

PRUDENTIAL PLC  
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of March, 2017

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,  
LONDON, EC4R 0HH, ENGLAND  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports  
under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information  
contained in this Form is also thereby furnishing the information to the  
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant  
in connection with Rule 12g3-2(b): 82-

European Embedded Value (EEV) Basis Results  
Post-tax operating profit based on longer-term investment returns  
Results analysis by business area

		2016 £m	2015 £m
	Note		notes (iii),(vi)
Asia operations			
New business	4	2,030	1,482
Business in force	5	1,044	798

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

## Notes

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

- (ii) Solvency II and restructuring costs comprise the net-of-tax charge recognised on an IFRS basis and the additional amount recognised on an EEV basis for the shareholders' share incurred by the PAC with-profits fund.
- (iii) The comparative results have been prepared using previously reported average exchange rates for the year.
- (iv) The EEV basis results have been prepared in accordance with the amended EEV Principles dated April 2016, prepared by the CFO Forum of major European insurers. The 2016 results for UK insurance operations have been prepared to reflect the Solvency II regime. The 2015 results for UK insurance operations were prepared reflecting the Solvency I basis being the regime applicable for the year. There is no change to the basis of preparation for Asia and US operations.
- (v) Following Prudential's withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.
- (vi) The Group agreed in November 2016 to sell, subject to regulatory approval, its life business in Korea. Accordingly, the presentation of the 2015 comparative EEV basis results and related notes have been adjusted from those previously published for the reclassification of the result attributable to the held for sale Korea life business, as described in note 17. This approach has been adopted consistently throughout this supplementary information.

## POST-TAX SUMMARISED CONSOLIDATED INCOME STATEMENT

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

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

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

## Basic earnings per share

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

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

MOVEMENT IN  
SHAREHOLDERS'  
EQUITY

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

Comprising:	31 Dec 2016 £m			31 Dec 2015 £m		
	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
Asia operations	18,717	383	19,100	13,876	306	14,182
US operations	11,805	204	12,009	9,487	182	9,669
UK insurance operations*	10,307	25	10,332	9,647	22	9,669
M&G	-	1,820	1,820	-	1,774	1,774

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Prudential Capital	-	22	22	-	70	70
Other operations	-	(4,315)	(4,315)	-	(3,005)	(3,005)
Shareholders' equity at end of year	40,829	(1,861)	38,968	33,010	(651)	32,359
Representing:						
Net assets excluding acquired goodwill and holding company net borrowings	40,584	961	41,545	32,777	866	33,643
Acquired goodwill	245	1,230	1,475	233	1,230	1,463
Holding company net borrowings at market valuenote 8	-	(4,052)	(4,052)	-	(2,747)	(2,747)
	40,829	(1,861)	38,968	33,010	(651)	32,359

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

SUMMARY STATEMENT OF FINANCIAL POSITION

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

Total EEV basis  
shareholders' equity  
(excluding 9 38,968 32,359  
non-controlling  
interests)

\* Following its classification as held for sale, Korea life business is included in total assets at a carrying value of £105 million (see note 17 for details).

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

\*\*\* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for

details). The 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for the year.

Net asset value per share

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

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

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

## Notes on the EEV basis results

### 1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, prepared by the European Insurance CFO Forum. There is no change to the EEV methodology. The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, as discussed in note 2 below. The 2015 comparative results for UK insurance operations were prepared reflecting the Solvency I basis, being the regime applicable for the year. There is no change to the basis of preparation for Asia and the US operations. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The auditors have reported on the 2016 EEV basis results supplement to the Company's statutory accounts for 2016. Their report was (i) unqualified, and (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report. Except for the change in presentation of the results of the operating and non-operating results for Asia operations to show separately the contribution from the held for sale Korea life business (see note 17 for details), the 2015 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2015. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 14.

### 2 Effect of Solvency II implementation on EEV basis results on 1 January 2016

The Solvency II framework is effective from 1 January 2016. For our operations in Asia and the US there is no impact on the EEV results since Solvency II does not act as the local constraint on the ability to distribute profits to the Group. The embedded value for these businesses will continue to be driven by local regulatory and target capital

requirements. For the UK insurance operations, Solvency II has an impact on the EEV results as it changes the local regulatory valuation of net worth and capital requirements, affecting the components of the EEV. The impact of Solvency II on EEV shareholders' equity on 1 January 2016 is shown below:

Total EEV basis shareholders' equity	£m
As reported at 31 December 2015	32,359
Opening adjustment at 1 January 2016 for long-term business operations	
Effect of implementation of Solvency II on net worthnote (a)	2,760
Effect of implementation of Solvency II on net value of in-force business (VIF)note (b)	(3,233)
	(473)
Group total shareholders' equity as at 1 January 2016note (c)	31,886

#### Notes

(a) The Solvency II framework requires technical provisions to be valued on a best estimate basis and capital requirements to be risk-based. It also requires the establishment of a risk margin (which for business in force at 31 December 2015 can be broadly offset by transitional measures). As a result of applying this framework the EEV net worth increased by £2,760 million reflecting the release of the prudent regulatory margins previously included under Solvency I, and also from the recognition within net worth of a portion of future shareholder transfers expected from the with-profits fund. The higher net worth incorporated increases in required capital reflecting the higher solvency capital requirements of the new regime.

(b) The net value of in-force business (VIF) is correspondingly impacted as follows:

- the release of prudent regulatory margins and recognition of a portion of future with-profits business shareholders' transfers within net worth lead to a corresponding reduction in the VIF;
  - the run-off of the risk margin, net of transitional measures, is now captured in VIF; and
  - the cost of capital deducted from the gross VIF increases as a result of the higher Solvency II capital requirements.
- The overall impact of these changes was to reduce the value of in-force by £(3,233) million.

(c) At 1 January 2016 the effect of these changes was a net reduction in EEV shareholders' equity of £(473) million.

The impact of Solvency II in 2016 for UK insurance operations is estimated to have reduced total operating profit from new and in-force business by £(39) million.

### 3 Results analysis by business area

The 2015 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2015 CER comparative results are translated at 2016 average exchange rates.

Annual premium equivalents (APE)note 16

	Note	2016 £m		2015* £m		% change	
		AER	CER	AER	CER	AER	CER
Asia operations		3,599	2,712	3,020	33%	19%	
US operations		1,561	1,729	1,950	(10)%	(20)%	
UK retail operations***		1,160	874	874	33%	33%	
Group total excluding UK bulk annuities	4	6,320	5,315	5,844	19%	8%	
UK bulk annuities***		-	151	151	(100)%	(100)%	
Group total		6,320	5,466	5,995	16%	5%	

#### Post-tax operating profit

	Note	2016 £m		2015* £m		% change	
		AER	CER	AER	CER	AER	CER
Asia operations							
New business	4	2,030	1,482	1,660	37%	22%	
Business in force	5	1,044	798	895	31%	17%	
Long-term business		3,074	2,280	2,555	35%	20%	

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Eastspring Investments		125	101	112	24%	12%
Total		3,199	2,381	2,667	34%	20%
US operations						
New business	4	790	809	913	(2)%	(13)%
Business in force	5	1,181	999	1,127	18%	5%
Long-term business		1,971	1,808	2,040	9%	(3)%
Broker-dealer and asset management		(3)	7	8	(143)%	(138)%
Total		1,968	1,815	2,048	8%	(4)%
UK operations						
New business***						
UK retail operations	4	268	201	201	33%	33%
UK bulk annuities		-	117	117	(100)%	(100)%
		268	318	318	(16)%	(16)%
Business in force	5	375	545	545	(31)%	(31)%
Long-term business**		643	863	863	(25)%	(25)%
General insurance commission		23	22	22	5%	5%
Total UK insurance operations**		666	885	885	(25)%	(25)%
M&G		341	358	358	(5)%	(5)%
Prudential Capital		22	18	18	22%	22%
Total**		1,029	1,261	1,261	(18)%	(18)%
Other income and expenditure		(679)	(566)	(566)	(20)%	(20)%
Solvency II and restructuring costs		(57)	(51)	(51)	(12)%	(12)%
Interest received on tax settlement		37	-	-	n/a	n/a
Operating profit based on longer-term investment returns**		5,497	4,840	5,359	14%	3%

Analysed as profit (loss) from:

New business:***						
Life operations excluding UK bulk annuities	4	3,088	2,492	2,774	24%	11%
UK bulk annuities		-	117	117	(100)%	(100)%
		3,088	2,609	2,891	18%	7%
Business in force	5	2,600	2,342	2,567	11%	1%
Total long-term business**		5,688	4,951	5,458	15%	4%
Asset management and general insurance commission		508	506	518	0%	(2)%
Other results		(699)	(617)	(617)	(13)%	(13)%
Operating profit based on longer-term investment returns**		5,497	4,840	5,359	14%	3%

Post-tax profit

		2016 £m	2015* £m		% change	
	Note		AER	CER	AER	CER
Operating profit based on longer-term investment returns**		5,497	4,840	5,359	14%	3%
Short-term fluctuations in investment returns	6	(507)	(1,215)	(1,343)	58%	62%
Effect of changes in economic assumptions	7	(60)	66	66	(191)%	(191)%



Mark to market value movements on core borrowings	(4)	221	220	(102)%	(102)%
(Loss) profit attaching to the held for sale Korea life business	17	(410)	39	42	n/a n/a
Total non-operating loss	(981)	(889)	(1,015)	(10)%	3%
Profit for the year attributable to shareholders	4,516	3,951	4,344	14%	4%

## Basic earnings per share (in pence)

	2016	2015	% change	
	AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns*,**	214.7p	189.6p	209.9p	13% 2%
Based on post-tax profit**	176.4p	154.8p	170.2p	14% 4%

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

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

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

## 4 Analysis of new business contribution

## (i) Group summary

	2016		2015*	
	Annual premium and contribution equivalents (APE) £m note 16	Present value of new business premiums (PVNBP) £m note 16	New business contribution £m note	New business margin APE PVNBP % %
Asia operationsnote (ii)	3,599	19,271	2,030	56 10.5
US operations	1,561	15,608	790	51 5.1
UK insurance operations**	1,160	10,513	268	23 2.5
Group total	6,320	45,392	3,088	49 6.8
	2015*		2015*	
	Annual premium and contribution equivalents (APE) £m note 16	Present value of new business premiums (PVNBP) £m note 16	New business contribution £m note	New business margin APE PVNBP % %
Asia operationsnote (ii)	2,712	14,428	1,482	55 10.3
US operations	1,729	17,286	809	47 4.7
UK retail operations**,***	874	7,561	201	23 2.7

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Total excluding UK bulk annuities	5,315	39,275	2,492	47	6.3
UK bulk annuities***	151	1,508	117	77	7.8
Group total	5,466	40,783	2,609	48	6.4

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

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

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

Note

The increase in new business contribution of £596 million from £2,492 million for 2015 (excluding the contributions from UK bulk annuities) to £3,088 million for 2016 comprises an increase on a CER basis of £314 million and an increase of £282 million for foreign exchange effects. The increase of £314 million on a CER basis comprises a contribution of £226 million for higher retail sales volumes in 2016, a £17 million effect of movement in long-term interest rates, generated by the active basis of setting economic assumptions (analysed as Asia £14 million, US £13 million and UK £(10) million), and a £71 million impact of pricing, product and other actions.

(ii) Asia operations - new business contribution by territory

	2016 £m		2015* £m	
	AER	CER	AER	CER
China	63	30	30	32
Hong Kong	1,363	835	941	
Indonesia	175	229	260	
Taiwan	31	28	31	
Other	398	360	396	
Total Asia operations	2,030	1,482	1,660	

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

5 Operating profit from business in force

(i) Group summary

	2016 £m			
	Asia operations	US operations	UK insurance operations	Total
Unwind of discount and other expected returns	866	583	445	1,894
Effect of changes in operating assumptions	54	170	25	249
Experience variances and other items	124	428	(95)	457
Total	1,044	1,181	375	2,600

  

	2015* £m			
	Asia operations*	US operations	UK insurance operations**	Total
	note (ii)	note (iii)	note (iv)	note

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Unwind of discount and other expected returns	725	472	488	1,685
Effect of changes in operating assumptions	12	115	55	182
Experience variances and other items	61	412	2	475
Total	798	999	545	2,342

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

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

Note

The movement in operating profit from business in force of £258 million from £2,342 million for 2015 to £2,600 million for 2016 comprises:

	£m
Movement in unwind of discount and other expected returns:	
Effects of changes in:	
Growth in opening value	126
Interest rates	(28)
Foreign exchange	141
Implementation of Solvency II on 1 January 2016	(30)
	209
Movement in effect of changes in operating assumptions, experience variances and other items (including foreign exchange of £84 million)	49
Net movement in operating profit from business in force	258

(ii) Asia operations

	2016 £m	2015* £m
Unwind of discount and other expected returnsnote (a)	866	725
Effect of changes in operating assumptions:		
Mortality and morbidity	33	63
Persistency and withdrawalsnote (b)	(47)	(46)
Expense	15	(1)
Othernote (c)	53	(4)
	54	12
Experience variances and other items:		
Mortality and morbiditynote (d)	71	54
Persistency and withdrawalsnote (e)	52	17
Expensenote (f)	(23)	(32)
Other	24	22
	124	61

Total Asia operations 1,044 798

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

#### Notes

(a) The increase in unwind of discount and other expected returns of £141 million from £725 million for 2015 to £866 million for 2016 comprises a positive £61 million impact for the growth in the opening in-force value, a positive £81 million foreign exchange effect and a net £(1) million effect for movements in long-term interest rates.

(b) The 2016 charge of £(47) million (2015: £(46) million) for persistency assumption changes comprises positive and negative contributions from our various operations, with positive persistency updates on health and protection products being more than offset by negative effects for unit-linked business.

(c) The 2016 credit of £53 million for other assumption changes reflects a number of offsetting items, including modelling improvements and those arising from asset allocation changes in a number of territories.

(d) The positive mortality and morbidity experience variance in 2016 of £71 million (2015: £54 million) mainly reflects better than expected experience in a number of territories.

(e) The positive £52 million for persistency and withdrawals experience in 2016 (2015: £17 million) comprises positive and negative contributions from various operations, with positive persistency experience on health and protection products which more than offsets negative experience on unit-linked products.

(f) The negative expense experience variance in 2016 of £(23) million (2015: £(32) million) principally arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan).

#### (iii) US operations

	2016 £m	2015 £m
Unwind of discount and other expected returnsnote (a)	583	472
Effect of changes in operating assumptionsnote (b)	170	115
Experience variances and other items:		
Spread experience variancernote (c)	119	149
Amortisation of interest-related realised gains and lossesnote (d)	88	70
Othernote (e)	221	193
	428	412
Total US operations	1,181	999

#### Notes

(a) The increase in unwind of discount and other expected returns of £111 million from £472 million for 2015 to £583 million for 2016 comprises a positive £40 million effect for the underlying growth in the in-force book, a positive £60 million foreign exchange effect and an £11 million impact of the 20 basis points increase in the US 10-year treasury yield during the year.

(b) The 2016 credit of £170 million comprises assumption updates for mortality, persistency and expense, together with an increase in the assumed level of tax relief reflecting recent experience.

(c) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 15(ii)). The spread experience variance in 2016 of £119 million (2015: £149 million) includes the positive effect of transactions previously undertaken to more closely match the overall asset and liability duration. The reduction compared to the prior year reflects the effects of declining yields in the portfolio caused by the prolonged low interest rate environment.

(d) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(e) Other experience variances of £221 million in 2016 (2015: £193 million) include the effects of positive persistency experience and other variances.

## (iv) UK insurance operations

	2016 £m	2015* £m
Unwind of discount and other expected returnsnote (a)	445	488
Reduction in future UK corporate tax ratenote (b)	25	55
Othernote (c)	(95)	2
Total UK insurance operations	375	545

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

## Notes

(a) The decrease in unwind of discount and expected returns of £(43)million from 2015 of £488 million to £445 million for 2016 comprises a positive £25 million effect for the underlying growth in the in-force book, more than offset by a £(38) million effect driven by the 70 basis points decrease in the 15-year gilt yield during the year and a negative £(30) million representing the net effect of adopting the Solvency II regime.

(b) The credit of £25 million (2015: £55 million) for the reduction in UK corporate tax rate reflects the beneficial effect of applying a lower corporation tax rate (see note 15) to future life profits from in-force business in the UK.

(c) Other items comprise the following:

	2016 £m	2015 £m
Longevity reinsurance	(90)	(134)
Impact of specific management actions to improve solvency positionnote (d)	110	75
Provision for cost of undertaking past non-advised annuity sales review and potential redressnote (e)	(145)	-
Other itemsnote (f)	30	61
	(95)	2

(d) The 2016 benefit of £110 million (2015: £75 million) arises from the specific management actions to improve solvency, including the effect of repositioning the fixed income asset portfolio.

(e) In response to the findings of the FCA's Thematic Review of Annuities Sales Practices, the UK business will review all internally vesting annuities sold without advice after 1 July 2008. Reflecting this, the UK 2016 result includes a provision of £145 million (post-tax) for the estimated cost of the review and any appropriate customer redress, but excludes any potential for insurance recoveries.

(f) The 2016 credit of £30 million (2015: £61 million) comprises assumption updates and experience variances for mortality, expense, persistency and other items.

## 6 Short-term fluctuations in investment returns

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

## (i) Group summary

	2016 £m	2015* £m
Asia operationsnote (ii)	(100)	(213)
US operationsnote (iii)	(1,102)	(753)
UK insurance operationsnote (iv)	869	(194)
Other operationsnote (v)	(174)	(55)
Total	(507)	(1,215)

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

## (ii) Asia operations

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

2016 £m	2015* £m
---------	----------

Hong Kong	(105)	(144)
Singapore	52	(104)
Other	(47)	35
Total Asia operations <sup>note</sup>	(100)	(213)

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

#### Note

For 2016, the charge of £(100) million mainly reflects the impact of interest rate movements on bonds and other investment returns, with losses due to increased long-term interest rates in Hong Kong, partly offset by gains in Singapore (as shown in note 15(i)).

#### (iii) US operations

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

	2016 £m	2015 £m
Investment return related experience on fixed income securities <sup>note</sup> (a)	(85)	(17)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current year separate account return, net of related hedging activity and other items <sup>note</sup> (b)	(1,017)	(736)
Total US operations	(1,102)	(753)

#### Notes

(a) The charge relating to fixed income securities comprises the following elements:

- the impact on portfolio yields of changes in the asset portfolio in the year;
- the excess of actual realised gains and losses over the amortisation of interest-related realised gains and losses recorded in the profit and loss account; and
- credit experience (versus the longer-term assumption).

(b) This item reflects the net impact of:

- changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values in the current year of 8.9 per cent and that assumed at the start of the year of 6.0 per cent; and
- related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

#### (iv) UK insurance operations

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

	2016 £m	2015* £m
Shareholder-backed annuity business <sup>note</sup> (a)	431	(88)
With-profits and other business <sup>note</sup> (b)	438	(106)
Total UK insurance operations	869	(194)

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

#### Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:

- gains (losses) on surplus assets compared to the expected long-term rate of return reflecting reductions (increases) in corporate bond and gilt yields;
- the difference between actual and expected default experience; and
- the effect of mismatching for assets and liabilities of different durations.

(b) The £438 million fluctuations in 2016 for with-profits and other business represent the impact of achieving a 13.6 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 5.0 per cent (2015: total return of 3.1 per cent compared to assumed rate of 5.4 per cent), together with the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from movements in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns for other operations of negative £(174) million (2015: negative £(55) million) include unrealised value movements on investments held outside of the main life operations.

7 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business included in the profit for the year arise as follows:

(i) Group summary

	2016 £m	2015* £m
Asia operationsnote (ii)	70	(139)
US operationsnote (iii)	45	109
UK insurance operationsnote (iv)	(175)	96
Total	(60)	66

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

(ii) Asia operations

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

	2016 £m	2015* £m
Hong Kong	85	100
Indonesia	46	(15)
Malaysia	(20)	(30)
Singapore	(60)	(50)
Taiwan	12	(97)
Other	7	(47)
Total Asia operationsnote	70	(139)

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

Note

The positive effect for 2016 of £70 million largely arises from the movements in long-term interest rates (see note 15(i)). Non-operating profits arise from higher interest rates and hence fund earned rates in Hong Kong, together with the beneficial impact of valuing future health and protection profits at lower discount rates in Indonesia. Losses arise from a fall in interest rates in Singapore and a higher discount rate in Malaysia.

(iii) US operations

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

	2016 £m	2015 £m
Variable annuity business	86	104
Fixed annuity and other general account business	(41)	5
Total US operationsnote	45	109

Note

For 2016, the credit of £45 million mainly reflects the increase in the assumed separate account return and reinvestment rates for variable annuity business, following the 20 basis points increase in the US 10-year treasury

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yield, resulting in higher projected fee income and a decrease in projected benefit costs. For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income of applying a higher discount rate on the opening value of the in-force book.

(iv) UK insurance operations

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

	2016 £m	2015* £m
Shareholder-backed annuity businessnote (a)	(113)	(56)
With-profits and other businessnote (b)	(62)	152
Total UK insurance operations	(175)	96

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

Notes

(a) For shareholder-backed annuity business the overall negative effect of £(113) million for 2016 (2015: £(56) million) reflects an increase in the cost of capital, driven by the lower interest rates, partially offset by the change in the present value of projected spread income arising mainly from the adoption of lower risk discount rates as shown in note 15(iii).

(b) The charge of £(62) million for 2016 (2015: credit of £152 million) reflects the net effect of changes in expected future fund earned rates and risk discount rates (as shown in note 15(iii)).

8 Net core structural borrowings of shareholder-financed operations

	31 Dec 2016 £m			31 Dec 2015 £m		
	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company (including central finance subsidiaries)						
cash and short-term investments	(2,626)	-	(2,626)	(2,173)	-	(2,173)
Central fundsnote						
Subordinated debt	5,772	182	5,954	4,018	211	4,229
Senior debt	549	175	724	549	142	691
	6,321	357	6,678	4,567	353	4,920
Holding company net borrowings	3,695	357	4,052	2,394	353	2,747
Prudential Capital bank loan	275	-	275	275	-	275
Jackson surplus notes	202	65	267	169	55	224
Net core structural borrowings of shareholder-financed operations	4,172	422	4,594	2,838	408	3,246

Note

In June 2016, the Company issued core structural borrowings of US\$1,000 million 5.25 per cent Tier 2 perpetual subordinated notes. The proceeds net of costs were £681 million. In September 2016, the Company issued core structural borrowings of US\$725 million 4.38 per cent Tier 2 perpetual subordinated notes. The proceeds net of costs were £546 million. The movement in IFRS basis core structural borrowings from 2015 to 2016 also includes foreign



exchange effects.

## 9 Reconciliation of movement in shareholders' equity

	2016 £m						
	Long-term business operations			Total	Asset management and	Other	Group
	Asia	US	UK	long-term	UK general insurance	operations	Total
	operations	operations	insurance	business	commission		
	note (i)		operations*	operations		note (i)	
Operating profit based on longer-term investment returns:							
Long-term business:							
New businessnote 4	2,030	790	268	3,088	-	-	3,088
Business in forcenote 5	1,044	1,181	375	2,600	-	-	2,600
	3,074	1,971	643	5,688			5,688
Asset management and general insurance commission -	-	-	-	-	508	-	508
Other results	-	-	(33)	(33)	-	(666)	(699)
Post-tax operating profit	3,074	1,971	610	5,655	508	(666)	5,497
Loss attaching to the held for sale Korea life businessnote 17	(395)	-	-	(395)	-	(15)	(410)
Other non-operating (loss) profit	(30)	(1,057)	694	(393)	(38)	(140)	(571)
Profit for the year	2,649	914	1,304	4,867	470	(821)	4,516
Other items taken directly to equity:							
Exchange movements on foreign operations and net investment hedges	2,714	1,878	-	4,592	83	(464)	4,211
Intra-group dividends and investment in operationsnote (ii)	(594)	(388)	(281)	(1,263)	(462)	1,725	-
External dividends	-	-	-	-	-	(1,267)	(1,267)
Mark to market value movements on Jackson assets backing surplus and required capital	-	(11)	-	(11)	-	-	(11)
Other movementsnote (iii)	(6)	(75)	(169)	(250)	9	(126)	(367)
	4,763	2,318	854	7,935	100	(953)	7,082

Net increase in shareholders' equity							
Shareholders' equity at beginning of year:							
As previously reported	13,643	9,487	9,647	32,777	2,354	(2,772)	32,359
Effect of implementation of Solvency II note 2	-	-	(473)	(473)	-	-	(473)
Other opening adjustments note (v)	66	-	279	345	-	(345)	-
	13,709	9,487	9,453	32,649	2,354	(3,117)	31,886
Shareholders' equity at end of year	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968
Representing:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	4,747	5,204	5,974	15,925	1,224	(3,958)	13,191
Goodwill	-	-	-	-	1,230	245	1,475
Total IFRS basis shareholders' equity	4,747	5,204	5,974	15,925	2,454	(3,713)	14,666
Additional retained profit (loss) on an EEV basis note (iv)	13,725	6,601	4,333	24,659	-	(357)	24,302
EEV basis shareholders' equity	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968
Balance at beginning of year:*							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	3,789	4,154	5,397	13,340	1,124	(2,972)	11,492
Goodwill	-	-	-	-	1,230	233	1,463
Total IFRS basis shareholders' equity	3,789	4,154	5,397	13,340	2,354	(2,739)	12,955
Additional retained profit (loss) on an EEV basis note (iv)	9,920	5,333	4,056	19,309	-	(378)	18,931
EEV basis shareholders' equity	13,709	9,487	9,453	32,649	2,354	(3,117)	31,886

\* The balance at the beginning of the year has been presented after the adjustments for the impact of Solvency II for UK insurance operations at 1 January 2016 (see note 2 for details), together with the effect of a classification change (see note (v) below).

#### Notes

(i) Other operations of £(4,070) million represents the shareholders' equity of £(4,315) million for other operations as shown in the movement in shareholders' equity and includes goodwill of £245 million (2015: £233 million) related to Asia long-term operations.

(ii) Intra-group dividends represent dividends that have been declared in the year and investments in operations reflect increases in share capital. The amounts included in note 11 for these items are as per the holding company cash

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flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.

(iii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments and treasury shares.

(iv) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(357) million (2015: £(353) million), as shown in note 8.

(v) Other opening adjustments represents the effect of a classification change of £345 million from Other operations to UK insurance operations of £279 million and to Asia insurance operations of £66 million in order to align with Solvency II segmental reporting, which has no overall effect on the Group's EEV.

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

Group	2016 £m			Total	
	Free surplus note 11	Required capital	Total net worth	Value of in-force business note	Value of long-term business operations
Shareholders' equity at beginning of year:					
As previously reported	5,642	4,704	10,346	22,431	32,777
Opening adjustments*	(1,473)	4,578	3,105	(3,233)	(128)
	4,169	9,282	13,451	19,198	32,649
New business contribution	(903)	595	(308)	3,396	3,088
Existing business - transfer to net worth	3,060	(637)	2,423	(2,423)	-
Expected return on existing businessnote 5	99	193	292	1,602	1,894
Changes in operating assumptions and experience variancesnote 5	857	(231)	626	80	706
Solvency II and restructuring costs	(33)	-	(33)	-	(33)
Post-tax operating profit	3,080	(80)	3,000	2,655	5,655
Loss attaching to held for sale Korea life businessnote 9	(86)	-	(86)	(309)	(395)
Other non-operating items	(932)	505	(427)	34	(393)
Profit for the year from long-term business	2,062	425	2,487	2,380	4,867
Exchange movements on foreign operations and net investment hedges	633	589	1,222	3,370	4,592

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Intra-group dividends and investment in operations	(1,263)	-	(1,263)	-	(1,263)
Other movements	(250)	-	(250)	(11)	(261)
Shareholders' equity at end of year*	5,351	10,296	15,647	24,937	40,584

Asia operations

New business contribution	(476)	139	(337)	2,367	2,030
Existing business - transfer to net worth	1,157	(92)	1,065	(1,065)	-
Expected return on existing businessnote 5	39	54	93	773	866
Changes in operating assumptions and experience variancesnote 5	14	94	108	70	178
Post-tax operating profit	734	195	929	2,145	3,074
Loss attaching to held for sale Korea life businessnote 9	(86)	-	(86)	(309)	(395)
Other non-operating items	(91)	29	(62)	32	(30)
Profit for the year from long-term business	557	224	781	1,868	2,649

US operations

New business contribution	(298)	324	26	764	790
Existing business - transfer to net worth	1,223	(213)	1,010	(1,010)	-
Expected return on existing businessnote 5	47	53	100	483	583
Changes in operating assumptions and experience variancesnote 5	596	5	601	(3)	598
Post-tax operating profit	1,568	169	1,737	234	1,971
Non-operating items	(770)	(108)	(878)	(179)	(1,057)
Profit for the year from long-term business	798	61	859	55	914

UK insurance operations

New business contribution	(129)	132	3	265	268
Existing business - transfer to net worth	680	(332)	348	(348)	-

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Expected return on existing businessnote 5	13	86	99	346	445
Changes in operating assumptions and experience	247	(330)	(83)	13	(70)
variancesnote 5					
Solvency II and restructuring costs	(33)	-	(33)	-	(33)
Post-tax operating profit	778	(444)	334	276	610
Non-operating items	(71)	584	513	181	694
Profit for the year from long-term business	707	140	847	457	1,304

\* Opening adjustments represent the impact of implementation of Solvency II for UK insurance operations at 1 January 2016 (see note 2 for details), together with the effect of a classification change, as discussed in note 9(v).

Note

The net value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital as shown below:

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Value of in-force business before deduction of cost of capital and								
time value of guarantees	15,371	8,584	3,468	27,423	11,280	7,355	3,043	21,678
Cost of capital	(477)	(319)	(692)	(1,488)	(438)	(229)	(713)	(1,380)
Cost of time value of guarantees	(87)	(911)	-	(998)	(88)	(1,012)	-	(1,100)
Net value of in-force business	14,807	7,354	2,776	24,937	10,754	6,114	2,330	19,198
Total net worth	3,665	4,451	7,531	15,647	2,955	3,373	7,123	13,451
Total embedded valuenote 9	18,472	11,805	10,307	40,584	13,709	9,487	9,453	32,649

\* The 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016 (see note 2 for details). The 2015 comparative results in the table above are presented after the adjustments for the impact of Solvency II for UK insurance operations at 1 January 2016, together with the effect of a classification change, as discussed in note 9(v).

## 11 Analysis of movement in free surplus

For EEV covered business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles. Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity for central operations, net of goodwill, with subordinated debt recorded as free

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surplus to the extent that it is classified as available capital under Solvency II.

Free surplus for insurance and asset management operations and Group total free surplus, including other operations, are shown in the tables below.

(i) Underlying free surplus generated - insurance and asset management operations

The 2015 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2015 CER comparative results are translated at 2016 average exchange rates.

	2016 £m		2015* £m		% change	
	AER	CER	AER	CER	AER	CER
<b>Asia operations</b>						
Underlying free surplus generated from in-force life business	1,210	951	1,064	27%	14%	
Investment in new businessnote (iii)(a)	(476)	(386)	(426)	(23)%	(12)%	
Long-term business	734	565	638	30%	15%	
Eastspring Investmentsnote (iii)(b)	125	101	112	24%	12%	
Total	859	666	750	29%	15%	
<b>US operations</b>						
Underlying free surplus generated from in-force life business	1,866	1,426	1,608	31%	16%	
Investment in new businessnote (iii)(a)	(298)	(267)	(301)	(12)%	1%	
Long-term business	1,568	1,159	1,307	35%	20%	
Broker-dealer and asset managementnote (iii)(b)	(3)	7	8	(143)%	(138)%	
Total	1,565	1,166	1,315	34%	19%	
<b>UK insurance operations</b>						
Underlying free surplus generated from in-force life business	907	878	878	3%	3%	
Investment in new businessnote (iii)(a)	(129)	(65)	(65)	(98)%	(98)%	
Long-term business**	778	813	813	(4)%	(4)%	
General insurance commissionnote (iii)(b)	23	22	22	5%	5%	
Total	801	835	835	(4)%	(4)%	
M&G	341	358	358	(5)%	(5)%	
Prudential Capital	22	18	18	22%	22%	
Underlying free surplus generated from insurance and asset management operations	3,588	3,043	3,276	18%	10%	
<b>Representing:</b>						
<b>Long-term business:</b>						
Expected in-force cash flows (including expected return on net assets)	3,159	2,693	2,941	17%	7%	
Effects of changes in operating assumptions, experience variances and other items	824	562	609	47%	35%	
Underlying free surplus generated from in-force life business	3,983	3,255	3,550	22%	12%	
Investment in new businessnote (iii)(a)	(903)	(718)	(792)	(26)%	(14)%	
Total long-term business*,**	3,080	2,537	2,758	21%	12%	
Asset management and general insurance commissionnote (iii)(b)	508	506	518	0%	(2)%	
	3,588	3,043	3,276	18%	10%	

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

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

(ii) Underlying free surplus generated - total Group

	2016 £m	2015* £m	% change	
		AER CER	AER CER	
Underlying free surplus generated from insurance and asset management operationsnote (i)	3,588	3,043	3,276	18% 10%
Other income and expenditure net of restructuring and Solvency II costsnote (iii)(b)	(703)	(588)	(588)	(20)% (20)%
Interest received on tax settlement	37	-	-	n/a n/a
Group total underlying free surplus generated, including other operations	2,922	2,455	2,688	19% 9%

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

(iii) Movement in free surplus - long-term business and asset management operations

	2016 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
	note 10	note (b)		note (b)	
Underlying free surplus generated	3,080	508	3,588	(666)	2,922
Loss attaching to held for sale Korea life businessnote 10	(86)	-	(86)	-	(86)
Other non-operating itemsnote (c)	(932)	(38)	(970)	(169)	(1,139)
Net cash flows to parent companynote (d)	2,062	470	2,532	(835)	1,697
External dividends	(1,236)	(482)	(1,718)	1,718	-
Exchange rate movements, timing differences and other itemsnote (e)	356	112	468	(1,267)	(1,267)
Net movement in free surplus	1,182	100	1,282	1,144	1,612
Balance at 1 January 2016:				760	2,042
Balance at beginning of year	5,642	1,124	6,766	1,224	7,990

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Opening adjustments*	(1,473)	-	(1,473)	(345)	(1,818)
	4,169	1,124	5,293	879	6,172
Balance at end of year	5,351	1,224	6,575	1,639	8,214
Representing:					
Asia operations			2,142	-	2,142
US operations			2,418	-	2,418
UK operations			2,015	-	2,015
Other operations			-	1,639	1,639
			6,575	1,639	8,214
Balance at 1 January 2016:*					
Asia operations			1,814	-	1,814
US operations			1,733	-	1,733
UK operations			1,746	-	1,746
Other operations			-	879	879
			5,293	879	6,172

\* Opening adjustments represent the impact of implementation of Solvency II at 1 January 2016 (see note 2 for details), together with the effect of a reclassification between long-term business and other operations, as discussed in note 9(v). Balance at 1 January 2016 has been presented after the opening adjustments.

	2015* £m				
	Long-term business	Asset management and UK general insurance commission note (b)	Total insurance and asset management operations	Central and other operations note (b)	Group total
Underlying free surplus generated	2,537	506	3,043	(588)	2,455
Disposal of Japan life business	23	-	23	-	23
Results of the held for sale Korea life business	15	-	15	-	15
Other non-operating items	(415)	(53)	(468)	29	(439)
Net cash flows to parent company	2,160	453	2,613	(559)	2,054
	(1,271)	(354)	(1,625)	1,625	-



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External dividends	-	-	-	(974)	(974)
Exchange rate movements, timing differences and other itemsnote (e)	560	159	719	(307)	412
Net movement in free surplus	1,449	258	1,707	(215)	1,492
Balance at beginning of year	4,193	866	5,059	1,439	6,498
Balance at end of year	5,642	1,124	6,766	1,224	7,990

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

Notes

- (a) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.
- (b) Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.
- (c) Non-operating items are principally short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.
- (d) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.
- (e) Exchange rate movements, timing differences and other items represent:

	2016 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	633	83	716	48	764
Mark to market value movements on Jackson assets backing surplus and required capitalnote 9	(11)	-	(11)	-	(11)
Other itemsnote (f)	(266)	29	(237)	1,096	859
	356	112	468	1,144	1,612
	2015 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
	67	3	70	10	80

Exchange rate movements					
Mark to market value movements on Jackson assets					
backing surplus and required capital	(76)	-	(76)	-	(76)
Other itemsnote (f)	569	156	725	(317)	408
	560	159	719	(307)	412

(f) Other items include the movements in subordinated debt for Other operations, together with the effect of intra-group loans and other non-cash items. The 2015 results also included the effect of a classification change of £702 million from Other operations to UK insurance operations in order to align with Solvency II segmental reporting, with no overall effect on the Group's EEV.

## 12 Expected transfer of value of in-force business and required capital to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2016 and 2015 totals for the emergence of free surplus as follows:

	2016 £m	2015* £m
Required capitalnote 10	10,296	9,282
Value of in-force business (VIF)note 10	24,937	19,198
Add back: deduction for cost of time value of guaranteesnote 10	998	1,100
Expected free surplus generation from the sale of Korea life businessnote 17	(76)	-
Other itemsnote	(1,430)	(1,714)
Total	34,725	27,866

\* In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).

### Note

'Other items' represent amounts incorporated into VIF where there is no definitive timeframe for when the payments will be made or receipts received. In particular, other items include the deduction of the shareholders' interest in the estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital is modelled as emerging into free surplus over future years.

2016 £m  
Expected period of conversion of future post-tax distributable earnings  
and required capital flows to free surplus

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	2016 Total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations*	16,393	5,141	3,331	2,209	1,515	3,118	1,079
US operations	10,556	5,542	3,203	1,240	372	199	-
UK insurance operations	7,776	2,890	1,931	1,119	901	899	36
Total	34,725	13,573	8,465	4,568	2,788	4,216	1,115
	100%	39%	25%	13%	8%	12%	3%

\* Asia operations exclude the cash flows in respect of the held for sale Korea life business.

2015 £m

Expected period of conversion of future post-tax distributable earnings

and required capital flows to free surplus

	2015 Total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations	11,858	3,916	2,552	1,669	1,115	2,055	551
US operations	8,740	4,361	2,752	1,129	383	115	-
UK insurance operations**	7,268	2,446	1,812	1,198	866	920	26
Total**	27,866	10,723	7,116	3,996	2,364	3,090	577
	100%	38%	26%	14%	9%	11%	2%

\*\* In order to show the cash flows for UK insurance operations on a comparable basis, the 2015 comparative results for UK insurance operations reflect the impact of the implementation of Solvency II at 1 January 2016 (see note 2 for details).

13 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis - economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2016 and 31 December 2015 and the new business contribution after the effect of required capital for 2016 and 2015 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 0.5 per cent decrease in interest rates\* (1 per cent decrease for 2015), including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level by contrast to EEV basis required capital for (embedded value only); and
- 5 basis points increase in UK long-term expected defaults.

\* To reflect the current level of low interest rates, the sensitivity of new business contribution and embedded value to a 0.5 per cent reduction in interest rates is shown for 2016.

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

New business contribution

2016 £m				2015 £m			
Asia operations	US operations	UK insurance operations	Total long-term business	Asia operations*	US operations	UK insurance operations**	Total long-term business

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	operations				operations			
New business contribution <sup>note 4</sup>	2,030	790	268	3,088	1,482	809	318	2,609
Discount rates - 1% increase	(375)	(43)	(32)	(450)	(254)	(38)	(40)	(332)
Interest rates - 1% increase	51	64	27	142	30	80	7	117
Interest rates - 1% decrease	-	-	-	-	(78)	(127)	(9)	(214)
Interest rates - 0.5% decrease	(30)	(49)	(15)	(94)	-	-	-	-
Equity/property yields - 1% rise	129	91	28	248	71	95	20	186
Long-term expected defaults - 5 bps increase	-	-	(2)	(2)	-	-	(8)	(8)

\* In order to show the Asia long-term business on a comparable basis, the 2015 comparatives for new business contribution have been adjusted from those previously published for the reclassification of the results attributable to the held for sale Korea life business (see note 17 for details).

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

Embedded value of long-term business operations

	31 Dec 2016 £m				31 Dec 2015 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
Shareholders' equity <sup>note 9</sup>	18,472	11,805	10,307	40,584	13,643	9,487	9,647	32,777
Discount rates - 1% increase	(2,078)	(379)	(809)	(3,266)	(1,448)	(271)	(586)	(2,305)
Interest rates - 1% increase	(701)	(241)	(638)	(1,580)	(380)	(46)	(328)	(754)
Interest rates - 1% decrease	-	-	-	-	132	(93)	426	465
Interest rates - 0.5% decrease	248	25	369	642	-	-	-	-
Equity/property yields - 1% rise	771	653	314	1,738	506	514	271	1,291
Equity/property market values - 10% fall	(361)	(11)	(399)	(771)	(246)	(411)	(373)	(1,030)
Statutory minimum capital	150	223	-	373	148	162	4	314
Long-term expected defaults - 5 bps increase	-	-	(138)	(138)	-	-	(141)	(141)

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

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumptions shown in the sensitivities were to occur, then the effect shown

above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for changes in interest rates, the effect shown above for Jackson would also be recorded within the fair value movements on assets backing surplus and required capital, which are taken directly to shareholders' equity.

(b) Sensitivity analysis - non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2016 and 31 December 2015 and the new business contribution after the effect of required capital for 2016 and 2015 to:

- 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
- 5 per cent proportionate decrease in base mortality and morbidity rates (ie increased longevity).

New business contribution

2016 £m				2015 £m			
Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations*	US operations	UK insurance operations**	Total long-term business operations
New business contribution	790	268	3,088	1,482	809	318	2,609
4 Maintenance expenses							
33 10% decrease	10	3	46	27	8	2	37
Lapse rates							
132 10% decrease	26	11	169	104	25	9	138
Mortality and morbidity							
57 5% decrease	4	(4)	57	49	1	(13)	37
Change representing effect on:							