(37,061)	(3,907)	(47,618)	247,789

The total number of securities available for issue under the scheme is 247,789 which represents 0.010 per cent of the issued share capital at 31 December 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £14.80.

The weighted average fair value of options granted under the plan in the period was £2.96.

Prudential International Assurance sharesave plan

There are no securities available for issue under the scheme at 31 December 2016.

Non-employee savings-related share option scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
28 Sep 10	4.61	01 Dec 15	31 May 16	341,948	–	(25,357)	(316,591)	–	–	–
16 Sep 11	4.66	01 Dec 16	31 May 17	243,641	–	(30,064)	(183,641)	–	–	29,936
21 Sep 12	6.29	01 Dec 15	31 May 16	273,565	–	(148,635)	(124,930)	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	82,872	–	–	(54,871)	–	–	28,001
20 Sep 13	9.01	01 Dec 16	31 May 17	755,540	–	(397,020)	(2,275)	(5,488)	(4,436)	346,321
20 Sep 13	9.01	01 Dec 18	31 May 19	419,452	–	–	–	–	(12,602)	406,850
23 Sep 14	11.55	01 Dec 17	31 May 18	615,326	–	(389)	(2,700)	–	(15,802)	596,435
23 Sep 14	11.55	01 Dec 19	31 May 20	512,917	–	–	–	–	(10,124)	502,793
22 Sep 15	11.11	01 Dec 18	31 May 19	499,276	–	–	(3,078)	–	(15,373)	480,825
22 Sep 15	11.11	01 Dec 20	31 May 21	422,194	–	–	(779)	–	(15,421)	405,994
21 Sep 16	11.04	01 Dec 19	31 May 20	–	334,813	–	(537)	–	–	334,276
21 Sep 16	11.04	01 Dec 21	31 May 22	–	200,588	–	(1,358)	–	–	199,230
				4,166,731	535,401	(601,465)	(690,760)	(5,488)	(73,758)	3,330,661

The total number of securities available for issue under the scheme is 3,330,661 which represents 0.129 per cent of the issued share capital at 31 December 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £15.01.

The weighted average fair value of options granted under the plan in the period was £3.09.

II(g) Selected historical financial information of Prudential

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) and European Embedded Value (EEV).

This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document.

Income statement data

	Year ended 31 December				
	2016 £m	**2015** £m	**2014** £m	**2013** £m	**2012** £m
IFRS basis results					
Gross premium earned	**38,981**	36,663	32,832	30,502	29,113
Outward reinsurance premiums	**(2,020)**	(1,157)	(799)	(658)	(491)
Earned premiums, net of reinsurance	**36,961**	35,506	32,033	29,844	28,622
Investment return	**32,511**	3,304	25,787	20,347	23,931
Other income	**2,370**	2,495	2,306	2,184	1,885
Total revenue, net of reinsurance	**71,842**	41,305	60,126	52,375	54,438
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(59,366)**	(29,656)	(50,169)	(43,154)	(45,144)
Acquisition costs and other expenditure	**(8,848)**	(8,208)	(6,752)	(6,861)	(6,032)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(360)**	(312)	(341)	(305)	(280)
Remeasurement of carrying value of Korea life business classified as held for sale	**(238)**	–	–	–	
Disposal of Japan life business:					
Cumulative exchange loss recycled from other comprehensive income	**–**	(46)	–	–	–
Remeasurement adjustments	**–**	–	(13)	(120)	–
Total charges, net of reinsurance	**(68,812)**	(38,222)	(57,275)	(50,440)	(51,456)
Share of profits from joint ventures and associates, net of related tax	**182**	238	303	147	135
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*note 1	**3,212**	3,321	3,154	2,082	3,117
Tax charges attributable to policyholders' returns	**(937)**	(173)	(540)	(447)	(370)
Profit before tax attributable to shareholders	**2,275**	3,148	2,614	1,635	2,747
Tax credit (charge) attributable to shareholders' returns	**(354)**	(569)	(398)	(289)	(584)
Profit for the year	**1,921**	2,579	2,216	1,346	2,163

	2016	**2015**	**2014**	**2013**	**2012**
Based on profit for the year attributable to the equity holders of the Company:					
Basic earnings per share (in pence)	**75.0p**	101.0p	86.9p	52.8p	85.1p
Diluted earnings per share (in pence)	**75.0p**	100.9p	86.8p	52.7p	85.0p
Dividend per share declared and paid in reporting period (in pence)	**49.40p**	38.05p	35.03p	30.52p	25.64p
Interim ordinary dividend/final ordinary dividend	**39.40p**	38.05p	35.03p	30.52p	25.64p
Special dividend	**10.00p**				

Supplementary IFRS income statement data

	Year ended 31 December £m				
	2016	**2015**	**2014**	**2013**	**2012**
Operating profit based on longer-term investment returnsnote 2	**4,256**	3,969	3,154	2,937	2,504
Non-operating items	**(1,981)**	(821)	(540)	(1,302)	243
Profit before tax attributable to shareholders	**2,275**	3,148	2,614	1,635	2,747
Operating earnings per share (in pence)	**131.3p**	124.6p	95.7p	90.4p	76.4p

II Other information continued

Supplementary EEV income statement data (post-tax)

	Year ended 31 December £m				
	2016	2015	2014	2013	2012
Operating profit based on longer-term investment returns[note 2]	5,497	4,840	4,108	4,224	3,161
Non-operating items	(981)	(889)	235	134	608
Profit attributable to shareholders	4,516	3,951	4,343	4,358	3,769
Operating earnings per share (in pence)	214.7p	189.6p	161.2p	165.8p	124.4p

New business data

	Year ended 31 December £m				
	2016	2015	2014*	2013	2012
Annual premium equivalent (APE) sales	6,320	5,466	4,514	4,310	4,100
EEV new business profit (NBP) (post-tax)	3,088	2,609	2,104	2,057	1,766
NBP margin (% APE)	49%	48%	47%	48%	43%

* Excluding the £23 million APE and £11 million NBP for the sold PruHealth and PruProtect businesses.

Statement of financial position data

	£m				
As of and for the year ended 31 December	2016	2015	2014	2013	2012
Total assets	470,498	386,985	369,204	325,932	307,644
Total policyholder liabilities and unallocated surplus of with-profits funds	403,313	335,614	321,989	286,014	268,263
Core structural borrowings of shareholder-financed operations	6,798	5,011	4,304	4,636	3,554
Total liabilities	455,831	374,029	357,392	316,281	297,280
Total equity	14,667	12,956	11,812	9,651	10,364

Other data

	£bn				
As of and for the year ended 31 December	2016	2015	2014	2013	2012
Funds under management[note 3]	599	509	496	443	406
EEV shareholders' equity, excluding non-controlling interests	39.0	32.4	29.2	24.9	22.4
Group shareholder Solvency II surplus[note 4]	12.5	9.7	n/a	n/a	n/a
Insurance Groups Directive capital surplus before final dividend	n/a	5.5	4.7	5.1	5.1

Notes

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

2 Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on dilution of Group's holdings, the costs arising from the domestication of the Hong Kong business, profit (loss) attaching to the sale of Japan life and profit (loss) attaching to the held for sale Korea life business. Separately on the IFRS basis, operating profit also excludes amortisation of acquisition accounting adjustments. In addition, for EEV basis results, operating profit excludes the effect of changes in economic assumptions, the market value movement on core borrowings and in 2012, the gain arising on the acquisition of REALIC.

3 Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

4 The 2016 surplus is estimated.

II(h) Reconciliation between IFRS and EEV shareholders' funds

The table below shows the reconciliation of EEV shareholders' funds and IFRS shareholders' funds at the end of the year:

	31 Dec 2016 £m	31 Dec 2015 £m
EEV shareholders' funds	38,968	32,359
Less: Value of in-force business of long-term business[note (a)]	(24,937)	(22,431)
Deferred acquisition costs assigned zero value for EEV purposes	9,170	7,010
Other[notes (b),(c)]	(8,535)	(3,983)
IFRS shareholders' funds	14,666	12,955

Notes

(a) The EEV shareholders' funds comprises the present value of the shareholders' interest in the value of in-force business, net worth of long-term business operations and IFRS shareholders' funds of asset management and other operations. The value of in-force business reflects the present value of future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Net worth represents the net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

(b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value net worth for long-term insurance operations. It also includes the mark to market of the Group's core borrowings which are fair valued under EEV but not IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson where IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset) whereas the local regulatory basis used for EEV is based on future cash flows due to the policyholder on a prudent basis with consideration of an expense allowance as applicable, but with no separate deferred acquisition cost asset.

(c) The 2016 EEV results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The 2015 EEV results for UK insurance operations were prepared on a basis reflecting the Solvency I regime. As noted in (b) above, 'other adjustments' represent asset and liability valuation differences between IFRS and the local regulatory basis used to value net worth for long-term insurance operations. At 31 December 2016 for the UK this would be the difference between IFRS and Solvency II, and at 31 December 2015 the difference between IFRS and Solvency I.

II(i) Reconciliation of APE new business sales to earned premiums

The Group reports annual premium equivalent (APE) new business sales as a measure of the new policies sold in the period. This differs from the IFRS measure of premiums earned as shown below:

	2016 £m	2015 £m
Annual premium equivalents (APE) as published	6,320	5,466
Adjustment to include 100% of single premiums on new business sold in the period[note (a)]	25,057	24,918
Contribution from the held for sale Korea life business	192	305
Premiums from in-force business and other adjustments[note (b)]	7,412	5,974
Gross premiums earned	38,981	36,663
Outward reinsurance premiums	(2,020)	(1,157)
Earned premiums, net of reinsurance as shown in the IFRS financial statements	36,961	35,506

Notes

(a) APE new business sales only include one-tenth of single premiums, recorded on policies sold in the period. Gross premiums earned include 100 per cent of such premiums.

(b) Other adjustments principally include amounts in respect of the following:
- Gross premiums earned includes premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
- APE includes new policies written in the period which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in the UK for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
- For the purpose of reporting APE new business sales, we include the Group's share of amounts sold by the Group's insurance joint ventures. Under IFRS, joint ventures are equity accounted and so no amounts are included within gross premiums earned.

Risk factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-looking statements'.

Prudential's approaches to managing risks are explained in the 'Group Chief Risk Officer's report on the risks facing our business and how these are managed' section of this document.

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Prudential operates against a challenging background of periods of significant volatility in global capital and equity markets and interest rates (which in some jurisdictions have become negative), together with widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors could have a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

— Investment impairments and/or reduced investment returns, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;

— Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

— Failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

— Estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

— Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. For example, this could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over: the change in accommodative monetary policies in the US, the UK and other jurisdictions with the risk of a disorderly repricing of inflation expectations and global bond yields, sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty and potentially negative socio-political events.

On 23 June 2016, the UK held a referendum in which a majority of the voting population voted in favour of the UK leaving the European Union (EU). The UK is expected to submit a formal notification of its intention to withdraw from the EU by the end of March 2017. Once this notification has been submitted, the UK will have a period of a maximum two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached between the UK and the EU, then it is expected the UK's membership of the EU will automatically terminate two years after the submission of the notification of the UK's intention to withdraw from the EU. The vote in favour of the UK leaving the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market is currently unknown. The ongoing uncertainty of when the UK will leave the EU, whether any form of transitional arrangements will be agreed between the UK and the EU, and the possibility of a lengthy period before negotiations are concluded may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

More generally, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility the Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax and capital controls), regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, and decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission has in late 2016 begun a review of some aspects of the Solvency II legislation, which is expected to continue until 2021 and covers, among other things, a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the 'volatility adjustment' for selected US Dollar-denominated business, and UK transitional measures. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position. The UK's vote to leave the EU could result in significant changes to the regulatory regime under which the Group operates.

Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS). In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments in Solvency II in the UK (as referred to above), National Association of Insurance Commissioners' reforms in the US, and amendments to certain local statutory regimes in some territories in Asia. These changes and their potential impact on the Group remain uncertain.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the US that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying G-SIIs, and a set of policy measures that will apply to them, which the FSB endorsed. An updated methodology for identifying G-SIIs was published by the IAIS on 16 June 2016. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential's designation as a G-SII was reaffirmed on 21 November 2016. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII.

The G-SII regime also introduces two types of capital requirements. The first, a Basic Capital Requirement (BCR), is designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement reflects the drivers of the assessment of G-SII designation. The IAIS intends for these requirements to take effect from January 2019, but G-SIIs will be expected to privately report to their group-wide supervisors in the interim.

The IAIS is also developing ComFrame which is focused on the supervision of Internationally Active Insurance Groups (IAIGs). ComFrame will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. As part of this, work is underway to develop a global Insurance Capital Standard (ICS) that is intended to apply to IAIGs. Once the development of the ICS has been concluded, it is intended to replace the BCR as the minimum group capital requirement for G-SIIs. A consultation on the ICS was concluded in 2016 and the IAIS intends to publish an interim version of the ICS in 2017. Further field testing, consultations and private reporting to group-wide supervisors on the interim version are expected over the coming years, and the ICS is expected to be adopted as part of ComFrame by the IAIS in late 2019.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. The IASB is currently re-deliberating the Exposure Draft proposals in light of comments by the insurance industry and other respondents and is expecting to issue the final standard (IFRS 17, 'Insurance Contracts') in the first half of 2017. The standard is expected to apply from 2021.

Any changes or modification of IFRS accounting policies may require a change in the future results or a retrospective adjustment of reported results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed. Current regulatory actions include the UK business's undertaking to the Financial Conduct Authority to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers and potentially provide redress to certain such customers.

Regulators' interest may also include the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary (subjecting the person or entity to certain regulatory requirements, such as those adopted by the US Department of Labor issued in April 2016 which is likely to cause market disruption in the shorter term). There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New requirements could be introduced in these and other regulatory regimes that challenge legal structures, current sales practices, or could retrospectively be applied to sales made prior to their introduction, which could have a negative impact on Prudential's business or reported results.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including global life insurers such as Allianz, AXA, AIA and Manulife, and multinational asset managers such as J.P.Morgan Asset Management, Schroders, HSBC Global Asset Management, and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Lloyds Banking Group, Standard Life, Schroders, Invesco Perpetual, and Fidelity.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Allianz, Prudential Financial, Lincoln National, MetLife, and Aegon.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's, and A by Fitch. These ratings are all on a stable outlook.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's, and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa3 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's, and AA (stable outlook) by Fitch.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA by Standard & Poor's. This rating is on a stable outlook.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing partners) of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, Prudential also employs a large number of models and user-developed applications in its processes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational and model risk incidents do happen periodically and no system or process can entirely prevent them although there have not been any material events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

Attempts by third parties to disrupt Prudential's IT systems could result in loss of trust from Prudential's customers, reputational damage and financial loss

Being part of the financial services sector, Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to the key operations, make it difficult to recover critical services, damage assets and compromise data (both corporate or customer). This could result in loss of trust from Prudential's customers, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. As a result of Prudential's increasing market profile, the growing interest by customers to interact with their insurance provider and asset manager through the internet and social media, improved brand awareness and the classification of Prudential as a G-SII, there is an increased likelihood of Prudential being considered a target by cyber criminals. To date, Prudential has not identified a failure or breach which has had a material impact in relation to its legacy and other IT systems and processes. However, it has been, and likely will continue to be, subject to potential damage from computer viruses, attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive. Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality are also of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is particularly relevant to its lines of business other than its UK annuity business, especially Jackson's portfolio of variable annuities. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

Another example is the impact of epidemics and other effects that give rise to a large number of deaths or additional sickness claims. Significant influenza epidemics have occurred a number of times over the past century but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with the other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants.

Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its Directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its Directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Glossary

Annual Exchange Rates (AER)
Actual Exchange Rates are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date.

Annual premium equivalent or APE
A measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent of single premiums on new business written during the period.

Asset backed security
A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. AFS securities are measured at fair value on the statement of financial position with unrealised gains and losses being booked in Other Comprehensive Income instead of the income statement.

Back book of business
The insurance policies sold in past periods that are still in force and hence are still recorded on the insurer's balance sheet.

Bonuses
Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus:

- Regular bonus – expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and
- Final bonus – an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.

Bulk annuity
A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the liabilities of the pension scheme.

Cash surrender value
The amount of cash available to a policyholder on the surrender of or withdrawal from a life insurance policy or annuity contract.

Constant Exchange Rates (CER)
Constant Exchange Rates – Prudential plc reports its results at both actual exchange rates (AER) to reflect actual results and also constant exchange rates (CER) so as to eliminate the impact from exchange translation. CER results are calculated by translating prior period results using current period foreign currency exchange rates, ie, current period average rates for the income statements and current period closing rate for the balance sheet.

Closed-book life insurance business
A 'closed book' is essentially a group of insurance policies that are no longer sold, but are still featured on the books of a life insurer as a premium-paying policy. The insurance company has 'closed the books' on new sales of these products which will remain in run-off until the policies expire and all claims are settled.

Core structural borrowings
Borrowings which Prudential considers to form part of its core capital structure and exclude operational borrowings.

Credit risk
The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.

Currency risk
The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.

Deferred acquisition costs or DAC
Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. Typically, under IFRS, an element of acquisition costs are deferred, ie not expensed in the year incurred, and instead amortised in the income statement in line with the emergence of surpluses on the related contracts.

Deferred annuities
Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.

Discretionary participation features or DPF
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on asset, fund, company or other entity performance.

Dividend cover
Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current period interim dividend plus the proposed second interim dividend.

Endowment product
An ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy.

European Embedded Value or EEV
Financial results that are prepared on a supplementary basis to the Group's consolidated IFRS results and which are prepared in accordance with a set of principles issued by the Chief Financial Officers Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance of EEV Disclosures published in October 2005. The principles are designed to capture the value of the new business sold in the period and of the business in force.

Fixed annuities
Fixed annuity contracts written in the US which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible pay-out options. The contract holder pays the insurer a premium, which is credited to the contract holders' account. Periodically,

interest is credited to the contract holders' account and administrative charges are deducted, as appropriate.

Fixed indexed annuities
These are similar to fixed annuities in that the contract holder pays the insurer a premium, which is credited to the contract holder's account and, periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. An annual minimum interest rate may be guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Funds under management
These comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

Group free surplus
Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

Guaranteed annuities
Policies that pay out a fixed amount of benefit for a defined period.

Guaranteed investment contract (GIC) (US)
An investment contract between an insurance company and an institutional investor, which provides a stated rate of return on deposits over a specified period of time. They typically provide for partial or total withdrawals at book value if needed for certain liquidity needs of the plan.

Guaranteed minimum accumulation benefit (GMAB) (US)
A guarantee that ensures that the contract value of a variable annuity contract will be at least equal to a certain minimum amount after a specified number of years.

Guaranteed minimum death benefit (GMDB) (US)
The basic death benefit offered under variable annuity contracts, which specifies that if the owner dies before annuity income payments begin, the beneficiary will receive a payment equal to the greater of the contract value or purchase payments less withdrawals.

Guaranteed minimum income benefit (GMIB) (US)
A guarantee that ensures, under certain conditions, that the owner may annuitise the variable annuity contract based on the greater of (a) the actual account value or (b) a pay-out base equal to premiums credited with some interest rate, or the maximum anniversary value of the account prior to annuitisation.

Guaranteed minimum withdrawal benefit (GMWB) (US)
A guarantee in a variable annuity that promises that the owner may make annual withdrawals of a defined amount for the life of the owner or until the total guaranteed amount is recovered, regardless of market performance or the actual account balance.

Health and protection
These comprise health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. Health and protection products are sold both as standalone policies and as riders that can be attached to life insurance products. Health and protection riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information.

Immediate annuity
An annuity in which payments to the annuitant or beneficiary start at once upon establishment of the annuity plan or scheme. Such annuities are almost always purchased with a single (lump sum) payment.

In-force
An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

Inherited estate
For life insurance proprietary companies, surplus capital available on top of what is necessary to cover policyholders reasonable expectations. An inherited (orphan) estate is effectively surplus capital on a realistic basis built over time and not allocated to policyholders or shareholders.

Internal rate of return (IRR)
The IRR is equivalent to the discount rate at which the present EEV value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

Internal vesting
Internal vestings are proceeds from a Prudential policy which the policyholder has decided to reinvest in a Prudential annuity product.

International Financial Reporting Standards (IFRS)
Accounting standards that all publicly listed groups in the European Union are required to apply in preparing consolidated financial statements.

Investment grade
Investments rated BBB- or above for S&P, Baa3 or above for Moody's. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Investment-linked products or contracts
Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit-linked products or unit-linked contracts.

Liquidity coverage ratio
Prudential calculates this as assets and resources available to us that are readily convertible to cash to cover corporate obligations in a prescribed stress scenario. We calculate this ratio over a range of time horizons extending to 12 months.

Glossary
Continued

Liquidity premium
This comprises the premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps and the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

Market value reduction (MVR)
A reduction applied to the payment on with-profits bonds when policyholders surrender in adverse market conditions.

Money Market Fund (MMF)
An MMF is an open-ended mutual fund that invests in short-term debt securities such as US treasury bills and commercial paper. The purpose of an MMF is to provide investors with a safe place to invest easily accessible cash-equivalent assets characterised as a low-risk, low-return investment.

Mortality rate
Rate of death, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks.

Net premiums
Life insurance premiums, net of reinsurance ceded to third-party reinsurers.

Net worth
Net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

New business margin
The value of new business on an EEV basis expressed as a percentage of the present value of new business premiums expected to be received from the new business.

New business profit
The profits, calculated in accordance with European Embedded Value Principles, from business sold in the financial reporting period under consideration.

Non-participating business
A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Also known as non-profit in the UK. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

Open-ended investment company (OEIC)
A collective investment fund structured as a limited company in which investors can buy and sell shares.

Operational borrowings
Borrowings which arise in the normal course of the business.

Participating funds
Distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. For Prudential the most significant participating funds are with-profits funds for business written in the UK, Hong Kong, Malaysia and Singapore.

Participating policies or participating business
Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

Payback period
Payback period is the time in which the initial 'cash' outflow of investment is expected to be recovered from the 'cash' inflows generated by the investment. We measure cash outflow by our investment of free surplus in new business sales. The payback period equals the time taken for this business to generate free surplus to cover this investment. Payback periods are measured on an undiscounted basis.

Present value of new business premiums or PVNBP
The present value of new business premiums is calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Prudential Regulation Authority or PRA
The PRA is a UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Regular premium product
A life insurance product with regular periodic premium payments.

Rider
A supplemental plan that can be attached to a basic insurance policy, with payment of additional premium.

Risk margin reserve (RMR) charge
An RMR charge is included within operating profit based on longer-term investment returns and represents a charge for long-term expected defaults of debt securities, determined by reference to the credit quality of the portfolio.

Scottish Amicable Insurance Fund (SAIF)
SAIF is a ring-fenced sub-fund of the Prudential Assurance Company's long-term fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of Prudential plc have no interest in the profits of this fund although they are entitled to asset management fees on this business.

Separate account
A separate account is a pool of investments held by an insurance company not in or 'separate' from its general account. They generally accrue to the policyholder. A separate account allows an investor to choose an investment category according to his individual risk tolerance, and desire for performance.

Single premiums
Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.

Stochastic techniques
Stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

Subordinated debt

A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency, with limitations.

Surrender

The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.

Surrender charge or surrender fee

The fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period.

Takaful

Insurance that is compliant with Islamic principles.

Time value of options and guarantees

The value of financial options and guarantees comprises two parts, the intrinsic value and the time value. The intrinsic value is given by a deterministic valuation on best estimate assumptions. The time value is the additional value arising from the variability of economic outcomes in the future.

Total shareholder return (TSR)

TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.

Unallocated surplus

Unallocated surplus is recorded wholly as a liability and represents the excess of assets over policyholder liabilities for Prudential's with-profits funds. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Unit-linked products or unit-linked contracts

See 'investment-linked products or contracts' above.

Universal life

An insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

Variable annuity (VA) (US)

An annuity whose value is determined by the performance of underlying investment options that frequently includes securities. A variable annuity's value is not guaranteed and will fluctuate, depending on the value of its underlying investments. The holder of a variable annuity assumes the investment risk and the funds backing a variable annuity are held in the insurance company's separate account. VAs are similar to unit-linked annuities in the UK.

Whole of life

A type of life insurance policy that provides lifetime protection; premiums must usually be paid for life. The sum assured is paid out whenever death occurs. Commonly used for estate planning purposes.

With-profits funds

See 'participating funds' on page 400.

Yield

A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

Shareholder information

Communication with shareholders

The Group maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Group's financial calendar www.prudential.co.uk

Annual General Meeting

The 2017 Annual General Meeting (AGM) will be held in the Churchill Auditorium at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 18 May 2017 at 11.00am.

Prudential will continue its practice of calling a poll on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website.

Details of the 2016 AGM, including the major items discussed at the meeting and the results of the voting, can be found on the Company's website.

In accordance with relevant legislation, shareholders holding 5 per cent or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the Group Company Secretary at the registered office.

Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM.

Company constitution

Prudential is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles. Any change to the Articles must be approved by special resolution of the shareholders. There were no changes to the constitutional documents during 2016. The Memorandum and Articles are available on the Company's website.

Share capital

Issued share capital

The issued share capital as at 31 December 2016 consisted of 2,581,061,573 (2015: 2,572,454,958) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2016, there were 48,534 (2015: 56,276) accounts on the register. Further information can be found in note C10 on page 275.

Prudential also maintains secondary listings on the New York Stock Exchange (in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register) and the Singapore Stock Exchange.

Prudential has maintained a sufficiency of public float throughout the reporting period as required by the Hong Kong Listing Rules.

Analysis of shareholder accounts as at 31 December 2016

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	275	0.57	2,278,169,295	88.27
500,001–1,000,000	151	0.31	108,664,530	4.21
100,001–500,000	461	0.95	107,814,337	4.18
10,001–100,000	1,418	2.92	41,403,517	1.60
5,001–10,000	1,723	3.55	11,972,232	0.46
1,001–5,000	11,009	22.68	24,237,465	0.94
1–1,000	33,497	69.02	8,800,197	0.34
Total	48,534	100	2,581,061,573	100

Major shareholders

The following notifications have been disclosed under the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules in respect of notifiable interests exceeding 3 per cent in the voting rights of the issued share capital.

As at 31 December 2016	% of total voting rights
Capital Group Companies, Inc.	9.87
BlackRock, Inc	5.08
Norges Bank	4.03

As at 13 March 2017, no notifications have been received since the year end.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share plan, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the registered owner in accordance with the relevant plan rules. Trustees may vote at their discretion, but do not vote on any unawarded shares held as surplus assets.

As at 13 March 2017, Trustees held 0.47 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out on pages 110 to 157.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the FCA and the Hong Kong Stock Exchange, as well as under the rules of some of the Group's employee share plans.

All Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 131 of the Directors' remuneration report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. Prudential seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. The existing authorities to issue shares and to do so without observing pre-emption rights are due to expire at the end of this year's AGM. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 18 May 2017.

Details of shares issued during 2015 and 2016 are given in note C10 on page 275.

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange, Prudential confirms that it complies with the applicable law and regulation in the UK in relation to the holding of shares in treasury and with the conditions of the waiver in connection with the purchase of own shares and any treasury shares it may hold.

Authority to purchase own shares

The Directors also require authority from shareholders in relation to the purchase of the Company's own shares. Prudential seeks authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. This authority has not been used since it was last granted at the AGM in 2016. This existing authority is due to expire at the end of this year's AGM and a special resolution to renew the authority will be put to shareholders at the AGM on 18 May 2017.

Dividend information

2016 second interim dividend	Shareholders registered on the UK register and Hong Kong and Irish branch registers	Holders of US American Depository Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex-dividend date	30 March 2017	–	29 March 2017
Record date	31 March 2017	31 March 2017	31 March 2017
Payment date	19 May 2017	On or about 26 May 2017	On or about 26 May 2017

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

Shareholder information
Continued

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

Register	By post	By telephone
Principal UK register	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.	Tel 0371 384 2035 Textel 0371 384 2255 (for hard of hearing). Lines are open from 8.30am to 5.30pm (UK), Monday to Friday. International shareholders Tel +44 (0)121 415 7026
Irish branch register	Capita Asset Services, Shareholder solutions (Ireland) Ltd, PO Box 7117, Dublin 2, Ireland.	Tel +353 1 553 0050
Hong Kong branch register	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.	Tel +852 2862 8555
Singapore register	Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (PTE) Limited (CDP) in Singapore may refer queries to the CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.	Tel +65 6535 7511
ADRs	J.P. Morgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0854, USA.	Tel +1 800 990 1135 or from outside the US +1 651 453 2128 or log on to www.adr.com

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, shareholders may download the form from www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms

Cash dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available on the Company's website at www.prudential.co.uk/investors/shareholder-centre/agm-information/2017

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through CDP. Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential shares. For telephone sales call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares the value of which makes them uneconomic to sell them may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be downloaded from our website www.prudential.co.uk/prudential-plc/investors/shareholder_services/forms or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

How to contact us

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Chairman

Mike Wells
Group Chief Executive

Nic Nicandrou
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Penny James
Group Chief Risk Officer

Group Executive Committee

Julian Adams
Group Regulatory and Government Relations Director

Raghu Hariharan
Director of Strategy and Capital Market Relations

Jonathan Oliver
Group Communications Director

Alan Porter
Group General Counsel and Company Secretary

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Prudential plc is a holding company, subsidiaries of which are authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority

Forward-looking statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's vote to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk factors' heading in the Annual Report and the 'Risk factors' heading of Prudential's most recent annual report on Form 20-F filed with the US Securities and Exchange Commission. Prudential's most recent annual report and Form 20-F are available on its website at www.prudential.co.uk

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

Front cover:

Phuong Lan
Prudential Vietnam

Phuong Lan holds PRUmultiple care and PRU-Wealth Assured policies from Prudential Vietnam. These products provide financial protection against critical illness during Phuong Lan's lifetime, ensure availability of funds to help realise her goals in her later years, and enhance her family's prosperity.

Back cover:

Helen
Prudential UK and Europe

See page 29 for further details.

Providing financial security since 1848

Successive generations have looked to Prudential to safeguard their financial security – from industrial workers and their families in Victorian Britain, to around 24 million insurance customers worldwide today. Our financial strength, heritage, prudence and focus on our customers' long-term needs ensure that people continue to turn to our trusted brands to help them plan for today and tomorrow.

1848
Prudential is established as Prudential Mutual Assurance Investment and Loan Association in Hatton Garden, London, offering loans and life assurance to professional people.

1854
Prudential opens the Industrial Department to sell a new type of insurance, Industrial Insurance, to the working classes, for premiums of a penny and upwards.

1923
Prudential's first overseas life branch is established in India, with the first policy being sold to a tea planter in Assam.

1949
The 'Man from the Pru' advertising campaign is launched.

1986
Prudential acquires Jackson in the United States.

1994
Prudential Corporation Asia is formed in Hong Kong as a regional head office to expand operations beyond an existing presence in Malaysia, Singapore and Hong Kong.

1999
Prudential acquires M&G, pioneer of unit trusts in the UK and a leading provider of investment products.

2000
Prudential and CITIC launch the first Sino-British life insurance joint venture in China.

2014
Prudential acquires businesses in Ghana and Kenya, marking its entry into the fast-growing African life insurance industry.

www.prudentialhistory.co.uk

Fred's story

In June 1949, an article describing the life and work of a long-serving Prudential agent, Fred Sawyer, appeared in the Weekly Illustrated magazine. One of the pictures was so striking that it prompted Prudential's publicity department to use it in their next advertising campaign, and the figure of Fred Sawyer came to represent a typical agent.

'"Service," says Pru agent Sawyer, "is the secret of success". He has 1,500 clients and collects in the morning and evening, fitting in clerical work in the afternoon. But he still finds time to be a special constable, a school manager and a district councillor. "I know the people," says Mr Sawyer, "I wouldn't change my job for any other."'

Weekly Illustrated magazine June 1949

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