PRUDENTIAL PLC
Form 20-F
April 07, 2016
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As filed with the Securities and Exchange Commission on 7 April 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 31 December 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales

(Jurisdiction of Incorporation)

12 Arthur Street,

London EC4R 9AQ, England

(Address of Principal Executive Offices)

Rebecca Wyatt

Head of Financial Accounting

Prudential plc

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 2 Ordinary Shares, 5 pence par value each	New York Stock Exchange
Ordinary Shares, 5 pence par value each	New York Stock Exchange*
6.75% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange
6.50% Perpetual Subordinated Capital Securities Exchangeable at the Issuer s Option into Non-Cumulative	New York Stock Exchange

Dollar Denominated Preference Shares

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of the issuer s classes of capital or common stock as of 31 December 2015 was:

2,572,454,958 Ordinary Shares, 5 pence par value each

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No __

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes __ No X

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __ No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer __ Non-accelerated filer __

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP __ International Financial Reporting Standards as issued by the International Accounting Standards Board X Other __

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 __ Item 18 __

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No _X_

* Not for trading, but only in connection with the registration of American Depositary Shares.

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As used in this document, unless the context otherwise requires, the terms Prudential , the Group , we , us and our refer to Prudential plc, together with its subsidiaries, while the terms Prudential plc , the Company or the parent company each refer to Prudential plc .

Portions of the Prudential s Annual Report 2015 incorporated by reference herein contain references to our website. Information on our website or any other website referenced in the Prudential Annual Report 2015 is not incorporated into this Form 20-F and should not be considered to be part of the Form 20-F. We have included any website as an inactive textual reference only.

Limitations on Enforcement of US Laws against Prudential, its Management and Others

Prudential is an English public limited company. Most of its directors and executive officers are resident outside the United States, and a substantial portion of its assets and the assets of such persons are located outside the United

States. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them or Prudential in US courts judgments obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there may be doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgments of US courts, of liabilities predicated solely upon the federal securities laws of the United States.

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Item 3. Key Information

Selected Historical Financial Information of Prudential

The following table sets forth selected consolidated financial data for Prudential 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 endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2015, there were no unendorsed standards effective for the years presented below affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential s audited consolidated financial statements is derived from audited consolidated financial statements prepared in accordance with IFRS as issued by the IASB. 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, together with Item 5, Operating and Financial Review and Prospects .

Income statement data

			Year ended 31 December			
	2015 $m(1)	**2015 £m**	**2014 £m**	**2013 £m**	**2012 £m**	**2011 £m**
Gross premium earned	**54,063**	**36,663**	32,832	30,502	29,113	24,837
Outward reinsurance premiums	**(1,706)**	**(1,157)**	(799)	(658)	(491)	(417)
Earned premiums, net of reinsurance	**52,357**	**35,506**	32,033	29,844	28,622	24,420
Investment return	**4,872**	**3,304**	25,787	20,347	23,931	9,361
Other income	**3,679**	**2,495**	2,306	2,184	1,885	1,711
Total revenue, net of reinsurance	**60,908**	**41,305**	60,126	52,375	54,438	35,492
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(43,732)**	**(29,656)**	(50,169)	(43,154)	(45,144)	(28,706)
Acquisition costs and other expenditure	**(12,104)**	**(8,208)**	(6,752)	(6,861)	(6,032)	(4,717)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(460)**	**(312)**	(341)	(305)	(280)	(286)
Disposal of Japan life business:						
Cumulative exchange loss recycled from other comprehensive income	**(68)**	**(46)**	-	-	-	-
Remeasurement adjustments	**-**	**-**	(13)	(120)	-	
Total charges, net of reinsurance	**(56,364)**	**(38,222)**	(57,275)	(50,440)	(51,456)	(33,709)
Share of profits from joint ventures and associates, net of related tax	**351**	**238**	303	147	135	76
Profit before tax (*being tax attributable to shareholders and policyholders returns*)(2)	**4,895**	**3,321**	3,154	2,082	3,117	1,859
	(255)	**(173)**	(540)	(447)	(370)	7

Tax (charges) credit attributable to policyholders returns						
Profit before tax attributable to shareholders	**4,640**	**3,148**	2,614	1,635	2,747	1,866
Tax charge attributable to shareholders returns	**(839)**	**(569)**	(398)	(289)	(584)	(415)
Profit for the year	**3,801**	**2,579**	2,216	1,346	2,163	1,451

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	2015(1) (In $m, except Share Information)	2015	2014	2013	2012	2011
		£m, except Share Information				
Statement of financial position data						
Total assets	**570,648**	**386,985**	369,204	325,932	307,644	270,018
Total policyholder liabilities and unallocated surplus of with-profits funds	**494,896**	**335,614**	321,989	286,014	268,263	233,538
Core structural borrowings of shareholder financed operations	**7,389**	**5,011**	4,304	4,636	3,554	3,611
Total liabilities	**551,543**	**374,029**	357,392	316,281	297,280	261,411
Total equity	**19,105**	**12,956**	11,812	9,651	10,364	8,607
Other data						
Based on profit for the year attributable to the equity holders of the Company:						
Basic earnings per share (in pence)	**148.9¢**	**101.0p**	86.9p	52.8p	85.1p	57.1p
Diluted earnings per share (in pence)	**148.8¢**	**100.9p**	86.8p	52.7p	85.0p	57.0p
Dividend per share declared and paid in reporting period (in pence)(5)	**56.1¢**	**38.05p**	35.03p	30.52p	25.64p	25.19p
Equivalent cents per share(6)		**59.11¢**	58.44¢	50.58¢	40.68¢	40.39¢
Market price per share at end of period(7)	**2,257.6¢**	**1,531.0p**	1,492.0p	1,340.0p	865.5p	638.5p
Weighted average number of shares (in millions)		**2,553**	2,549	2,548	2,541	2,533
New business:						
Single premium sales(3)	**41,096**	**27,869**	24,508	22,976	22,358	18,889
New regular premium sales(3)(4)	**4,158**	**2,820**	2,199	2,125	1,959	1,792
Funds under management	**749,982**	**508,600**	496,000	443,000	406,000	352,000

(1) Amounts stated in US dollars in the 2015 US dollar column have been translated from pounds sterling at the rate of $1.4746 per £1.00 (the noon buying rate in New York City on 31 December 2015).

(2) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders. See Presentation of results before tax in note A3.1(k) to Prudential s consolidated financial statements in Item 18 for further explanation.

(3) The new business premiums in the table shown above are provided as an indicative volume measure of

transactions undertaken in the reporting period that have the potential to generate profits for shareholders (see EEV basis, new business results and free surplus generation below). The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. Internal vesting business is classified as new business where the contracts include an open market option.

The details shown above for new business include contributions for contracts that are classified under IFRS 4 Insurance Contracts as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

(4) New regular premium sales are reported on an annualised basis, which represents a full year of instalments in respect of regular premiums irrespective of the actual payments made during the year. The comparative figures as shown above included the premiums from the PruHealth and PruProtect businesses for which the Group s 25 per cent interest was sold in November 2014. The PruProtect and PruProtect new business premiums for the years ended 31 December 2014 and 2013 of £23 million and £26 million, respectively are shown in Item 4 UK business .

(5) Under IFRS, dividends declared or approved after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes dividend in respect of the prior year that was declared or approved after the balance sheet date of the prior reporting period. Parent company dividends relating to the reporting period were an interim dividend of 12.31p per share in 2015 (2014: 11.19p, 2013: 9.73p), a second interim dividend of 26.47p per share in 2015 (2014: final dividend 25.74p, 2013: final dividend 23.84p) and a special dividend of 10.00p per share in 2015 only.

(6) The dividends have been translated into US dollars at the noon buying rate in New York City on the date each payment was made.

(7) Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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Dividend Data

Under UK company law, Prudential may pay dividends only if distributable profits of the holding company are available for that purpose. Distributable profits are accumulated, realised profits not previously distributed or capitalised less accumulated, realised losses not previously written off, on the applicable GAAP basis. Even if distributable profits are available, under UK law Prudential may pay dividends only if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (such as, for example, the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate. For further information about the holding company refer to Schedule II. The financial information in Schedule II has been prepared under UK GAAP reflecting the legal basis of preparation of the Company s separate financial statements as distinct from the IFRS basis that applies to the Company s consolidated financial statements.

As a holding company, Prudential is dependent upon dividends and interest from its subsidiaries to pay cash dividends. Many of its insurance subsidiaries are subject to regulations that restrict the amount of dividends that they can pay to the Company. These restrictions are discussed in more detail in Item 4, Information on the Company Supervision and Regulation of Prudential UK Supervision and Regulation Regulation of Insurance Business Distribution of Profits and With-profits Business and Item 4, Information on the Company Supervision and Regulation of Prudential US Supervision and Regulation General .

Historically, Prudential has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). From 2016, Prudential will make twice-yearly interim dividend payments to replace the final and interim dividend payments. Subject to the restrictions referred to above, Prudential s directors have the discretion to determine whether to pay an interim dividend and the amount of any such interim dividend but must take into account the Company s financial position. The directors still retain the discretion to recommend payment of a final dividend, such recommendation to be approved by ordinary resolution of the shareholders. The approved amount may not exceed the amount recommended by the directors. For the 2015 reporting period, Prudential has approved a second interim dividend and a special dividend.

The following table shows certain information regarding the dividends per share that Prudential declared for the periods indicated in pence sterling and converted into US dollars at the noon buying rate in effect on each payment date. First interim dividends for a specific year now generally have a record date in August and a payment date in September of that year, and second interim dividends (or final dividends) now generally have a record date in the following March/April and a payment date in the following May.

Year	**Interim Dividend (pence)**	**Interim Dividend (US Dollars)**	**Final Dividend/ Second interim (pence)**	**Final Dividend/ Second interim (US Dollars)**	**Special dividend (pence)**	**Special dividend (US Dollars)**
2011	7.95	0.1221	17.24	0.2706		
2012	8.40	0.1362	20.79	0.3143		
2013	9.73	0.1558	23.84	0.4019		
2014	11.19	0.1825	25.74	0.4034		
2015	12.31	0.1877	26.47		10.00	

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

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

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Exchange Rate Information

Prudential publishes its consolidated financial statements in pounds sterling. References in this document to US dollars , US$, $ or ¢ are to US currency, references to pounds sterling , £ , pounds , pence or p are t (there are 100 pence to each pound) and references to euro or are to the single currency adopted by the participating members of the European Union. The following table sets forth for each year the average of the noon buying rates on the last business day of each month of that year, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling expressed in US dollars per pound sterling for each of the five most recent fiscal years. Prudential has not used these rates to prepare its consolidated financial statements.

Year ended 31 December	Average rate
2011	1.61
2012	1.59
2013	1.56
2014	1.65
2015	1.53

The following table sets forth the high and low noon buying rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

	High	Low
October 2015	1.55	1.52
November 2015	1.54	1.50
December 2015	1.52	1.47
January 2016	1.47	1.42
February 2016	1.46	1.39
March 2016	1.45	1.39

On 1 April 2016 the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.42.

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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 .

Risks relating to Prudential s business

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

Prudential s businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential s business and profitability. Since 2008 Prudential has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates (which in some jurisdictions have become negative) and liquidity, and widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors have, at times during this period, had a material adverse effect on Prudential s business and profitability.

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

- investment impairments and/or reduced investment returns, which could reduce Prudential s capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;
- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;
- failure of counterparties who have transactions with Prudential (e.g. banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential s financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;
- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and
- increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over the energy and commodity sectors, sovereign debt, general slowing in world growth, the monetary policies in the US, the UK and other jurisdictions and potentially negative socio-political events. In addition, a possible withdrawal of the UK from the EU would have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced on the UK.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The European Union s Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission will review elements of the Solvency II legislation from 2016 onwards including a review of the Long Term Guarantee measures by 1 January 2021.

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Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS).

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the US that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on Prudential s businesses is not currently clear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying G-SIIs, and a set of policy measures that will apply to them, which the FSB endorsed. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential s designation as a G-SII was reaffirmed on 3 November 2015. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential s designation as a G-SII.

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

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

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

The Group s accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. A revised Exposure Draft was issued in June 2013. The IASB is currently re-deliberating the Exposure Draft proposals in light of comments by the insurance industry and other respondents. The timing of the final proposals taking effect is uncertain but not expected to be before 2020.

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

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

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Prudential Assurance Company Limited s financial strength is rated Aa3 by Moody s, AA by Standard & Poor s and AA by Fitch. These ratings are all on a stable outlook.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group s joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its joint venture partners fails to meet its obligations under the joint venture, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group s product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential s Articles of Association contain an exclusive jurisdiction provision

Under Prudential s Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or

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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.

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 , inten plans , seeks and anticipates , and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential s actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the impact of continuing designation as a Global Systemically Important Insurer or G-SII ; the impact of competition, economic uncertainty, inflation, and deflation; the effect on Prudential s business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal actions and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential s actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential s forward-looking statements can be found under the Risk Factors heading of this annual report, as well as under the Risk Factors heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K.

Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the Risk Factors heading of this document, as well as under the Risk Factors heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. 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.

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EEV Basis, New Business Results and Free Surplus Generation

In addition to IFRS basis results, Prudential s filings with the UK Listing Authority, the Stock Exchange of Hong Kong, the Singapore Stock Exchange and Group Annual Reports include reporting by Key Performance Indicators (KPIs). These include results prepared in accordance with the European Embedded Value (EEV) Principles and Guidance issued by the Chief Financial Officers (CFO) Forum of European Insurance Companies, New Business and Free Surplus Generation measures.

The EEV basis is a value-based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital or economic capital where higher and free surplus) of Prudential s life insurance operations. Prudential publishes its EEV results semi-annually in the UK, Hong Kong and Singapore markets.

New Business results are published quarterly and are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. New business results are categorised as single premiums and annual regular premiums. New business results are also summarised by annual premium equivalents (APE) which are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. The amounts are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. EEV basis new business profits and margins are also published quarterly.

Underlying free surplus generation is used to measure the internal cash generation by our business units. For the insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit based on longer-term investment returns for the period.

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Item 4. Information on the Company

Business of Prudential

Overview and Summary of Strategy

Overview

Background

Prudential is the parent company of the Prudential group (the Prudential Group or the Group). The Group is an international financial services group, with significant operations in Asia, the United States and the United Kingdom. It has been in existence for more than 167 years, serving circa 24 million insurance customers and with £509 billion in assets under management (as at 31 December 2015). Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Prudential is structured around four main business units: Prudential Corporation Asia (incorporating the asset management business, Eastspring Investments), Jackson, Prudential UK and Europe insurance operations and M&G (the UK and European fund manager of the Group). These are supported by central functions which are responsible for Prudential strategy, cash and capital management, leadership development and succession, reputation management and other core group functions.

Asia

Prudential Corporation Asia has operations in Hong Kong, Malaysia, Singapore, Indonesia and other Asian countries. Its core business is health, protection, either attached to a life policy or on a standalone basis, other life insurance (including participating business) and mutual funds. It also provides selected personal lines property and casualty insurance, group insurance, institutional fund management and consumer finance (Vietnam only). The product range offered is tailored to suit the individual country markets. Insurance products are distributed mainly through an agency sales force together with selected banks, while the majority of mutual funds are sold through banks and brokers. Joint venture partners are mandatory in some markets, as reflected in Prudential s life insurance operations in China (through its joint venture with CITIC) and in India (through its joint venture with ICICI Bank) and Prudential s Takaful business in Malaysia (through its joint venture with Bank Simpanan Nasional). In the fund management business, Prudential has joint venture operations in India (through its joint venture with ICICI Bank), China (through its joint venture with CITIC) and Hong Kong (through its joint venture with Bank of China International).

As at 31 December 2015, Prudential Corporation Asia had:

- over 14 million life insurance customers with life and fund management operations in 14 markets;
- distribution through over 10,000 active bank branches across Asia with relationships including Standard Chartered Bank (SCB), United Overseas Bank Limited (UOB), joint venture partners ICICI Bank in India and CITIC in China and Thanachart (Thailand);
- one of the largest networks of tied agents in Asia;
- consistently high brand recognition, outperforming many other financial services companies and had received multiple awards for its customer service; and
- a top 3 position in 9 out of the 12 life markets.[(1)]

United States

In the United States, Prudential offers a range of products through Jackson, including fixed annuities (fixed interest rate annuities, fixed index annuities and immediate annuities), variable annuities and institutional products (including guaranteed investment contracts and funding agreements). Jackson distributes these products through

(1) Prudential s rank in insurance market by new business APE. Based on formal (competitors results releases, local regulators, insurance associations) and informal (industry exchange) market share data.

independent insurance agents, independent broker-dealers, regional broker-dealers, wirehouses, banks, credit unions and other financial institutions. Although Jackson historically also offered traditional life insurance products, it discontinued new sales of life insurance products in 2012.

As at 31 December 2015, in the United States, Jackson:

- was among the 15 largest life insurance companies in terms of general account assets[(2)];
- was the number one writer of variable annuities in the US[(3)];
- was once again awarded the Highest Customer Satisfaction by Industry award for the tenth successive year from Service Quality Measurement Group; and
- was once again rated as a World Class service provider for the tenth successive year by Service Quality Measurement Group.

United Kingdom

In the United Kingdom, Prudential is structured into Prudential UK & Europe (providing insurance and investment products) and M&G (the UK and European fund manager of the Group) and offers a range of retail financial products and services, including long-term insurance and asset accumulation and retirement income products (life insurance, pensions and pension annuities), retail investment and unit trust products, and fund management services. Prudential in the United Kingdom primarily distributes these products through financial advisers, partnership agreements with other financial institutions, and direct marketing, by telephone, mail, internet and face-to-face advisers.

As at 31 December 2015, Prudential UK & Europe:

- was one of the market leaders in the retirement income and the with-profits market[(4)] and
- had total company assets of £175 billion on the balance sheet, comprising £104 billion within the with-profits sub-fund, £65 billion within shareholder-backed business and £6 billion in the Scottish Amicable Insurance Fund.

As at 31 December 2015, M&G:

- had responsibility for £246 billion of investment on behalf of both internal and external clients; and
- has been recognised for its investment expertise with awards across nearly all its asset categories in 2015, including Investment Manager of the Year at the European Pension Awards.

Group Strategy Overview

Our clear and consistent strategy utilises our capabilities, footprint and scale to serve the global savings of our customers and protection needs of an increasingly self-reliant Asian middle class to create long term value for our customer and our shareholders.

(2) Source: Fourth Quarter 2015 SNL Financial

(3) Source: Morningstar Annuity Research Center (MARC) Fourth Quarter 2015 Sales Report©. © Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

(4) Source: Association of British Insurers (ABI)

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We focus on three markets: Asia, the US and the UK where we see continued growing demand for our products:

In Asia there is a growing and increasingly affluent middle class which by 2020 is forecast to become 1.9 billion people and represent over half of the global middle class. This group is increasingly wealthy but largely uninsured and have significant and growing savings, accumulation, health and protection needs.

The US baby boomer generation is the wealthiest demographic in the global economy. Over the next 20 years they will be retiring at a rate of 10,000 per day, creating significant demand for solutions to best help retirees with their retirement challenges.

The UK has an ageing population which remains under-saved for the long-term. This will drive increasing demand for savings products and retirement income solutions which will provide opportunities for both life insurers and asset management.

To capture these opportunities we:

Focus on customers & distribution
Our customers are at the heart of the decisions we make. We focus on understanding our customers needs and requirements in each of our chosen markets as we believe that in order to do well for our shareholders we must first serve our customers.

We consistently develop our product portfolio, designing it around our customers needs and providing them with peace of mind, whether that be in relation to saving for retirement or insuring against the risks of illness, death or critical life events. Satisfied customers become our advocates, recommending our products and services to their friends and families.

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

Allocate capital with discipline, focussing on long-term returns
We rigorously allocate capital to the highest-return products and geographical locations with the shortest payback periods, in line with our risk appetite. This has had a positive and significant impact on our capital generative

Leverage strength & scale and proactively manage risk
Balance sheet strength and proactive risk management enable us to make good our promises to customers and are therefore key drivers of long-term value creation and relative performance. In spite of the challenging macroeconomic environment we continue to strengthen our capital position through generation of organic earnings and specific management actions, which since 2010 include:

Controlling sales of US variable annuities in a manner which appropriately balances value, volume, capital generation and balance sheet risk.

Longevity reinsurance and asset portfolio optimisation in our UK life businesses.

Provide balanced metrics & disclosures
We aim to have clarity and consistency internally and externally in the performance indicators that drive our businesses. Alongside this we develop our financial disclosures to enable our stakeholders to fairly assess

growing in-force portfolio and, in turn, has transformed the capital dynamics of our Group. This transformation enabled our business operations to remit £1,625 million to the Group in 2015, compared to £1,105 million in 2011.

our long-term performance. We have three main objectives:

to demonstrate how we generate profits under the different accounting regimes;

to show how we think about capital allocation via measures that highlight the returns we generate on capital invested in new business; and

to highlight the cash generation of our business, which over time is the ultimate measure of performance.

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Company Address and Agent

Prudential plc is a public limited company incorporated on 1 November 1978 and registered in England and Wales. Refer to Item 10, Additional information Memorandum and Articles of Association for further information on the constitution of the Company.

Prudential s registered office is Laurence Pountney Hill, London EC4R 0HH, England (telephone: +44 20 7220 7588). Prudential s agent in the United States for purposes of Item 4 of this annual report on Form 20-F is Jackson National Life Insurance Company, located at 1 Corporate Way, Lansing, Michigan 48951, United States of America.

Significant Subsidiaries

The table below sets forth Prudential s significant subsidiaries.

	Main activity	Country of incorporation
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Retirement Income Limited (PRIL)*	Insurance	Scotland
M&G Investment Management Limited*	Asset management	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
PT Prudential Life Assurance*	Insurance	Indonesia
Prudential Hong Kong Limited*	Insurance	Hong Kong

* Owned by a subsidiary undertaking of the Company.

The Company has 100 per cent of the voting rights of the subsidiaries except the Indonesian subsidiary, where the Company has 94.6 per cent of the voting rights attaching to the aggregate of the shares across the types of capital in issue. The percentage of equity owned is the same as the percentage of the voting power held.

Each subsidiary operates mainly in its country of incorporation, except for PRIL, which operates mainly in England and Wales.

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Asian Business

Life Insurance

Introduction

Prudential has built a well-diversified Asian platform that matches our distribution and product strengths to each market s long-term opportunities in the life sector and maximises our asset gathering capabilities in the region s investment management industry.

Asia s economic transformation continues to generate material increases in personal wealth and drives significant demand for solutions to individuals financial planning needs. During 2015, macro-economic and geopolitical turbulence continued to create some challenges but the long-term potential remains compelling.

The degree of state-sponsored financial provision for healthcare and other social services varies by market, but is typically very basic and it is widely appreciated that the private sector has a very important complementary role. Protection gaps remain high and the regulators have tasked the industry with improving levels of financial literacy and addressing this issue. Consequently, the regulations governing the industry continue to evolve in largely positive ways with good outcomes for customers and shareholders.

There is a healthy competitive environment with a good mix of domestic, regional and international companies operating in the markets. However, barriers to entry remain high in terms of the availability of new licences, the need for a significant capital investment and the challenges in building distribution scale and quality.

Given the low penetration rates of insurance and investment products we see considerable growth opportunities over the long term.

Asia (excluding Japan) is leading the world in terms of GDP growth. In the period 2014 to 2020, it is expected to generate around US$7.0 trillion[(5)] of new GDP, more than the US and the other advanced economies combined.

Economic growth is contributing to the rapid increase of the Asian middle class. Between 2010 and 2020 it is estimated that there will be over 700 million people who will have risen from rural subsistence to middle-class lifestyles. Families are getting smaller, life expectancies are lengthening and the incidence of chronic diseases is increasing significantly.

As people move into the middle class, their increased wealth and higher income give them the opportunity to make financial plans for the first time. Typically the priority is to provide protection for their families and establish a regular savings plan through a life insurance policy.

Social welfare provisions vary by market in Asia but generally fall well below the levels people need to sustain their families lifestyle in the event of a personal tragedy such as the diagnosis of a critical illness. Also, while basic medical services may be provided by the state, there can be a high level of out-of-pocket expenses, creating demand for financial solutions to significantly improve an individual s experience through access to private medical services. Therefore, critical illness and medical riders are popular additions to life insurance policies.

Traditionally, Asians would have relied on their children to provide for them in their retirement but with family sizes decreasing people are increasingly making their own financial provisions and life insurance policies are a popular part of a retirement plan.

Once the savings and protection solutions are in place there is the opportunity to invest. Single premium insurance policies are also important in more developed markets and it is likely that customers will increasingly seek access to different asset classes through mutual funds as their wealth grows and financial needs become more sophisticated.

(5) Prudential estimates based on IMF data October 2013

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Although Prudential has been operating in Asia for over ninety years we began building our business in earnest in 1994 with the establishment of Prudential Corporation Asia (PCA). Since then PCA has entered new markets, added considerable agency scale and launched bank distribution, developed product capabilities particularly unit-linked with protection and built a customer-centric brand anchored on the tag line Always Listening, Always Understanding .

Today PCA is focused on leveraging this platform to grow in a disciplined way for the benefit of our customers, shareholders and communities. Success is defined by metrics that ensure we deliver both volume, value and good service.

Each market is unique and our overarching regional strategy is very specifically tailored to the opportunities that reflect the many differences in each country including its stage of economic development, cultural preferences, regulation, the competitive landscape and our own risk appetite.

Prudential in Asia has over 14 million life insurance customers and over 22 million in-force policies. We actively monitor customer satisfaction levels across multiple indicators but key statistics are the numbers of customers who keep their policies, (our retention rate is over 90 per cent) and the number of customers who buy more policies from us (in 2015 a significant portion of sales were from existing customers) reflecting the success of our advice-driven approach and that customers appreciate the value of the products we provide.

Innovations in service are also important to customer satisfaction. Some are technology based such as e-submissions (up 35 per cent in 2015) and automated underwriting, but a key component is also innovation with the human touch such as Singapore s PRUhealthcare assist.

Prudential is a committed member of the communities where we operate and through the Prudence Foundation, we drive social responsibility activities, with a focus on providing disaster relief, promoting financial literacy and children s education.

During 2015, Prudential extended its highly successful children s financial literacy programme, Cha-Ching and recently launched the second stage of the SafeSteps programme focusing on road safety with ambassador Michelle Yeoh.

Distribution

Prudential in Asia is well positioned in terms of its scale and diversity of distribution. Over 500,000 agents produce the majority of the sales with the remainder mainly coming from bancassurance that includes exclusive agreements with Standard Chartered Bank, UOB and Thanachart. At the core of our distribution model is face-to-face interaction with customers that delivers high quality, needs-based advice.

Despite our strong progress over the last decade, insurance penetration in the markets in which we operate remains low and the demand for savings, health and protection products from a growing middle class continues to be high. Our scale and scope in the region, combined with proven operational expertise, enables us to execute precisely on strategic growth opportunities, invest in building the business through the economic cycle and remain flexible to resist market pressure for products we consider to be less attractive. This approach will, from time to time, lead to fluctuations in sales at a country level but allows us to conserve value without compromising the overall regional delivery.

In 2015 our sales performance continued to benefit from our broad-based multi-channel distribution platform, new product launches and continued actions to improve both distribution scale and productivity. Agency sales were strong across the region, reflecting continued investment in agency manpower and an improvement in average agent productivity. Our core bank partnerships continue to make good progress, led primarily by those with Standard Chartered Bank.

Products

The life insurance products offered by Prudential in Asia include with-profits (participating) and non-participating term, whole life and endowment and unit-linked policies often combined with protection riders and typically with regular premium payments. Prudential in Asia also offers stand-alone health, disablement, critical illness and accident cover to supplement its core life products.

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It is part of our strategy to focus on regular premium products which allow our customers to invest over the long term and smooth the impact of timing on their investment returns. We aim to make most of our sales as regular premiums and the proportion of regular premium has been consistently high, which ensures the profitability and resilience of our growing in-force book. Although single premium products can provide appropriate opportunities for customers with lump sums, we believe that regular premium policies with protection riders best meet the majority of our customers needs.

Unit-linked products combine savings with protection, with the cash value of the policy depending on the value of the underlying unitised funds. Since the end of 2014, Prudential is offering unit-linked products in all markets except Cambodia. However, given the recent volatility in the financial markets, we have seen a shift towards non-linked products. With unit-linked products, shareholders receive the profits arising from managing the policy, its investments and the insurance risk. Policyholders within the underlying unitised fund receive investment gains.

Participating products provide savings with protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the insurer. Policyholder and insurer share the profits from participating policies.

Non-participating products offer savings with protection where the benefits are guaranteed or determined by a set of defined market-related parameters. Accident and health products provide mortality or morbidity benefits and include health, disablement, critical illness and accident cover. These products are commonly offered as supplements to main life policies, but can also be sold separately. The profits from accident and health and non-participating products come from any surplus remaining after paying policy benefits.

In Malaysia and Indonesia, Prudential also offers life insurance policies that comply with Islamic principles known as Takaful. The main principles are that policyholders co-operate amongst themselves for the common good, uncertainty is eliminated in respect of subscription and compensation and there is no investment in prohibited areas such as gambling or alcohol.

Our product portfolio is tailored to suit the savings and protection needs of customers in each market.

For example in markets such as Indonesia and Malaysia there is a high demand for regular premium unit-linked

policies that provide coverage for hospital and surgical and critical illnesses combined with savings for items such as children s education. In Hong Kong there is high demand for participating products where the smoothed investment returns are particularly appealing as part of a broader financial plan.

New Business Premiums

In 2015, total sales of insurance products were £4,761 million, up 11 per cent from 2014 (£4,282 million). Of this amount, regular premium insurance sales increased 31 per cent to £2,641 million and single premium insurance sales decreased 7 per cent to £2,120 million.

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The following table shows Prudential s Asian life insurance new business premiums by territory for the periods indicated.

	Actual Exchange Rate*		
Single premiums	**2015 £m**	**2014 £m**	**2013 £m**
Hong Kong	**546**	419	326
Indonesia	**230**	280	303
Malaysia	**100**	117	114
Philippines	**146**	121	193
Singapore	**454**	677	571
Thailand	**69**	92	66
Vietnam	**6**	4	2
South East Asia operations including Hong Kong	**1,551**	1,710	1,575
China (Prudential s 50% interest in joint venture with CITIC)	**308**	239	114
Korea	**182**	212	311
Taiwan	**45**	83	102
India (Prudential s 26% interest in joint venture with ICICI Bank)	**34**	28	34
Total	**2,120**	2,272	2,136

Regular premiums	**2015 £m**	**2014 £m**	**2013 £m**
Cambodia	**8**	3	1
Hong Kong	**1,158**	603	455
Indonesia	**303**	357	445
Malaysia	**201**	189	197
Philippines	**44**	39	34
Singapore	**264**	289	304
Thailand	**88**	74	61
Vietnam	**82**	61	54
South East Asia operations including Hong Kong	**2,148**	1,615	1,551
China (Prudential s 50% interest in joint venture with CITIC)	**111**	81	71
Korea	**123**	92	82
Taiwan	**127**	116	107
India (Prudential s 26% interest in joint venture with ICICI Bank)	**132**	106	100
Total	**2,641**	2,010	1,911

	2015 £m	**2014 £m**	**2013 £m**
Total	**4,761**	4,282	4,047

* Actual Exchange Rate (AER) for translating new business premiums are actual historical exchange rates for the specific accounting period, being the average rates over the accounting period shown.

Reserving

The overarching principles for measuring IFRS liabilities under the Group s accounting policies stem from the broad requirements of the ABI statement of Recommended Practice which underpinned the predecessor accounting to IFRS, the Modified Statutory Basis, which codified the UK application of the Insurance Accounts Directive.

The policyholder liabilities for businesses in Asia are determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with the Modified Statutory Basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. For operations in India, Taiwan and, up to 2015, Japan, the local GAAP is not appropriate as a starting point in the context of the Modified Statutory Basis and instead, the accounting for insurance contracts is based on US GAAP. Further information is given in Item 18 (Note C.4.2).

Eastspring Investments

Eastspring Investments, Prudential s asset management business in Asia, manages investments for Prudential s Asia, UK and US life companies and also has a broad base of third-party retail and institutional clients.

The asset mix is well balanced with 50 per cent equities, 43 per cent fixed income and 7 per cent money market. Around 54 per cent of funds have outperformed their benchmarks over a three year period. Eastspring has been building expertise in infrastructure, negotiated credit and quantitative investment capabilities.

Distribution

In order to capitalise on the sizeable opportunities in Asia s retail financial services market, Eastspring Investments maintained its focus on building a strong third-party customer retail franchise. The customer proposition is driven by Eastspring Investments investment capabilities, which enable it to develop innovative product suites, and distribute them through diverse channels including regional banks, local banks, private banks, and securities houses and an internal sales force.

The mutual fund industry continues to diversify its investments, with expectations for increasing volumes of net flows over the coming years. Bank distribution continues to be important in most markets in Asia, with Prudential having established strong relationships with both regional and local banks and placing significant emphasis on providing good service. Prudential s Asian asset management business is also growing its third party institutional and pension fund management business.

Products

Eastspring Investments offers mutual fund investment products primarily in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam, China and Indonesia, thus enabling customers to participate in debt, equity and money market investments across the region.

Net flows and funds under management

Eastspring Investments levies management fees on assets under management and in some countries transaction charges (initial and/or surrender depending on the type of fund and the length of the investment) and also a service charge based on assets under management. The charges vary by country and fund, with money market style funds generally having the lowest charges and equity funds the highest. Eastspring Investments also levies performance related fees on certain funds, particularly institutional mandates and life funds, if the investment performance exceeds the pre-agreed benchmark(s).

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

The following table shows funds managed by Eastspring Investments at the dates indicated.

	At 31 December £bn		
	2015	**2014**	**2013**
Internal fund management	**52.8**	47.2	37.7
External fund management	**36.3**	30.1	22.2

Total	**89.1**	77.3	59.9

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US Business

Prudential conducts its US insurance operations through Jackson National Life Insurance Company (Jackson) and its subsidiaries. The US operations also include PPM Holdings, Inc. (PPM), Prudential s US internal and institutional investment management operation, and National Planning Holdings, Inc. (NPH), Prudential s US affiliated independent broker dealer network. As at 31 December 2015, Prudential s US operations had more than 4.1 million policies and contracts in effect and PPM managed approximately £71.8 billion of assets. In 2015, new business premiums totalled £17,286 million.

Jackson s subsidiaries at 31 December 2015 included Curian Capital, LLC, a registered investment advisor. In 2015, Jackson announced that Curian would no longer accept new business effective from 31 July 2015. Curian continues to actively manage existing accounts into 2016 to allow for the transition of accounts, but will have substantially exited the business by the end of the first quarter of 2016.

Jackson

Jackson is a leading provider of retirement income and savings solutions in the mass and mass-affluent segments of the US market, primarily to retirees and those planning for retirement. It offers products that help people plan for their retirement, and offers products with specialised features and guarantees to meet customers needs. By seeking to add value to both the representatives who sell Jackson products, and to their customers, Jackson has built a strong position in the US retirement savings and income market with an over four-fold increase in variable annuity sales over the past decade. Over the same period, Jackson improved its total annuity market share from 3.4 per cent in 2005 to 10.4 per cent in 2015 and moved from 12th in total annuity sales to 1st[(6)].

Prudential s strategy in the US is well established and continues to focus on:

- Capitalising on baby boomer retirement opportunities
- Maintaining a balanced product suite throughout the economic cycle
- Streamlining operating platforms, driving further operational efficiencies
- Conservative, economic based approach to pricing and risk management

Jackson s long-term strategy is focused on profitable growth opportunities created by the demand for retirement income and accumulation products in the world s largest retirement market. We take a disciplined approach by leveraging our distinctive distribution capabilities and asset liability management expertise to offer prudently-priced annuity products aligned with our risk appetite. There continues to be strong consumer demand for our products. We continue to respond to this demand with product innovation and distribution strategies that meet the needs of a growing retirement population while generating shareholder value. With a long-term focus on balancing the needs of multiple stakeholders, Jackson has forged a solid reputation and built strong relationships based upon its financial stability, innovative and creative products and market-leading advisor support.

Our relentless pursuit of excellence has earned us a leading position in the industry.

In 2015, we continued to see significant changes across the competitive landscape. Sales in the annuity industry were marginally down comparing the first nine months of 2015 (latest available data) to the same period in 2014, and total industry variable annuity sales were also slightly down. These results partially reflect the headwinds the industry faced in 2015 including market volatility and unknown regulatory outcomes.

Competitors continued to make product changes across many segments and we noted competitors evolving across product categories. In 2015, we saw more competitors join the fixed index annuities space. In many cases they offered living benefits on their products in an attempt to compete with variable annuities. In addition, some insurers have made changes to the fund platforms within their variable annuity products, requiring managed volatility funds with a living benefit guarantee which purportedly protect annuity customers from downside market risks. There are now seventeen Investment Only Variable Annuity (IOVA) products that compete directly with Elite Access, our variable annuity product with no guarantee benefits. The majority of those competitors have added guaranteed benefits to the IOVA products. Elite Access still commands a significant market share with strong sales in 2015.

(6) Source: Fourth Quarter 2015 Life Insurance and Market Research Association.

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Despite positive demographic trends and the needs of retirees, these competitive activities, market volatility and regulatory headwinds have impacted the industry and further market share adjustments have resulted as customers and distributors seek insurers like Jackson that offer consistency, stability and financial strength.

In addition to the uneven economic conditions in 2015, the insurance industry continues to deal with an evolving regulatory landscape and a multitude of initiatives. Many of these initiatives began in response to the financial crisis over eight years ago and were focused on the broader financial services industry. Within the insurance industry, we continue to see changes in supervisory structures, new global group supervision and capital standards and a focus on the reduction of systemic risk .

More recently, the US Department of Labor (DOL) issued a series of new rules and amendments introducing new fiduciary obligations for distributors of investment products to holders of certain retirement/qualified retirement accounts. The industry is now dealing with a regulatory initiative that will significantly impact the delivery of advice to our customers. Prior to the rules being finalised, as a leader in the industry, we spent many hours with a wide variety of stakeholders to highlight the issues and to ensure that lawmakers and regulators understood the impact of what was proposed and the consequences it may have on various segments of the retirement market. With the rules only recently finalised, it will take some time to form a view on the impact of the new DOL rules to Jackson s business.

Jackson has a good track record of navigating and, at times, benefiting from changes in the regulatory environment. This remains our mindset as we work to meet the needs of all of our stakeholders.

We support our industry-leading product development and distribution teams with award-winning customer service. Jackson was awarded by Service Quality Measurement Group, Inc. World Class Certification in customer satisfaction and received the Highest Customer Satisfaction by Industry award, achieving the top rating for the financial industry, for the tenth consecutive year.

High-quality information technology systems are critical for providing award-winning customer service. We leverage technology to enhance processing quality and reduce the time required to process new business and commissions. The flexibility of our information technology systems contributes to our ability to manufacture, distribute and service an unbundled product design unique to the industry. The focus on our operational platforms, and the efficiencies achieved as a result, has provided us with among the lowest general and administration expense to asset ratio relative to competitors.

Jackson operates within a well-defined risk framework aligned with the overall Prudential Group risk appetite. The type and number of products we sell remains balanced. Our conservative and disciplined economic approach to pricing is designed to achieve both adequate returns on our products and sufficient resources to support our hedging programme.

Our hedge philosophy has not changed in 2015. Jackson is able to aggregate financial risks across the company, obtain a unified view of our risk positions, and actively manage net risks through an economically-based hedging program. A key element of our core strategy is to protect the company from severe economic scenarios while maintaining adequate regulatory capital. We benefit from the fact that the competitive environment continues to favour companies with robust financial strength and a demonstrated track record of financial discipline, both key elements of our long-term strategy.

Products

Jackson develops and distributes products that address the retirement needs of our customers through various market cycles. These products include variable annuities, fixed annuities and fixed index annuities.

Among the main attractions of a variable annuity product are the optional lifetime guarantee whereby customers can access a stream of payments with downside protection, while still being able to invest in a broad range of assets, and the benefit of tax deferral on the investment growth within the product. The breadth of our product offering, strength of our distribution relationships, as well as our ability to maintain financial stability through the 2008 financial crisis and remain as a consistent presence within the market, has resulted in Jackson being the number one(7) writer of variable annuities in the US.

(7) LIMRA/Secure Retirement Institute, U.S. Individual Annuities Sales Survey (Q4 2015). Jackson is ranked first in total Variable Annuities sales out of 44 participating companies in LIMRA s quarterly survey as of 4Q YTD 2015.

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As of fourth quarter of 2015, Jackson offers three of the top ten best-selling variable annuity products across the industry[8]. Additionally, Jackson s success with the development, launch and execution of Elite Access demonstrates the depth and strength of our creative and distribution capabilities in the industry. We now command a leading position in a market we were not operating in prior to 2012. Elite Access is the third best-selling variable annuity product in the US[8].

The strength of our product development capabilities continues to support the diversification of our product mix with the sale of variable annuities with living benefit guarantees remaining in line with our risk appetite in 2015. As expected, in the current historically low interest rate environment, variable annuities continue to outsell fixed rate products. While sales of fixed annuities have been lower in recent years, fixed index annuities increased 15 per cent from 2014. These products still make up a significant portion of our balance sheet and earnings.

Jackson stopped selling traditional life insurance products in 2012; however, we continue to look for opportunistic bolt on acquisitions to further diversify our earnings and balance sheet risks. In the past, these disciplined acquisitions have shaped Jackson s earnings while helping to diversify Jackson s overall risk profile.

We continue to proactively balance value, volume, capital and balance sheet strength across our suite of product offerings, which allows us to compete effectively throughout the economic cycle.

The following table shows total new business premiums in the United States by product line and distribution channel for the periods indicated. Total new business premiums include Jackson s deposits for investment contracts with limited or no life contingencies.

	Actual Exchange Rate Year Ended 31 December £m		
	2015	**2014**	**2013**
By Product			
Annuities			
Fixed annuities			
Fixed interest rate	**462**	512	533
Fixed index	**458**	370	907
Immediate	**15**	15	22
Variable annuities	**11,977**	10,899	10,795
Elite Access (Variable annuities)	**3,144**	3,108	2,585
Total	**16,056**	14,904	14,842
Life insurance		-	2
Institutional products			
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) funding agreements	**1,230**	651	868
Total	**17,286**	15,555	15,712
By Distribution Channel			
Independent broker dealer	**10,145**	9,521	8,717
Bank	**2,730**	2,394	3,053
Regional broker dealer	**2,634**	2,477	2,527
Independent insurance agents	**547**	512	546
Institutional products	**1,230**	651	868

Captive agents	**-**	-	1
Total	**17,286**	15,555	15,712

Of the total new business premiums of £17,286 million in 2015 (2014: £15,555 million; 2013: £15,712 million), £16,056 million (2014: £14,904 million; 2013: £14,842 million) were single premiums, nil (2014: nil; 2013: £2 million) were regular premiums and £1,230 million (2014: £651 million; 2013: £868 million) were institutional product premiums.

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Annuities

Fixed Annuities

Fixed Interest Rate Annuities

In 2015, fixed interest rate annuities accounted for 3 per cent (2014: 3 per cent) of total new business premiums and 9 per cent (2014: 9 per cent) of policy and contract liabilities of the US operations. Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. They permit tax-deferred accumulation of funds and flexible payout options.

The contract holder of a fixed interest rate annuity pays Jackson a premium, which is credited to the contract holder s account. Periodically, interest is credited to the contract holder s account and in some cases administrative charges are deducted from the contract holder s account. Jackson makes benefit payments at a future date as specified in the contract based on the value of the contract holder s account at that date. On more than 93 per cent (2014: 93 per cent) of in-force business, Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson either pays the contract holder the amount in the contract holder account or begins making payments to the contract holder in the form of an immediate annuity product. This latter product is similar to a UK annuity in payment.

At 31 December 2015, Jackson had fixed interest rate annuities totalling £12.1 billion (US$17.8 billion) (2014: £11.7 billion (US$18.3 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 3.00 per cent average guaranteed rate (2014: 1.0 per cent to 5.5 per cent and a 3.03 per cent average guaranteed rate).

Fixed interest rate annuities are subject to early surrender charges for the first six to nine years of the contract. In addition, the contract may be subject to a market value adjustment at the time of surrender. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson s profits on fixed interest rate annuities arise primarily from the spread between the return it earns on investments and the interest credited to the contract holder s account, less expenses. The fixed interest rate annuity portfolio could be impacted by the continued low interest rate environment as lower investment portfolio earned rates could result in reduced spread income. In addition, increased surrenders and lower sales could result if customers seek higher yielding alternative investment opportunities elsewhere.

Approximately 62 per cent (2014: 57 per cent) of the fixed interest rate annuities Jackson wrote in 2015 provide for a market value adjustment (MVA) that could be positive or negative on surrenders in the surrender period of the policy. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move up or down. The minimum guaranteed rate is not affected by this adjustment. While the MVA feature minimizes the surrender risk associated with certain fixed interest rate annuities, Jackson still bears a portion of the surrender risk on policies without this feature, and the investment risk on all fixed interest rate annuities.

Fixed Index Annuities

Fixed index annuities accounted for 3 per cent (2014: 2 per cent) of total new business premiums in 2015 and 6 per cent (2014: 6 per cent) of Jackson s policy and contract liabilities. Fixed index annuities vary in structure, but generally are deferred annuities that enable the contract holder to obtain a portion of an equity-linked return (based on participation rates and caps) and provide a guaranteed minimum return. These guaranteed minimum rates are generally set at 1.0 per cent to 3.0 per cent on index funds. At 31 December 2015, Jackson had fixed index annuities allocated to index funds totalling £6.4 billion (US$9.5 billion) (2014: £6.3 billion (US$9.8 billion)) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.79 per cent average guaranteed rate (2014: 1.0 per cent to 3.0 per cent and a 1.83 per cent average guaranteed rate). Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2015, fixed interest accounts on fixed index annuities totalled £1.9 billion (US$2.8 billion) (2014: £1.8 billion (US$2.8 billion)) in account value with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 2.52 per cent average guaranteed rate (2014: 1.0 per cent to 3.0 per cent and a 2.53 per cent average guaranteed rate).

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Jackson s profit arises from the investment income earned and the fees charged on the contract, less the expenses incurred, which include the costs of hedging the equity component of the interest credited to the contract. Fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

Jackson hedges the equity return risk on fixed index products using offsetting equity exposure in the variable annuity product. The cost of these hedges is taken into account in setting the index participation rates or caps. Jackson bears the investment risk and a portion of the surrender risk on these products.

Immediate Annuities

In 2015, immediate annuities accounted for less than one per cent (2014: less than one per cent) of total new business premiums and one per cent (2014: one per cent) of Jackson s policy and contract liabilities. Immediate annuities guarantee a series of payments beginning within a year of purchase and continuing over either a fixed period of years and/or the life of the contract holder. If the term is for the life of the contract holder, then Jackson s primary risks are mortality and reinvestment. This product is generally used to provide a guaranteed amount of income for contract holders and is used both in planning for retirement and in retirement itself. The implicit interest rate on these products is based on the market conditions that exist at the time the policy is issued and is guaranteed for the term of the annuity.

Variable Annuities

In 2015, variable annuities accounted for 87 per cent (2014: 90 per cent) of total new business premiums and 70 per cent (2014: 69 per cent) of Jackson s policy and contract liabilities. Variable annuities are deferred annuities that have the same tax advantages and payout options as fixed interest rate and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement.

The contract holder can allocate the premiums between a variety of variable sub-accounts with a choice of fund managers and/or a guaranteed fixed interest rate option. The contract holder s premiums allocated to the variable accounts are held apart from Jackson s general account assets, in a separate account, which is analogous to a unit-linked fund. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investments. Variable annuities are subject to early surrender charges for the first four to nine years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers one variable annuity that has no surrender charges.

At 31 December 2015, Jackson had variable annuity funds in fixed accounts totalling £5.5 billion (US$8.1 billion) (2014: £4.4 billion (US$6.8 billion)) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 1.70 per cent average guaranteed rate (2014: 1.0 per cent to 3.0 per cent and a 1.81 per cent average guaranteed rate).

Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which customers can elect for additional fees. These guaranteed benefits might be expressed as the return of either a) total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals, plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following that contract anniversary. These options include the guaranteed minimum death benefits (GMDB), which guarantee that, upon death of the owner, the beneficiary receives at least the minimum value regardless of past market performance. In addition, there are three other types of guarantees: guaranteed minimum withdrawal benefits (GMWB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum income benefits (GMIB). GMWBs provide a guaranteed return of the minimum value by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount that is guaranteed for the contract holder s life without annuitisation. GMABs generally provide a guarantee for a return of the defined minimum value after a specified period. Jackson no longer offers GMABs. GMIBs provide for a minimum level of benefits upon annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. Jackson no longer offers GMIBs, with existing coverage being substantially reinsured with an unaffiliated reinsurer.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson s profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of

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hedging and eventual payment of any guaranteed benefits. In addition to being a profitable book of business, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to effectively manage Jackson s equity exposure. Jackson believes that the internal management of equity risk coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure.

Profits in the variable annuity book of business will continue to be subject to the impact of market movements on both sales and allocations to the variable accounts and the effects of the economic hedging programme. Hedging is conducted based on an economic approach so the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility.

Elite Access, launched in 2012, is a variable annuity without guarantees, offering customers tax deferred growth and access to a wide range of alternative investments, which were previously unavailable to retail investors. In less than four years after its launch, Elite Access is the third[8] best-selling variable annuity product in the US. As of fourth quarter 2015, Jackson offers three of the top ten best-selling variable annuity products in the industry.

The success of Elite Access has helped increase the diversification of Jackson s product mix with a substantial portion of its 2015 variable annuities sales not featuring living benefit guarantees. As a percentage of total sales, variable annuities with living benefit guarantees were broadly in line with 2014.

Aggregate distribution of account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index) and variable annuities fixed options within the range of minimum guaranteed interest rates as described above as at 31 December 2015 and 2014:

	Account value £m	
Minimum guaranteed interest rates - annuities	**2015**	**2014**
1.0%	**5,563**	3,927
> 1.0% - 2.0%	**7,670**	7,887
> 2.0% - 3.0%	**9,586**	9,365
> 3.0% - 4.0%	**1,263**	1,239
> 4.0% - 5.0%	**1,639**	1,567
> 5.0% - 5.5%	**212**	207
Total	**25,933**	24,192

Life Insurance

Background

Jackson discontinued new sales of life insurance products in 2012. Jackson s life insurance products accounted for none of the total new business premiums in either 2015 or 2014 and 11 per cent (2014: 12 per cent) of Jackson s policy and contract liabilities in 2015. Life products include term life and interest sensitive life (universal life and variable universal life.) Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the contract holder account to be invested in separate account funds. Jackson s life insurance book has delivered consistent profitability, driven primarily by positive mortality and persistency experience. For certain fixed universal life plans, additional provisions are held to reflect the existence of guarantees offered in the past that are no longer supported by earnings on the existing asset portfolio, or for situations where future mortality charges are not expected to be sufficient to provide for future mortality costs.

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Aggregate distribution of account values

Excluding the business formally of the REALIC operations acquired in 2012 that is subject to the retrocession treaties, at 31 December 2015, Jackson had interest-sensitive life business in force with total account value of £6.1 billion (US$9.0 billion) (2014: £5.9 billion (US$9.3 billion)), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.66 per cent average guaranteed rate (2014: 2.5 per cent to 6.0 per cent with a 4.65 per cent average guaranteed rate). The table below shows the distribution of the interest-sensitive life business account values within this range of minimum guaranteed interest rates as at 31 December 2015 and 2014:

	Account value £m	
Minimum guaranteed interest rates	**2015**	**2014**
> 2.0% - 3.0%	**204**	195
> 3.0% - 4.0%	**2,322**	2,265
> 4.0% - 5.0%	**2,023**	1,971
> 5.0% - 6.0%	**1,574**	1,514
Total	**6,123**	5,945

Institutional Products

Institutional products consist of traditional guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson s participation in the US Federal Home Loan Bank of Indianapolis (FHLBI) programme) and Medium-Term Note funding agreements. In 2015, institutional products accounted for 7 per cent (2014: 4 per cent) of total new business premiums and 3 per cent (2014: 3 per cent) of Jackson s policy and contract liabilities. The GICs are marketed by Jackson s institutional products department to defined contribution pension and profit sharing retirement plans. Funding agreements are marketed to institutional investors, including corporate cash accounts and securities lending funds, as well as money market funds, and are issued to the FHLBI in connection with its programme. Jackson makes its profit on the spread between the yield on its investments and the interest rate credited to contract holders.

Traditional Guaranteed Investment Contracts

Under a traditional GIC, the contract holder makes a lump sum deposit. Interest is paid on the deposited funds, usually on a quarterly basis. The interest rate paid is fixed and is established when the contract is issued.

Traditional GICs have a specified term, usually two to three years, and typically provide for phased payouts. Jackson tailors the scheduled payouts to meet the liquidity needs of the particular retirement plan. If deposited funds are withdrawn earlier than scheduled, an adjustment is made that approximates a market value adjustment.

Jackson sells GICs to retirement plans, in particular 401(k) plans. The traditional GIC market is extremely competitive, due in part to competition from synthetic GICs, which Jackson does not sell.

Funding Agreements

Under a funding agreement, the contract holder either makes a lump sum deposit or makes specified periodic deposits. Jackson agrees to pay a rate of interest, which may be fixed or a floating short-term interest rate linked to an external index. Interest is paid quarterly to the contract holder. The duration of the funding agreements range between one and thirty years. At the end of the specified term, contract holders may re-deposit the principal in another funding agreement.

Typically, brokerage accounts and money market mutual funds are required to invest a portion of their funds in cash or cash equivalents to ensure sufficient liquidity to meet their customers requirements. The funding agreements permit termination by the contract holder on seven to 90 days notice, and thus qualify as cash equivalents for the clients purposes. In 2015 and 2014, there were no funding agreements terminable by the contract holder with less than 90 days notice.

Jackson is a member of the FHLBI. Membership allows Jackson access to advances from FHLBI that are collateralised by mortgage related assets in Jackson s investment portfolio. These advances are in the form of funding agreements issued to FHLBI.

Medium Term Note Funding Agreements

Jackson has also established European and global medium-term note programmes. The notes offered may be denominated in any currency with a fixed or floating interest rate. Notes are issued to institutional investors by a special purpose vehicle and are secured by funding agreements issued by Jackson. Jackson s medium-term note sales totalled £1,030 million in 2015 (2014: £485 million).

Distribution and Marketing

Jackson distributes products in all 50 states of the United States and in the District of Columbia, although not all products are available in all states. Operations in the state of New York are conducted through a New York insurance subsidiary. Jackson markets its retail products primarily through advice based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, wirehouses, and banks.

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

Our wholesalers provide extensive training to these advisors. In 2015, we led the industry with the highest level of sales efficiency with gross sales per wholesaler 32 per cent higher than the nearest competitor.

Independent Agents and Broker Dealers

National Planning Holdings, an affiliate of Jackson, is the sixth(9) largest independent broker-dealer network in the US. Leveraging the collective strength of the four broker-dealers within the network, National Planning Holdings is able to meet the specific needs of three key distribution channels: independent representatives, financial institutions, and tax and accounting professionals. We offer registered representatives and investment advisors access to industry-leading mutual fund/asset management companies, insurance carriers, and to thousands of brokerage products. National Planning Holdings provides significant benefits for Jackson by offering Jackson products and providing market intelligence.

Jackson s wholesalers meet directly with independent broker dealers and financial planners and are supported by an extensive internal sales staff. At 31 December 2015, Jackson had active selling agreements with independent broker dealer organisations throughout the United States providing access to more than 70,800 appointed representatives. Jackson provides training for its broker dealers and also provides them with product information and sales materials.

Regional Broker Dealers

Jackson s Regional Broker Dealer (RBD) team provides dedicated service and support to regional brokerage firms and wirehouses. Regional broker dealers are a hybrid between independent broker dealers and wirehouses. Like representatives who work for wirehouses, financial representatives at regional broker dealers are actual employees of the firm. However, unlike wirehouses, RBD firms have limited institutional investment banking services. The RBD team develops relationships with regional firms throughout the US and provides customised materials and support to meet their specialised advisory needs.

Jackson s RBD team also provides support for the wirehouse channel, which produced £2.1 billion of premium in 2015.

Jackson s RBD team supports more than 39,400 representatives in regional broker dealers and wirehouses.

Banks, Credit Unions and Other Financial Institutions

Jackson s Institutional Marketing Group distributes annuity products through banks, credit unions and other financial institutions and through third party marketing organisations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and at 31 December 2015 had access to more than 32,000 financial institution representatives through existing relationships with banks and credit unions. Jackson has established distribution relationships with medium sized regional banks, which it believes are unlikely to develop their own insurance product capability.

(9) Paikert, C. (2015). New Paths to Scale. Financial Planning. June 2015.

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Independent Broker Dealers

Jackson s retail distribution is managed by Prudential s independent broker dealer network, NPH, which is described in more detail above. NPH had more than 3,400 registered representatives at the end of 2015.

Institutional Products Department

Jackson markets its institutional products through its institutional products department. It has direct contacts with banks, municipalities, asset management firms and direct plan sponsors. Institutional products are distributed and marketed through intermediaries to these groups.

Factors Affecting Pricing of Products and Asset Liability Management

Jackson prices products based on a variety of assumptions including, but not limited to, mortality, investment yields, expenses and contract holder behaviour. Pricing is influenced by Jackson s objectives for return on capital and by competition. Although Jackson includes a profit margin in the price of its products, the variation between the assumptions and actual experience can result in the products being more or less profitable than originally assumed. This variation can be significant.

Jackson designs its interest sensitive products and conducts its investment operations to match closely the duration of the assets in its investment portfolio with the annuity, life, and guaranteed investment contract product obligations. Jackson seeks to achieve a target spread between what it earns on its assets and what it pays on its liabilities by investing principally in fixed-rate securities. Jackson also enters into options and futures contracts to hedge equity related movements in its products.

Jackson segregates its investment portfolio for certain investment management purposes, and as part of its overall investment strategy, into four portfolios: life and fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing life and fixed annuities with and without market value adjustments and the fixed index annuities have similar characteristics and differ primarily in duration. The portfolio backing the institutional liabilities has its own mix of investments that meet more limited duration tolerances. Consequently, the institutional portfolio is managed to permit less interest rate sensitivity and has limited exposure to mortgage backed securities. At 31 December 2015, two per cent of the institutional portfolio was invested in residential mortgage backed securities.

The fixed-rate products may incorporate surrender charges, market value adjustments, two-tiered interest rate structures or other limitations relating to when policies can be surrendered for cash, in order to encourage persistency. As of 31 December 2015, 60 per cent of Jackson s fixed annuity reserves had surrender penalties or other withdrawal restrictions. Substantially all of the institutional portfolio had withdrawal restrictions or market value adjustment provisions.

Fixed index annuities issued by Jackson also include an equity component that is hedged using the offsetting equity exposure in the variable annuity product. The equity component of these annuities constitutes an embedded derivative that is carried at fair value, as are other derivative instruments.

Guaranteed benefits issued by Jackson in connection with the sales of variable annuity contracts expose Jackson to equity risk as the benefits generally become payable when equity markets decline and contract values fall below the guaranteed amount. As discussed previously, the liability for certain of these benefits is carried at fair value with changes in fair value recorded in income. Jackson manages the exposure of the tail risk associated with the equity exposure using equity options and futures contracts, which are also carried at fair value. Jackson seeks to manage the economic risk associated with these contracts and, therefore, has not explicitly hedged its fair value risk as determined for IAS 39. In addition, certain benefits have mortality risk and are therefore precluded from being carried at fair value. As a result of these factors, the income statement may include a timing mismatch related to changes in fair value. However, as demonstrated during the economic crisis, subsequent rebound and recent volatility in the equity markets, Jackson s hedges have effectively operated as designed.

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Reserves

Except for certain non-insurance deposit-type accounts and as allowed under IFRS, Jackson uses reserves established on a grandfathered US GAAP basis as the basis for consolidation into Prudential s IFRS accounts.

For the fixed interest rate and variable annuity contracts and institutional products, the reserve is the contract holder s account value. For the fixed index annuities, the reserve is based on three components, 1) the imputed value of the underlying guaranteed host contract, 2) the fair value of the embedded option component of the contract, and 3) the liability for guaranteed benefits related to the optional lifetime income rider. For the immediate annuities, reserves are determined as the present value of future policy benefits. Mortality assumptions are based on company experience. Interest rate assumptions currently range from three per cent to eight per cent.

The IFRS accounting for guarantees on Jackson s variable annuity contracts has a mixed measurement approach due to requirements of the guidance of the grandfathered US GAAP basis. GMWB not for life contract features are fair valued under current US GAAP (similar to IAS 39) for embedded derivatives, with a capping feature to prevent early anticipation of expected fees for guarantees. However, the GMDB and GMWB for life blocks of business are accounted for under US GAAP guidance related to valuing life-contingent guarantees, which does not, and is not intended to, fair value the liabilities.

For the traditional term life contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as to mortality, interest, policy persistency and expenses. Interest rate assumptions range from two and one half per cent to six per cent. Persistency, mortality, and expense assumptions are based on Jackson s experience.

For the interest sensitive and single premium life contracts, reserves approximate the contract holder s account value.

Reinsurance

Jackson reinsures portions of the coverage provided by its life insurance products with other insurance companies under agreements of indemnity reinsurance. Indemnity reinsurance agreements are intended to limit a life insurer s maximum loss on a large or unusually hazardous risk or to obtain a greater diversification of risk for the life insurer. Indemnity reinsurance does not discharge the original insurer s primary liability to the insured. Jackson s reinsured business is ceded to numerous unaffiliated reinsurers and, except as noted below, the amount of reserves ceded to any one reinsurer is not material to Jackson s overall financial position. Typically, the reinsurers have an AM Best Co rating of A or higher.

As a condition to the REALIC acquisition and after receipt of all required regulatory approvals, REALIC entered into three retrocession reinsurance agreements with Swiss Re. Pursuant to these reinsurance agreements, REALIC ceded to Swiss Re on a 100 per cent coinsurance basis, subject to pre-existing reinsurance, certain blocks of business written or assumed by REALIC. The effective date of the three retrocession agreements was 1 July 2012. In addition and pursuant to these reinsurance agreements, Jackson holds certain assets, primarily in the form of policy loans and fixed maturities, as collateral. This collateral is reported as a funds held liability. The three retrocession agreements are further collateralized by Swiss Re assets held in trust accounts (total collateral exceeds the reinsurance recoverable).

At 31 December 2015, Jackson s largest amount ceded to one reinsurer totalled £4.3 billion, which is primarily related to the retrocession reinsurance arrangements.

In force level premium term products are generally 90 per cent reinsured.

Jackson cedes the guaranteed minimum income benefit previously offered on variable annuities to an unaffiliated reinsurer.

Policy administration

Jackson provides a high level of administrative support for both new and existing contract holders. Jackson s ability to implement new products quickly and provide quality customer service is supported by integrated computer systems that issue and administer complex life insurance and annuity contracts. Jackson continues to

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develop its fixed and variable annuity administration systems to enhance the service capabilities for both new and existing customers. The REALIC business is currently administered by third party administrators.

PPM

PPM is Prudential s US institutional investment management operation, with its primary offices in Chicago and New York. PPM manages assets for Prudential s US, UK and Asian affiliates. PPM provides affiliated and unaffiliated institutional clients with investment services including managing assets for separate accounts, US mutual funds and similar foreign pooled investment vehicles, a collateralised loan obligation and private equity funds. PPM s strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Group. PPM also pursues third-party mandates on an opportunistic basis.

UK Business

Introduction

As at 31 December 2015, Prudential s UK business was structured into two business units, each focusing on its respective target customer markets. Prudential s UK business units are Prudential UK & Europe (Prudential UK&E, providing insurance and investment products) and M&G (being the asset management business).

Prudential UK & Europe business overview

When compared to 2012 the UK pensions industry today is almost unrecognisable. Three years of unprecedented regulatory change has resulted in a structural marketplace shift in how customers view retirement with consumers being given greater flexibility to access their pension savings in retirement. Customers are engaging more frequently with their providers and the demand for financial advice and guidance is increasing. Those companies who are well-known, financially strong and create products and services to match the pension freedom needs and expectations of customers will prosper.

Prudential UK is well placed in this evolving marketplace. This is evident in our new business profile relative to a few years ago. Where once bonds and annuities were the dominant components of new business, since the emergence of greater post pension freedoms we have been writing more bond, ISA, pension saving and income drawdown business, and a significantly lower volume of annuity business, giving a better balance to our business portfolio.

The UK is the world s fifth largest retail investment market. Wealth is concentrated in the 50+ age group with the younger generation of savers being typically less well-funded. In our target over- 50 demographic, the population growth rate is almost double the growth rate of the UK population as a whole and while the introduction of pension freedom reforms in April 2015 has fundamentally changed the way in which individuals can access their savings to help fund their income in retirement, the need to accumulate savings remains unchanged. These radical changes, when combined with our trusted brand and product capabilities, provide new and significant opportunities for the profitable and capital efficient growth of our business in the UK.

For over 167 years Prudential has been providing financial security to generations of UK customers through an unwavering focus on long-term value as evidenced by our longevity experience, multi-asset investment capabilities and our financial strength. Such attributes are highly sought after today by customers adjusting to pension freedoms and by financial advisers who require a brand they can trust to help secure dependable incomes in retirement for their clients. Our inherent brand strength, in combination with our range of market leading with-profits and retirement income products, continues to resonate more strongly than ever with customers and distributors. This is driving significant demand for our differentiated and market leading retirement solutions.

We continue to focus on meeting customer needs through the following actions:

- providing products and retirement solutions perfectly tailored to help customers take advantage of the new pension freedoms;
- broadening the ways in which customers can do business with us through financial adviser intermediaries, providing advice to customers in their homes through our 250 Prudential Financial Planning partners, or by telephone and increasingly online;

- investing in technology that enables customers to engage more flexibly with us online;
- enhancing access to our market leading PruFund investment range through an ISA wrapper;
- introducing income drawdown specifically designed for the pension freedoms market; and
- consistently committing to customer service improvement, which was recognised at the 2015 Financial Adviser Service Awards where we received the accolade of Company of the Year , for the first time, while also retaining our two 5-Star ratings in the Life & Pensions and Investment categories for the fifth consecutive year.

Our business in Poland has established a strong customer franchise, growing steadily since launching in 2013. Headquartered in Warsaw, the business now has 18 branches across the country and 597 financial planning consultants. Its success demonstrates our ability to build a new business franchise by applying our existing product and distribution expertise to a new market.

Prudential UK & Europe has a well-established franchise in its chosen markets which continues to drive strong growth and ongoing product demand among customers. The business is focused on delivering retail growth and the optimisation of in-force business. It will continue to develop retirement solutions based on the market-leading and differentiated PruFund range. Developments will be underpinned by the latest technology including the introduction of a new policy administration system to support the launch of a Retirement Account specifically designed for the post pension freedom marketplace.

UK&E Products and profitability

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

With-profits policies are supported by a with-profits sub-fund and can be single premium (for example, Onshore Bonds) or regular premium (for example, certain pension products). Prudential UK&E s primary with-profits sub-fund is part of The Prudential Assurance Company Limited (PAC). The return to shareholders on virtually all Prudential UK&E s with-profits products is in the form of a statutory transfer to PAC shareholders funds. This is analogous to a dividend from PAC s with-profits sub-fund, and is dependent upon the bonuses credited or declared on policies in that year. Prudential s with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies, while shareholders receive 10 per cent as a statutory transfer.

We have a competitive advantage in with-profits with the market-leading PruFund proposition. Importantly for customers, our PruFund range provides smoothing in a volatile and uncertain investment environment. The strength of the proposition is reflected in the consistent growth we have experienced, both in terms of the number of customers invested and the assets under management. In addition to our customers, our shareholders also continue to benefit from the steady performance of our with-profits based products and the cash they generate. The performance of our with-profits fund has allowed us to add £2.0 billion to with-profits policies in the year and policyholders will typically see year-on-year increases of between 2 per cent and 4 per cent in accumulating with-profits policy values over the past year.

The Defined Charge Participating Sub-Fund (DCPSF) comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France and the defined charge participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd. It also includes the portfolio of with-profits annuity policies acquired from Equitable Life in

2007. All profits in this fund accrue to policyholders in the DCPSF.

The profits from almost all of the new non-participating business accrue solely to shareholders. Such business is written in PAC, or in various shareholder-owned direct or indirect subsidiaries. The most significant of these is Prudential Retirement Income Limited (PRIL), which writes conventional annuities including all new conventional annuities arising from vesting deferred annuity and personal pension policies in the with-profits sub-fund of PAC. There is also a substantial volume of in-force non-participating business in PAC s with-profits sub-fund, part of which was originally written in that fund s wholly owned subsidiary Prudential Annuities Limited (PAL). On 1 October 2014, the business of PAL transferred into PAC following a Part VII Transfer under the Financial Services and Markets Act 2000.

The significant reforms of the pensions industry announced by the UK Government, including removal of the requirement to purchase a pension annuity from April 2015, have resulted in an increasing proportion of customers deferring the decision to convert their pension savings into retirement income. Sales of individual annuities in 2015 were 46 per cent lower than in 2014, reflecting the market contraction since the UK Budget announcement These changes have also opened up opportunities for us to meet customer needs for alternative retirement solutions, including income drawdown. From April 2015 our Flexible Drawdown product has allowed customers to access income drawdown without limits from April 2015, and is suited to customers who want more choice over how they use their retirement savings for income. Our sales of income drawdown have almost trebled from 2014 levels to £1,024m in 2015 and our market share has doubled to 21%[(10)].

Prudential UK&E provides a comprehensive range of risk managed investments, including with-profits bonds, pensions and drawdown, which continue to outperform competitors propositions. We have continued to develop our with-profits proposition, enhancing the range of investment choices available to policyholders by launching the PruFund range of investments within an ISA wrapper in February 2015.

Distribution

Retail financial services products are distributed face to face through independent financial advisers (IFAs) and restricted advisers, or directly by mail, telephone and over the internet. IFAs dominate the advice market and offer products from a range of insurance companies selected from the whole of the market. Restricted advisers do not need to select from the whole market and are typically tied to a single insurer or a small panel of insurers. Direct and e-commerce distribution methods are generally non-advised and therefore operate on a lower-cost basis than other distribution channels. Accordingly, products distributed directly are generally aimed at more simple financial planning needs.

Prudential UK&E has a diversified distribution model focusing on intermediaries, Prudential Financial Planning (our direct advice service) and individual customers via mail, email and telephone.

In 2013-2015, Prudential UK&E s new business premiums by channels are as follows:

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Individual Annuities:			
Direct & Partnerships	**107**	162	284
Intermediated	**62**	139	488
Internal Vesting*	**396**	764	1,305
Total Individual Annuities	**565**	1,065	2,077
Other Products:			
Direct & Partnerships	**980**	702	661
Intermediated	**5,589**	3,370	2,301
Wholesale	**1,508**	1,710	275
Total Other Products	**8,077**	5,782	3,237
Department of Work and Pensions Rebates***	**-**	-	1
Total New Business Premiums (excluding PruHealth and PruProtect businesses)	**8,642**	6,847	5,315
PruHealth and PruProtect businesses**	**-**	23	26

Total New Business Premiums	**8,642**	6,870	5,341

* Internal vesting business is classified as new business where the contracts include an open market option.

** Following the disposal of Prudential s 25 per cent interest in PruProtect and PruHealth in November 2014, the 2014 and 2013 comparatives have been adjusted to show the premiums of those businesses separately.

*** Discontinued from April 2012.

Direct and Partnerships

Direct distribution channels include the telephone, mail and internet, and focus on annuities, investments and protection products. Prudential UK&E s direct advice

(10) Source: ABI

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service, Prudential Financial Planning (PFP), focuses primarily on the financial planning needs of our existing direct customer base. At the end of 2015, its fourth year of trading, adviser partner numbers had reached 250, assets under advice were c£2.9bn and clients under advice were c41,000.

Partnerships are primarily arrangements with other insurers whereby we offer our annuity products to their vesting pension customers.

Intermediaries

Strong growth in sales through our intermediary channel reflected the strength of our PruFund proposition and our relationships with key intermediary firms. Increased sales of with-profits bonds, individual pensions and income drawdown outweighed the impact of the slow down in the annuities market. With-profits bond sales through intermediaries grew by 13 per cent, largely due to our PruFund bond proposition, where our track record of investment performance differentiates us from our competitors. The value of UK invested assets on platforms continues to increase, and we are seeking to develop new solutions to target this opportunity.

Wholesale

Our approach to bulk transactions in the UK will continue to be one of selective participation, where we can bring both significant value to our customers and meet our shareholder return requirements. Our bulk annuity buy-in insurance agreements generated £1,508 million of new business premiums, which included four significant deals. Through our longstanding presence in this segment of the life and pensions market, we have developed considerable longevity experience, operational scale and a solid investment track record, which together represent expertise and capabilities that are increasingly in demand. Whilst our approach to bulk transactions remains selective, the financial resource requirement to write annuity business increases under Solvency II means that we can expect the market for this business to evolve over time and we will be monitoring the situation.

Long-term Products

Prudential s long-term products in the United Kingdom consist of life insurance, pension products and pensions annuities. The following table shows Prudential UK&E s new business insurance and investment premiums by product line for the periods indicated. New business premiums include deposits for policies with limited or no life contingencies. Prudential UK&E also distributes life insurance products, primarily investment bonds, in other European countries and has started up a business in Poland which primarily sells with-profits savings and protection products. The volume of such business is relatively small and is included in the table below.

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Individual annuities	**565**	1,065	2,077
Bonds	**3,327**	2,934	2,188
Corporate Pensions	**310**	230	281
Individual Pensions	**1,217**	530	319
Income drawdown	**1,024**	352	146
PruFund ISA*	**669**	-	-
Other products	**22**	26	28
Wholesale	**1,508**	1,710	276

Total New business premiums (excluding PruHealth and PruProtect businesses)	**8,642**	6,847	5,315
PruHealth and PruProtect businesses**	**-**	23	26
Total new business premiums	**8,642**	6,870	5,341

* The PruFund range of investments was launched within an ISA wrapper in February 2015

** Following the disposal of Prudential s 25 per cent interest share in PruProtect and PruHealth in November 2014, the 2014 and 2013 comparatives have been have been adjusted to show the premiums of those businesses separately.

Of the total new business premiums of £8,642 million (2014: £6,847 million; 2013: £5,315 million), £8,463 million (2014: £6,681 million; 2013: £5,129 million) were for single premiums and £179 million (2014: £166 million; 2013: £186 million) were for regular premiums.

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Pension Annuities (including Wholesale)

Prudential UK&E offers individual conventional immediate annuities that are either fixed or retail price indexed (referred to as RPI), where annuity payments are guaranteed from the outset, or with-profits annuities, where annuity payments are variable dependent on the investment performance of underlying assets but with an income floor.

A total of £565 million of individual annuities were sold in 2015. Of this total, £396 million was sold through internal vesting, that is existing Prudential UK&E customers with maturing pension policies. The other £169 million were sold to new customers, typically individuals with a pension maturing with another provider who chose Prudential UK&E to provide their annuity. Prudential UK&E s immediate annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. The primary risks to Prudential UK&E from immediate annuity products are mortality improvements and credit risk.

Conventional Annuities

Prudential UK&E s conventional annuities include level (non-increasing), fixed increase and RPI annuities. Prudential UK&E s fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder s life. The RPI annuities provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK Retail Prices Index. In 2015, sales of RPI annuities were £893 million (including £887 million of bulk annuities). In 2015, sales of level and fixed increase conventional annuities amounted to £1,073 million (including £621 million of bulk annuities). The total sales of individual conventional annuities excluding the wholesale bulk annuities were £458 million.

With-profits Annuities

Prudential UK&E s with-profits annuities combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain equity-type returns over time. In 2009, Prudential UK&E launched the Income Choice Annuity, which allows customers to choose an income between a defined maximum and minimum level, with the option of re-setting this every year. It also provides an opportunity for pension income to grow based on the returns of the with-profits fund. Through this product, Prudential UK&E brings its product development strengths to bear while also capitalising on people s need for protection from inflation through increasingly long periods of retirement.

Prudential is one of only a few companies in the United Kingdom which are active in the with-profits annuities market and has been operating in this market since 1991. In 2015, Prudential UK&E s premiums for this business were £107 million.

Pension Products

Prudential UK&E provides both corporate and individual pension products. Pension products are tax advantaged long-term savings products that comply with rules established by the HM Revenue and Customs (HMRC) and are designed to supplement state provided pensions.

These products provide policyholders with a number of options at retirement. From age 55 onwards, policyholders may elect to use part or all of their maturity benefits to purchase a pension annuity, they may choose to draw-down funds without purchasing an annuity, they may delay taking any benefits, take cash or take a combination of these options. They are also permitted to take a portion as a tax-free lump sum.

For products with drawdown features, the investment risk remains with the policyholder, payments are not guaranteed, and tend to cost more to administer. In the past, this has meant that the option to drawdown tended to apply mainly to more sophisticated policyholders and to larger retirement funds. The changes in the rules governing access to pension savings mean that consumers now have more choice and flexibility in how they access their retirement income.However, draw-downs from pension savings that are greater than the tax-free lump sum remain taxable at the individual s marginal tax rate.

Many of the pension products Prudential UK&E offers are with-profits products or offer the option to have all or part of the contributions allocated to a with-profits fund. Where funds invested in the with-profits fund are

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withdrawn prior to the pension date specified by the policyholder, Prudential UK&E may apply a market value adjustment to the amount paid out. The remaining pension products are non-participating products, which include unit-linked products.

Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. Prudential UK&E has an established defined benefit plan client base covering the small to medium sized employer market. Prudential UK&E s defined contribution client base ranges from small unlisted companies to some of the largest companies in the United Kingdom as well as a number of clients in the public sector (in particular where Prudential UK&E offers the Additional Voluntary Contribution (AVC) facility). Additional Voluntary Contribution plans enable employees to make additional pension contributions, either regularly or as a lump sum, to supplement their occupational pension plans. Prudential UK&E administers corporate pensions for over 600,000 scheme members sponsored by some of the UK s largest employers and has also built a very strong position in the provision of with-profits AVC arrangements. Prudential UK&E provides AVCs to 73 of the 101 Local Government Authorities in the UK.

Defined benefit plans and products have previously dominated the corporate pensions market in terms of funds under management. In recent years, however, most new plans established have been defined contribution products. In addition, there is an increasing trend among companies to close defined benefit plans to new members or to convert existing schemes from defined benefit to defined contribution in order to stabilise or reduce potential pension liabilities.

Prudential UK&E offers group unit-linked policies and with-profits policies to the corporate pensions market. Prudential UK&E s defined contribution products are AVC plans, Group Money Purchase plans, Group Personal Pension plans, Group Stakeholder Pension plans and Executive Pension plans.

In addition, Prudential UK&E has a Company Pension Transfer Plan (or Bulk S32), designed to accept benefits from both defined benefit and defined contribution pension schemes which are winding up (ceasing to exist or being replaced by a new type of scheme). Prudential UK&E also has the facility to accept enhanced transfers from deferred members of a corporate s defined benefit pensions scheme into Prudential UK&E Personal Pension plan where the member has received advice from an independent financial adviser (often called an enhanced transfer value exercise).

From 2012, individuals who are not already in a pension scheme, who are over 21 and below retirement age and whose earnings are over a minimum amount have had to be automatically enrolled in a pension scheme by their employer, who will be required to make contributions. These requirements were applied first to larger employers and are being rolled out gradually to medium sized and smaller employers.

Individual Pensions

Prudential UK&E s individual pension range offers unit-linked and unitised with-profits products, including products that meet the criteria of the UK government s stakeholder pension program.

The stakeholder pension is intended for individuals earning enough to be able to afford to make contributions to a pension but who are not currently doing so. The introduction of stakeholder pensions has had implications for, among other things, how Prudential UK&E designs, administers and charges for and distributes pension products. The most significant requirements involve capped charges and a low minimum contribution which must be accepted by the provider. The UK government has capped charges at 1.5 per cent per annum of the policyholder account balance for stakeholder pensions for the first ten years, decreasing to 1 per cent thereafter, which is below the charges on personal pension products previously offered by the UK pensions industry.

Bonds

Onshore Bonds

Prudential UK&E offers customers a range of investment funds to meet different risk and reward objectives. Prudential UK&E s main onshore bond product wrapper is the Prudential Investment Plan (PIP). Through this plan, based on a single premium with no fixed term, customers have the option to invest in the with-profits fund through PruFund or in a range of unit-linked investment funds.

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PIP also gives financial advisers the opportunity to choose from different external fund management groups and the flexibility to make changes to portfolio and asset allocation over time. In 2015, sales of the unit-linked option within on-shore bond wrappers, including PIP were £184 million.

Prudential Dynamic Portfolios, launched in 2010, offer advisers a choice of portfolio options to match a client s risk/reward profile as an alternative to building an individual portfolio.

Prudential UK&E offers a unitised and smoothed with-profits investment fund entitled PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer with a choice of Cautious, Growth or risk-managed funds. PruFund also offers clients an optional guarantee on the initial investment in either the Cautious or Growth funds with a term from six to eight years depending on the client s requirements. PruFund is available across Prudential UK&E s range of tax wrappers including individual pensions, income drawdown, ISA and onshore and offshore bonds. In 2015, total new business premiums attributable to PruFund, including new business through PIP, was £2,164 million.

With-profits bonds aim to provide capital growth over the medium to long term, and access to a range of investment sectors without the costs and risks associated with direct investment into these sectors. Capital growth for the policyholder on with-profits bonds apart from PruFund is achieved by the addition of reversionary or annual bonuses, which are credited to the bond on a daily basis from investment returns achieved within PAC s long-term with-profits fund, offset by charges and expenses incurred in the fund. A final bonus may also be added when the bond is surrendered. The PruFund return to policyholders is based on a published expected growth rate, updated quarterly, which aims to deliver more stable growth. In contrast the capital return on unit-linked bonds directly reflects the movement in the value of the assets underlying those funds. When funds invested in PAC s long-term with-profits fund are either fully or partially withdrawn, PAC may apply a market value adjustment to the amount paid out.

The sales growth across Prudential UK&E s with-profits range has been achieved on the back of sustained strong investment performance in its Life Fund over a number of years, reflecting the benefits of its diversified investment policy. Prudential believes that this market will continue to see further growth as investors turn to trusted and financially strong brands and products offering an element of capital protection.

Offshore Bonds

Prudential UK&E s offshore bond products are the Prudential International Investment Bond and the Prudential International Investment Portfolio offering clients access to a wide range of quoted UK investments. Prudential UK&E s offshore bond sales grew by 22 per cent to £753 million in 2015.

Other Products

Other products include income drawdown, PruFund ISA, life insurance and equity release mortgages.

Income Drawdown

Income drawdown products have historically provided a bridge between pensions and annuities, allowing customers to access pension savings from age 55, subject to certain limits. These products help customers manage their pensions through the various stages of retirement, and also offer flexibility while providing potential for capital growth. Prior to the pension reforms announced in the 2014 UK Budget, the market had seen good growth, reflecting an increasingly sophisticated consumer population and the rising incidence of second careers and semi-retirement as a result of increasing longevity. This growth accelerated in the interim period created by the Budget 2014 announcement before the introduction of pension reforms in April 2015 and has continued into 2015 where Prudential UK&E sold £1,024 million of income drawdown products. Income drawdown has proved popular with customers seeking greater flexibility than that offered by a traditional annuity product, but preferring to draw funds gradually rather than withdrawing all of their savings as cash. Depending on the size of their pension pot and the individual s tax position, it may also be more tax efficient for a customer to invest in a drawdown product rather than to take cash.

In December 2014 we launched a new Flexible Drawdown product ahead of the introduction of the April 2015 pension reforms. This product allows customers to access income drawdown without limits from April 2015, and is suited to customers who want more choice over how they use their retirement savings for income.

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In October 2015 Prudential UK&E launched a Pension Choices Plan product which increases the choice available to our existing customers allowing them to exercise their pensions freedoms by having direct access to their pension fund, where they are comfortable making that decision, without the help of a financial adviser. The new product is a pension and income drawdown product giving customers access to four risk managed funds in our popular PruFund range, a choice of four funds from the risk-rated Dynamic Portfolios range, as well as a cash fund.

PruFund ISA

On 26 February 2015 Prudential UK&E added the PruFund range of investment funds to the Prudential ISA to offer clients a level of smoothing in the current volatile market within a tax efficient wrapper. Sales in 2015 were £669 million.

Life Insurance Products

Prudential s UK life insurance products are predominantly pure protection (term) products, and include the PruProtect product previously sold through an associate company. On 14 November 2014 Prudential sold its remaining 25 per cent share in PruProtect to Discovery and no further sales are included after that date. PAC continues to write PruProtect business under a white labelling agreement but has no economic interest in the business written.

Equity Release Mortgage

In November 2009, Prudential UK&E closed its equity release operation to new business. Existing customers may, however, still draw down additional funds, subject to their overall borrowing limits.

Reserves

In the United Kingdom, a life insurance company s reserve and other requirements are determined by its Board, with advice from its Actuarial Function Holder (under the Solvency I regime), subject to minimum reserve requirements. These minimum reserve requirements are established by the rules and guidance of the PRA.

Under the Solvency I regime, the reserves are published in annual returns to the PRA. Under IFRS reporting, applying the modified statutory basis of reporting as grandfathered upon the adoption of IFRS in 2005, similar provisions are included with limited adjustments. The Actuarial Function Holder must pay due regard to the fair treatment of policyholders in making recommendations to the company s board. The Actuarial Function Holder is required to report directly to the PRA any serious concerns regarding the company s ability to treat its customers fairly.

Prudential UK&E s regulatory reserving for with-profits products, as required by UK regulation, takes into account annual bonuses/annual interest credited to policyholders because these are attached to the policies and are guaranteed. Realistic reserves are also calculated for with-profits products under UK regulation. These include an allowance for final bonuses based on the asset share or a prospective valuation of the policies and the cost of guarantees, smoothing and enhancements.

Prudential UK&E reserves for unit-linked products on the basis of the value of the unit fund and additional reserves are held for expenses and mortality where this is required by the contract design.

As well as the reserves, under Solvency I, the company s assets must also cover other capital requirements set out in the PRA Prudential Sourcebook. These comprise a with-profits insurance capital component, which is a measure of the difference in the surplus assets on regulatory and realistic bases; a resilience capital requirement for entities other than PAC, which makes prudent allowance for potential future adverse movements in investment values; and the long-term insurance capital requirement, which must be held by all EU insurance companies. See Financial Strength of PAC s With-Profits Fund for further information on solvency.

Financial strength of PAC s with-profits fund

The PAC s with-profits fund is supported by a large inherited estate, with the free assets of the with-profits fund valued at approximately £7.7 billion (as at 31 December 2015 as estimated at 8 March 2016 and included in the consolidated financial statements), on a Solvency I regulatory realistic basis. This provides the working capital required to support the fund for the long-term benefit of current and future policyholders. The strength of the with-profits fund offers strong policyholder protection and assists in generating positive returns for both policyholders and shareholders.

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The table below shows the change in the investment mix of PAC s main with-profits fund:

	2015 %	2014 %	2013 %
UK equities	**20**	19	19
International equities	**29**	24	17
Property	**16**	16	14
Fixed Interest	**29**	34	41
Cash and other asset classes	**6**	7	9
Total	**100**	100	100

The with-profits sub-fund earned a return of 3.6 per cent before tax in 2015 on investments covering policyholder liabilities. The with-profits sub-fund has delivered investment returns of 80.8 per cent over 10 years for policyholder asset shares in the fund, compared with the FTSE All-share index (total return) of 71.8 per cent over the same period (figures are to 31 December 2015, before tax and charges).

From 1 January 2016 available capital will be measured on a Solvency II basis following the European Union s Solvency II Directive coming into effect. The PAC with-profits fund remained well-capitalised with an estate value, representing Solvency II own funds, estimated at £7.6 billion covering its solvency capital requirement approximately 1.75 times. The reconciling items from the Solvency I basis to Solvency II mainly reflect the risk margin net of transitionals, with other items including differences in the definition of the risk-free rate and the matching adjustment impact for non-profit annuity liabilities within the with-profits funds.

Shareholders Interests in Prudential UK&E s Long-term Insurance Business

In common with other UK long-term insurance companies, Prudential UK&E s products are structured as either with-profits products or non-participating (including unit-linked) products. With-profits policies are supported by a with-profits fund. Prudential UK&E s primary with-profits fund is part of PAC s long-term fund. For statutory and management purposes, PAC s long-term fund consists of a number of sub-funds in which shareholders and policyholders have varying interests.

With-profits Products

With-profits products provide an equity-type return to policyholders through bonuses that are smoothed . There are two types of bonuses: annual and final . Annual bonuses, often referred to as reversionary bonuses, are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are only guaranteed until the next bonus declaration. Final bonuses are only credited on a product s maturity or surrender or on the death of the policyholder. Final bonuses can represent a substantial portion of the ultimate return to policyholders.

With-profits products provide benefits that are generally either the value of the premiums paid, less charges and fees and with the addition of declared bonuses, or the guaranteed death benefit with the addition of declared bonuses. Smoothing of investment returns is an important feature of with-profits products. It is designed to reduce the impact of fluctuations in investment return from year to year and is accomplished predominantly through the level of final bonuses declared.

The return to Prudential s shareholders in respect of with-profits business Prudential UK&E writes is an amount equal to up to one-ninth of the value of the bonuses Prudential UK&E credits or declares to policyholders in that year.

Prudential UK&E has a large block of in-force with-profits business with varying maturity dates that generates a relatively stable stream of shareholder profits from year to year.

PAC s board of directors, with the advice of its Actuarial Function Holder (Chief Actuary from 1 January 2016) and its With-Profits Actuary, determines the amount of annual and final bonuses to be declared each year on each group of contracts.

When determining policy payouts, including final bonuses, PAC follows an actuarial practice of considering asset shares for specimen policies. Asset shares broadly reflect the value of premiums paid in respect of a policy accumulated at the investment return on the assets PAC notionally attributes to the policy. In calculating asset shares, PAC takes into account the following items:

the cost of mortality risk and other guarantees (where applicable);

- the effect of taxation;
- management expenses, charges and commissions;
- the proportion of the amount determined to be distributable to shareholders; and
- the surplus arising from surrenders, non-participating business included in the with-profits fund and other miscellaneous sources.

However, Prudential UK&E does not take into account the surplus assets of the long-term fund, or investment return earned on them, in calculating asset shares. The determination of final bonuses takes into account asset shares, as well as the need to smooth claim values and payments from year to year, competitive considerations and the desire to treat customers fairly.

Prudential UK&E is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of treating customers fairly is established by statute but is not defined. In practice, it provides one of the guiding principles for decision making in respect of with-profits products.

The overall return to policyholders is an important competitive measure for attracting new business. The ability to declare competitive bonuses depends, in part, on the financial strength of PAC s long-term fund, enabling it to maintain high levels of investment in equities and real estate, if it wishes to do so. Equities and real estate have historically over the long-term provided a return in excess of fixed interest securities.

In 2015, PAC declared a total surplus of £2,208 million (2014: £2,012 million) from PAC s primary with-profits sub-fund, of which £1,994 million (2014: £1,812 million) was added to with-profits policies and £214 million (2014: £200 million) was distributed to shareholders. These amounts included annual bonus rates of 1.75 per cent for Prudence Bond and 1.75 per cent for personal pensions.

The closed Scottish Amicable Insurance Fund (SAIF) declared total bonuses in 2015 of £358 million compared to £362 million in 2014. Shareholders have no interest in profits from the SAIF fund, although they are entitled to the investment management fees paid by this business. For greater detail on the SAIF fund, see The SAIF sub-fund below.

Surplus Assets in PAC s Long-term With-profits Fund

The assets of the main with-profits sub-fund within the long-term fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits sub-fund is equal to the policyholders accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits sub-fund is called the inherited estate and has accumulated over many years from various sources.

The inherited estate, as working capital, enables Prudential UK&E to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund s assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

Depletion of Surplus Assets and Shareholders Contingencies

As a proprietary insurance company, PAC is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group s ability to satisfy policyholders reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders funds to the long-term funds to provide financial support.

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In 1998, Prudential stated that deducting personal pensions mis-selling costs from the inherited estate of the with-profits sub-fund would not impact its bonus or investment policy and it gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged. The assurance was designed to protect both existing policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing.

This review was completed on 30 June 2002. The assurance will continue to apply to any policy in force at 31 December 2003, both for premiums paid before 1 January 2004, and for subsequent regular premiums (including future fixed, retail price index or salary related increases and Department of Work and Pensions rebate business). The assurance has not applied to new business issued since 1 January 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The maximum amount of capital support available under the terms of the assurance will reduce over time.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies. Hence removal of the assurance for new business has had no impact on policyholder returns.

Prudential and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential (including in the scenarios referred to in pension mis-selling review above). While Prudential considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

In addition, Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries, which from 1 January 2014, contain the domesticated branch business from PAC regarding their solvency levels. In addition, the scheme of transfer of the Hong Kong branch includes short-term support arrangements between Prudential and PAC to underpin similar arrangements between PAC and the newly domesticated business. It is considered unlikely that support will need to be provided under these arrangements.

The SAIF Sub-fund

The SAIF sub-fund is a ring-fenced sub-fund of PAC s long-term fund and was formed following the acquisition of the mutual Scottish Amicable Life Assurance Society in 1997. No new business may be written in SAIF, although regular premiums are still being paid on policies in-force at the time of the acquisition and top-ups are permitted on these policies.

This fund is solely for the benefit of those Scottish Amicable Life Assurance Society policyholders whose policies were transferred to SAIF. Shareholders have no interest in the profits of this fund, although they are entitled to the investment management fees paid on this business. The brand name and rights to profit on new business were transferred to a new PAC subsidiary, Scottish Amicable Life plc, which operated for the benefit of shareholders.

SAIF with-profits policies contain minimum levels of guaranteed benefit to policyholders. In addition, as mentioned below, certain pensions products have guaranteed annuity rates at retirement. Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the PAC long-term fund would be liable to cover any such deficiency in the first instance.

Non-participating Business

The majority of Prudential branded non-participating business is written in the non-profit sub-fund of PAC s long-term fund or in subsidiaries owned by PAC. Since mid-2004, Prudential UK&E has written the majority of its new non-profit annuity business through Prudential Retirement Income limited (PRIL), from which the profits are attributed solely to shareholders. Prior to that time, certain non-profit annuity business was written through Prudential Annuities Limited (PAL), which is wholly owned by PAC s with-profits fund. The profits on this business are attributable to the fund and not to shareholders, although indirectly shareholders get one-ninth of additional amounts paid to policyholders of the with-profits fund through the declaration of bonuses.

The unit-linked business written by PAC and Prudential International Assurance is written with capital provided by shareholders.

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Guaranteed Annuities

Prudential used to sell guaranteed annuity products in the United Kingdom and held a technical provision of £47 million as at 31 December 2015, within the main with-profits fund to honour guarantees on these products. PAC s main exposure to guaranteed annuities in the United Kingdom is through SAIF and a provision of £412 million was held in SAIF as at 31 December 2015, to honour the guarantees. As SAIF is a separate sub-fund of PAC s long-term business fund, wholly attributable to the policyholders of the fund, the movement in this provision has no impact on shareholders.

M&G

M&G is the UK and European fund manager of the Prudential Group with responsibility for investments on behalf of both internal and external clients. It manages the investments of individuals, institutions and the UK policyholders of Prudential funds.

M&G has been managing money on behalf of third-party investors for more than 80 years. We believe our active approach to investment selecting investments on a conviction basis rather than following a market index produces superior returns for our customers over the longer term. We offer our customers the ability to invest in a diverse range of assets: not only equities and fixed income but also unlisted investments such as property, direct lending, infrastructure and private equity. M&G is one of the UK s largest real estate investors, with a property portfolio of £23.4 billion at 31 December 2015, and is the third largest private debt lender in the world.

M&G operates a range of UK-domiciled retail funds which are now distributed in 15 markets across Europe and Asia. At the end of 2015 clients outside the UK account for 41 per cent of our retail assets under management.

In the institutional market, M&G provides a range of strategies that help pension funds, sovereign wealth funds and other large institutional investors match liabilities and achieve growth targets. Some of these strategies were developed originally for Prudential s insurance funds.

The European asset management market is the second-largest in the world with net assets of 12.6 trillion[11]. Demand for asset management services is expected to continue to grow as governments and employers increasingly pass the responsibility for retirement planning and other long-term savings to individuals. Asset managers with records of strong investment returns and a high-level of client service are in a good position to attract flows of new money.

The UK asset management industry, M&G s core market, is the second-largest national market in the world with £870.7 billion[12] of assets and is a global centre of excellence for investment management and a major source of long-term funding for the UK economy.

The global economy in 2015 was dominated by three factors: fears of an economic slowdown in China, which led to the Chinese stock market crash in August; the continued decline in global commodity prices; and a strong US dollar. While commodity-exporting emerging markets and currencies suffered during 2015, the US dollar strengthened in anticipation of a rise in the federal funds rate, further bolstered by investors seeking a safe haven during heightened geopolitical tensions. Despite signs of economic recovery in developed countries, 2015 saw heightened market volatility across most asset classes and regions.

In Europe, investors shifted away from fixed income and equities towards mixed asset funds and cash, accompanied by a significant increase in funds flowing to exchange traded funds. Net sales of UK domiciled mutual funds were £17.0 billion[12] during 2015, with annual net outflows of £4.7 billion from the fixed income asset class by itself, although property and money market funds held up well.

Retail fund markets are highly fragmented, with no single company dominating. This reflects the competitive nature of the business and the multiplicity of providers.

(11) Based on data as at Q4 2015. European Fund & Asset Management Association (published on 22 February 2016).
(12) Source: Investment Association, 31 December 2015.

Retail clients favour pooled funds such as open-ended investment companies which they buy directly from M&G or more typically through an intermediary such as an independent financial adviser or discretionary fund manager. By total UK assets under management, M&G is the second largest retail fund manager with £35.7 billion of assets under management, equivalent to a market share of 6.8 per cent[(12)]. In Europe, where M&G has distributed funds since 2002, it has over £23.5 billion of assets under management and a market share of 0.4 per cent[(13)].

Institutional clients require investment strategies that help them meet future outgoings, from a pension scheme making payments to retired employees to a sovereign wealth fund that finances schools, transport and other infrastructure developments. M&G s ability to design and commercialise investment strategies for such clients is founded on the quality of its people and their acknowledged expertise in the world s credit and real estate markets.

Many of the innovative strategies developed for today s institutional clients consist of investing in long-term, illiquid investments from infrastructure and housing to solar parks and corporate lending. Such investments often require a client to sign up for multiple years, creating long-term stability and security in the yields received by the client and the fees received by M&G.

M&G s institutional fixed income clients include some of the UK s largest pension funds, 51 UK local-authority pension schemes and a number of sovereign wealth funds. M&G Real Estate is one of the world s largest international property investors enabling clients to access a wide range of investment opportunities in real estate across all the major sectors in the UK, Europe and Asia.

Our investment edge is our people. We employ more than 2,000 people operating from offices across Europe, Asia and in South Africa. We take pride in attracting, developing and retaining people of the highest calibre. In return, they are committed to working with us to meet the long-term needs of our customers.

Our investment teams are primarily based in our headquarters in London, where they benefit from the provision of high quality support staff and investment infrastructure: from analysts and dealers to operations, risk and compliance. Reflecting the need for local expertise in real estate, we also have specialist real estate teams in Paris, Frankfurt, Luxembourg, Singapore, Seoul and Tokyo in addition to those in London.

A committed focus on long-term investment returns means that the interests of M&G and its customers are aligned, whether clients are individual savers, institutional investors or the funds of Prudential s insurance operations.

M&G has a strong investment brand, built over decades and based on a reputation for honesty, innovation and a commitment to building long-term wealth for our investors. We aim to put our customers at the heart of everything we do and seek to be a trusted partner for all of our clients.

M&G s investment expertise spans all the principal asset classes equities, fixed income, multi asset and real estate so that we can always offer investment solutions to our clients as market conditions and investor sentiment change.

Equities: Our fund managers have the freedom to develop their own investment approaches. Their main strength lies in stock selection, focusing on fundamental company analysis. M&G s size and standing enables our fund managers to develop an effective dialogue with the management teams of the companies in which they invest.

Fixed Income: M&G is one of Europe s largest fixed income investors. Our fund managers benefit from one of the region s largest and most experienced in-house credit research teams, whose knowledge covers the full range of fixed income investment, from the management of sovereign debt and public corporate bond portfolios through to private debt such as leveraged finance, real estate finance, direct lending and infrastructure. In a ranking of global private debt managers for 2015, M&G ranked third, with a book of over £20.7 billion[14].

(13) Lipper FMI FundFile, 31 December 2015, based on Europe ex. UK and International region. M&G data sourced internally.

(14) Private Debt Investor figures based on amount of capital raised over the last 5 years for discrete private debt strategies.

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Multi-asset: M&G s Multi-Asset team, the Macro Investment Business, is responsible for the management of a range of funds for retail investors and segregated accounts for institutional clients. The team applies a top-down macro approach, with a strong valuation framework, which can be applied across markets and regions in many market conditions.

Real Estate: M&G Real Estate is a leading global property investor and manager covering all major real estate sectors including business space, retail and leisure, residential and alternatives sectors. We actively manage our assets, drawing on our long heritage of expertise and knowledge and our extensive network of contacts. This approach enables the business to identify and capitalise on attractive investment opportunities. We also have a track record of identifying and exploiting real estate development opportunities and for the successful delivery of projects. M&G concluded 2015 with £4.2 billion of global property transactions. This included £2.6 billion of acquisitions with an average deal size of £56 million.

Since launching the UK s first open-ended fund in 1931, we have brought a succession of new investment strategies to the retail and institutional markets. In combination with this tradition of innovative investment thinking, M&G has a proven ability to convert ideas into products that meet our clients needs and attract significant fund flows. It is these two qualities in combination that make M&G distinctive.

M&G saw healthy inflows to its ranges of retail multi-asset funds in 2015, as investors sought flexibility and stability in times of low yields and economic and political uncertainty. During the year, M&G launched a third fund in its popular European multi-asset range: the M&G Prudent Allocation Fund.

In the institutional market, pension funds, sovereign wealth funds and other large clients require stable, long term cashflows that help meet their liabilities. Our reputation for innovation in the institutional market continues to grow, with M&G at the forefront of a number of specialist fixed income markets, including leveraged finance and infrastructure investment. The consistency of our institutional investment returns helped earn M&G the prestigious 2015 Financial News Institutional Asset Management Awards for Infrastructure Manager of the Year for our infrastructure investment arm, Infracapital.

Diversification

M&G has pursued business diversification across:

- asset class: expertise across equities, fixed income, real estate and multi asset strategies;
- client type: retail customers and institutional clients including pension funds, sovereign wealth funds, and Prudential s own long-term insurance funds;
- investment strategy: over 60 pooled retail funds covering domestic, global and emerging market strategies, 14 of which have funds under management of over £1 billion, up from 13 in 2014. Institutional clients benefit from a wide-range of pooled and/or segregated fixed income, equity and real estate strategies; and
- countries.

The following table shows funds managed by M&G at the dates indicated.

	At 31 December £bn		
	2015	**2014**	**2013**

Retail fund management	**61**	74	67
Institutional fund management	**65**	63	59
Internal fund management	**120**	127	118
Total	**246**	264	244

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Group Risk Framework

Risk Management

Introduction

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

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

This section explains the main risks inherent in our business and how we manage those risks, with the aim of ensuring we maintain an appropriate risk profile.

Principles and objective

(Unaudited)

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

Risk governance

(Unaudited)

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

Risk framework

(Unaudited)

The Group s risk framework has been developed to monitor and manage the risk of the business at all levels and is owned by the Board. The aggregate Group exposure to market, credit, insurance, liquidity and operational risks is monitored and managed by the Group Risk function whose responsibility it is to seek to ensure the maintenance of an adequate risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

Our Group Risk Framework requires that all our businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group and is based on the concept of the three lines of defence .

These comprise risk taking and management, risk control and oversight, and independent assurance.

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

Risks from our investments	Risks from our products	Risks from our business operations
Uncertainty around investment returns can arise through ***credit risk*** via the potential of defaults, and ***market risks*** resulting from the volatility of asset values as a result of fluctuations in equity prices, interest rates, foreign exchange and property prices. ***Liquidity risk*** is also a key area of focus. Regular stress testing is undertaken to ensure the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and in stress scenarios.	***Insurance risk*** The processes of determining the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. In common with other life insurers, the profitability of our businesses depends on a mix of factors including **mortality and morbidity** levels and trends, **persistency,** and claim inflation.	***Operational risk*** As a group we are dependent on the successful processing of a large number of transactions, utilising various IT systems and platforms across numerous and diverse products. We also operate under the ever-evolving requirements set out by **different regulatory and legal regimes** (including tax), as well as utilising a significant number of **third parties** to distribute products and to support business operations; all of which add to the complexity of the operating model if not properly managed.

Risk mitigation and hedging

(Unaudited)

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

Key Risks

Risk Type	Risk Definition
Market Risk	
Equity Investment risk Interest rates Foreign exchange	The risk of loss for our business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
Credit Risk	
Counterparty Invested credit	The risk of loss for our business, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (eg downgrade or spread widening).

Insurance Risk Mortality/Longevity Morbidity/Health Persistency Medical expense inflation risk	The risk of loss for our business, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and claim inflation.
Liquidity Risk	The risk of the Group being unable to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stress scenarios.
Operational Risk Regulatory and legislative compliance Third party management IT and information (including cybersecurity) Business continuity	The risk of loss (or unintended gain/profit) arising from inadequate or failed internal processes, or from personnel and systems, or from external events (other than those external events covered under Business Environment Risk).
Business Environment Risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business s overall strategy
Strategic Risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group s capabilities.

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

Market Risk

Investment Risk

(Audited)

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

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

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

Jackson hedges the guarantees on its variable annuity book on an economic basis and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate economic result. In particular, under Prudential s Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic result which may be either more or less significant under IFRS reporting. The Jackson IFRS shareholders equity and US statutory capital are also sensitive to the effects of policyholder behaviour on the valuation of guarantees.

Interest Rate Risk

(Audited)

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

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

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

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Jackson is exposed to interest rate risk in its fixed, fixed index and variable annuity books. Movements in interest rates can influence the cost of guarantees in such products, in particular the cost of guarantees may increase when interest rates fall.

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

Foreign Exchange Risk

(Audited)

We principally operate in Asia, the US and the UK. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Our operations in the US and Asia, which represent a significant proportion of our operating profit and shareholders funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in our consolidated financial statements when results are expressed in UK Sterling.

We retain revenues locally to support the growth of our business and capital is held in the local currency of the business to meet local regulatory and market requirements, accepting the accounting balance sheet translation risks this can produce. However, in cases where a surplus arising in an overseas operation supports Group capital or where a significant cash remittance is due from an overseas subsidiary to the Group, this exposure is hedged where we believe it is economically optimal to do so. We do not have appetite for significant shareholder exposure to foreign exchange risks in currencies outside the local territory. Where this arises, currency borrowings, swaps and other derivatives are used to manage exposures.

Credit Risk

(Audited)

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

Debt and loan portfolio

(Audited)

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

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

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

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

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

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

Group sovereign debt

(Audited)

Sovereign debt represented 17 per cent or £12.8 billion of the debt portfolio backing shareholder business at 31 December 2015 (31 December 2014: 15 per cent or £11.0 billion). 44 per cent of this was rated AAA and 94 per cent investment grade (31 December 2014: 43 per cent AAA, 95 per cent investment grade). At 31 December 2015, the Group s shareholder-backed business s holding in Eurozone sovereign debt[14a] was £546 million. 75 per cent of this was AAA rated (31 December 2014: 82 per cent AAA rated). We do not have any sovereign debt exposure to Greece.

Bank debt exposure and Counterparty Credit Risk

(Audited)

Our bank exposure is a function of our core investment business, as well as of the hedging and other activities undertaken to manage our various financial risks. Given the importance of our relationship with our banks, exposure to the banking sector is a key focus of management information provided to the Group s risk committees and the Board.

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt and bank debt securities at 31 December 2015 are given in Note C3.3(f) of the Group s IFRS financial statements.

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

Where appropriate, we reduce our exposure, purchase credit protection or make use of additional collateral arrangements to control our levels of counterparty credit risk. At 31 December 2015, shareholders exposure to corporate debt by rating and sector is shown below:

- 95 per cent of the Shareholder portfolio is investment grade rated. In particular, 67 per cent of the portfolio is rated A- and above[14b].
- The Group s Shareholder portfolio is well diversified: no individual sector makes up more than 10 per cent of the total portfolio (excluding the financial and utilities sectors).

Insurance Risk

(Audited)

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

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

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

(14a) Excludes Group s proportionate share in joint ventures and unit-linked assets and holdings of consolidated unit trust and similar funds.

(14b) In the Shareholder exposure by rating: 75 per cent of non-rated assets are internally rated, privately held loans.

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

In Asia, a key assumption is the rate of medical inflation, typically in excess of general price inflation. This is the risk that the expenses of medical treatment increase more than expected, so that the medical claim cost passed on to Prudential is much higher. Medical expense inflation risk is best mitigated through retaining the right to re-price our products each year and by having suitable overall claim limits within our policies, either limits per type of claim or in aggregate across policies.

Our persistency assumptions similarly reflect recent experience for each relevant line of business, and future expectations. Persistency risk is mitigated by appropriate training and sales processes and managed locally post-sale through regular experience monitoring and the identification of common characteristics of poor persistency business. Where appropriate, allowance is also made for the relationship either assumed or historically observed between persistency and investment returns, and for the resulting additional risk. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within product features.

Liquidity Risk

(Audited)

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

Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio are regularly monitored and are assessed to be sufficient.

Operational Risk

(Unaudited)

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

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

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

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

Top Operational Risks

Key areas of focus within the operational risk framework are:

- the risk of non-compliance due to the momentum of regulatory change in both our developed and developing markets, as well as recognising that Prudential s designation as a Global Systemically Important Insurer which requires the Group to comply with additional policy measures including enhanced Group-wide supervision;

- the risk of improper, or mis-selling of Prudential products and the resulting risk of censure from local regulators;
- the risk of regulatory censure due to poor conduct or weaknesses in systems and controls;
- the risk of censure for money laundering, sanctions or anti-bribery and corruption failures;
- the risk that reliance on IT infrastructures which support core activities/processes of the business, could fail or otherwise negatively impact business continuity and scalability needed to support the growth and changing needs of the business;
- the risk of a significant failure of a third-party provider impacting critical services;
- the risk of trading, transacting or modelling errors having a material cost across Group;
- the risk of the Group failing to attract and retain quality senior managers and other key employees;
- the risk that key people, processes and systems are unable to operate (thus impacting the on-going operation of the business) due to a significant unexpected external event occurring (e.g. a pandemic, terrorist attack, natural disaster, political unrest); and
- the risk of losses resulting from damage to the firm s reputation. This can be either real or perceived reputational damage but which could nevertheless diminish the standing of the organisation in the eyes of key stakeholders (e.g. customers, shareholders), destroy shareholder value, adversely impact revenues or result in significant costs to rectify.

Cyber Security

Cyber security is an increasingly important risk facing the Group. The risk is that a member of the Group could be the target of a cyber-related attack which could result in disruption to the key operations, make it difficult to recover critical services, damage assets, and compromise data (both corporate and customer). This is a global issue which is rising in prominence across the financial services industry. As a result of Prudential s increasing market profile, the growing interest by customers to interact with their insurance provider and asset manager through the internet and social media, improved brand awareness and the classification of Prudential as a Global Systemically Important Insurer, there is an increased likelihood of Prudential being considered a target by cyber criminals. A number of industry, company-wide and local business unit-specific initiatives are underway in response to this risk.

Business environment and strategic risks

(Unaudited)

Global Regulatory and Political Risk

There are a number of on-going policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way Prudential is supervised. These include addressing Financial Conduct Authority reviews, on-going engagement with the Prudential Regulation Authority and includes the work of the Financial Stability Board and standard-setting institutions such as the International Association of Insurance Supervisors.

The International Association of Insurance Supervisors has various initiatives. On 18 July 2013, it published a methodology for identifying Global Systemically Important Insurers, and a set of policy measures that will apply to them, which the Financial Stability Board endorsed. Groups designated as a Global Systemically Important Insurer are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential s designation as a Global Systemically Important Insurer was reaffirmed on 3 November 2015. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the Prudential Regulation Authority on the implications of the policy measures and Prudential s designation as a Global Systemically Important Insurer.

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

The International Association of Insurance Supervisors is also developing a Common Framework (ComFrame) which is focused on the supervision of large and complex Internationally Active Insurance Groups. ComFrame will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. As part of this, work is underway to develop a global Insurance Capital Standard that would apply to Internationally Active Insurance Groups. Once the development of the Insurance Capital Standard has been concluded, it is intended to replace the Basic Capital Requirement as the minimum group capital requirement for Global Systemically Important Insurers. Further consultations on the Insurance Capital Standard are expected over the coming years and a version of the Insurance Capital Standard is expected to be adopted as part of ComFrame in late 2019.

The International Association of Insurance Supervisors Insurance Core Principles, which provide a globally accepted framework for the supervision of the insurance sector and ComFrame evolution, are expected to create continued development in both prudential and conduct regulations over the next two to three years, particularly in the emerging markets of Asia.

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

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

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

In the US, the implementation of the Department of Labor rules introducing new fiduciary obligations for distributors of investment products to holders of regulated accounts has the potential to dramatically reshape the distribution of retirement products. Jackson s strong relationships with distributors, history of product innovation and efficient operations should help mitigate any impacts.

Emerging Risks

(Unaudited)

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

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

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

Risk factors

(Unaudited)

Our disclosures covering risk factors can be found in Item 3, Key information Risk Factors .

Risk Management Cycle and Governance

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

Risk identification

(Unaudited)

The Group s risk profile is a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The risk profile is a key output from the risk identification and risk measurement processes, and is used as a basis for setting Group-wide limits, management information, assessment of solvency needs, and determining appropriate stress and scenario testing.

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

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

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

Risk measurement and assessment

(Unaudited)

All identified risks are assessed based on an appropriate methodology for that risk. All quantifiable risks which are material and mitigated by holding capital are modelled in the Group s Internal Model, which is used to determine capital requirements under the Solvency II Pillar 1 and economic capital bases. Governance arrangements are in place to support the internal model. This includes independent validation and process and controls around model changes and limitations.

Manage and control

(Unaudited)

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

The management and control of risks are set out in the Group risk policies. These risk policies define:

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

Monitoring and reporting

(Unaudited)

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

Risk Appetite and Limits

(Audited)

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

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

The Group Risk function is responsible for reviewing the scope and operation of these measures at least annually, to determine that they remain relevant. On the recommendation of the Group Risk Committee, the Board approves all changes made to the Group s risk appetite framework.

We define and monitor aggregate risk limits based on financial and non-financial stresses for our earnings volatility, liquidity and capital requirements as follows:

Earnings volatility:

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

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

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

Liquidity:

The objective is to monitor that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios.

Capital requirements:

The limits aim to manage that:

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

The two measures used to define the limits are Solvency II capital requirements and internal economic capital requirements. In addition, outside the UK capital requirements are monitored on local statutory bases.

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

With the introduction of Solvency II, the existing European Union Insurance Group Directives risk appetite statement has been replaced with a Solvency II Pillar 1 risk appetite. As part of our annual business planning cycle the risk appetite framework plays an integral role. The Group Risk Committee is responsible for reviewing the risks inherent in the Group s business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Group Risk function, which uses submissions from our local business units to calculate the Group s aggregated position (allowing for diversification effects between local business units) relative to the aggregate risk limits.

Risk policies

(Unaudited)

Risk policies set out specific requirements for the management of, and articulate the risk appetite for, key risk types. There are core risk policies for credit, market, insurance, liquidity and operational risks and a number of internal control policies covering, internal model risk, underwriting, dealing controls and tax risk management.

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They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we maintain in line with the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices.

Risk Culture

(Unaudited)

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

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

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

Senior management leadership

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

Building skills and capabilities

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

Performance management

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

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

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Capital Management

(Unaudited)

Solvency II capital position at 31 December 2015

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

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

These results allow for:

- Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital requirement. As agreed with the Prudential Regulation Authority, this is incorporated in the result above as follows:
  - Own funds: represent Jackson s local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level); and
  - Solvency Capital Requirement: represent 150 per cent of Jackson s local US Risk Based Capital requirement (Company Action Level);
- Non-recognition of a portion of Solvency II surplus capital relating to the Group s Asian life operations, reflecting regulatory prudence;
- Matching adjustment for UK annuities, based on the 31 December 2015 calibration published by the European Insurance and Occupational Pensions Authority; and
- Transitional measures which have the effect of preserving the Solvency II surplus for our UK business at the same level as under Solvency I, for business written before 1 January 2016.

The Group s Solvency II capital surplus excludes:

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

Analysis of movement in capital position

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

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

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The movement in Group surplus over 2015 is driven by:

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

In addition, the methodology and calibration changes arose as part of the internal model approval process and related to:

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

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

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

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

Analysis of Group Solvency Capital Requirements

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

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

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Reconciliation of IFRS equity to Group Solvency II Own Funds

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

The key items of the reconciliation are:

£1.5 billion represents the adjustment required to the Group s shareholders funds in order to convert Jackson s contribution from an IFRS basis to the local statutory valuation basis. This item also reflects a derecognition of Own Funds of £0.7 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;

£3.7 billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;

£4.4 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;

£2.5 billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of transitionals, all of which are not applicable under IFRS;

£3.1 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholder s share of the with-profits estate, for which no credit is given under Solvency II), which is excluded from the determination of the Group s IFRS shareholders funds;

£8.6 billion due to differences in insurance valuation requirements between Solvency II and IFRS, with Solvency II Own Funds partially capturing the value of in-force business which is excluded from IFRS;

£0.9 billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above; and

£0.4 billion due to other items, including the impact of revaluing loans, borrowings and debt from IFRS to Solvency II.

Sensitivity analysis

Solvency II as a measure of regulatory capital is more volatile than under the previous Solvency I regime. At 31 December 2015, the estimated sensitivity of the Group Solvency II surplus to significant changes in market conditions is as follows:

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

UK Solvency II capital position[1, 2]

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

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While the surplus position of the UK with-profits funds remains strong on a Solvency II basis, it is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK shareholder Solvency II surplus results. The estimated UK with-profits funds Solvency II surplus at 31 December 2015 was £3.2 billion.

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

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

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

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

UK shareholder sensitivity analysis

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

An instantaneous 20 per cent fall in equity markets would reduce surplus by £0.4 billion;
40 per cent fall in equity markets would reduce surplus by £0.8 billion;

A 50 basis points reduction in interest rates (subject to a floor of zero and allowing for transitional recalculation) would reduce surplus by £0.7 billion;

A 100 basis points increase in interest rates (allowing for transitional recalculation) would increase surplus by £0.9 billion;

A 100 basis points increase in credit spreads would reduce surplus by £0.2 billion; and

15 per cent of the UK annuity portfolio downgrading by one whole letter rating would reduce surplus by £0.5 billion.

Notes:

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

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IGD capital position at 31 December 2015

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

The movements in 2015 mainly comprise:

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

Offset by:

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

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

Local statutory capital

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

Debt Portfolio

The Group continues to maintain a high quality defensively positioned debt portfolio. Shareholders exposure to credit is concentrated in the UK annuity portfolio and the US general account, mainly attributable to Jackson s fixed annuity portfolio. The credit exposure is well diversified and 98 per cent of our UK portfolio and 96 per cent of our US portfolio are investment grade. We experienced no default losses and reported impairments of £26 million (2014: £7 million) across these two fixed income securities portfolios.

(15) Representing Solvency II own funds of the UK with-profits funds.

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Investments

General

The overall financial strength of Prudential and the results, both current and future, of the insurance business are in part dependent upon the quality and performance of the various investment portfolios in the United Kingdom, the United States and Asia.

Prudential s Total Investments

The following table shows Prudential s insurance and non-insurance investments, net of derivative liabilities, at 31 December 2015. In addition, at 31 December 2015 Prudential had £151.6 billion of external funds under management. Assets held to cover linked liabilities relate to unit-linked and variable annuity products. In this table, investments are valued as set out in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2015 £m								
	UK Insurance	**US Insurance**	**Asia Insurance**	**Total Insurance**	**Asset Management[(a)]**	**Other**	**Total**	**Less: assets to cover linked liabilities and external unit holders[(b)]**	**Group excluding assets to cover linked liabilities and external unit holders**
Investment properties	**13,412**	**5**	**5**	**13,422**	**-**	**-**	**13,422**	**(3,026)**	**10,396**
Investments accounted for using the equity method	**434**	**-**	**475**	**909**	**125**	**-**	**1,034**	**-**	**1,034**
Financial investments:				**-**					
Loans	**3,571**	**7,418**	**1,084**	**12,073**	**885**	**-**	**12,958**	**-**	**12,958**
Equity securities	**47,593**	**91,216**	**18,532**	**157,341**	**85**	**27**	**157,453**	**(108,452)**	**49,001**
Debt securities	**83,101**	**34,071**	**28,292**	**145,464**	**2,204**	**3**	**147,671**	**(19,007)**	**128,664**
Other investments	**5,486**	**1,715**	**57**	**7,258**	**94**	**1**	**7,353**	**(189)**	**7,164**
Deposits	**11,226**	**-**	**773**	**11,999**	**89**	**-**	**12,088**	**(1,049)**	**11,039**
Total financial investments	**150,977**	**134,420**	**48,738**	**334,135**	**3,357**	**31**	**337,523**	**(128,697)**	**208,826**
Total investments	**164,823**	**134,425**	**49,218**	**348,466**	**3,482**	**31**	**351,979**	**(131,723)**	**220,256**
	(2,125)	**(249)**	**(140)**	**(2,514)**	**(283)**	**(322)**	**(3,119)**	**92**	**(3,027)**

Derivative liabilities									
Total investments, net of derivative liabilities	**162,698**	**134,176**	**49,078**	**345,952**	**3,199**	**(291)**	**348,860**	**(131,631)**	**217,229**

(a) Investments held by asset management operations are further split in note C2.4 to the consolidated financial statements in Item 18.

(b) Prudential s Group statement of financial position includes the line by line investments of unit-linked and the consolidated unit-trusts and similar funds. In the table above, these amounts have been deducted in deriving the underlying investments in the right-hand column.

The disclosure below has been provided on a consistent basis as that included in previous Form 20-F submissions, with analysis focusing on the investments attributable to shareholders and consequently excluding those held to cover linked liabilities or attributable to unit holders of consolidated unit trusts and similar funds.

In addition to the detail provided below further analysis is included in the consolidated financial statements, in accordance with IFRS 7 Financial Instruments: Disclosures . The further analysis is included in notes C2 and C3 to Prudential s consolidated financial statements in Item 18.

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Prudential s Average Investment Return

The following table shows the income from the investments of Prudential s operations, net of derivative liabilities, by asset category for the periods indicated. This table does not include investment income from assets held to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds. Average investment return has been calculated using the average of opening and closing balances for the appropriate asset.

	Actual Exchange Rate Year Ended 31 December					
	2015		2014		2013	
	Average investment return	Amount £m	Average investment return	Amount £m	Average investment return	Amount £m
Investment properties						
Net investment income	**5.6%**	**562**	5.7%	533	5.2%	477
Net realised investment (losses) gains	**2.0%**	**201**	0.4%	41	(0.1)%	(6)
Net unrealised investment (losses) gains	**6.5%**	**659**	8.9%	831	4.1%	376
Ending assets		**10,396**		9,852		8,768
Investments accounted for using the equity method						
Ending assets		**1,034**		1,017		809
Loans						
Net investment income	**5.9%**	**764**	5.9%	745	6.5%	787
Net realised investment (losses) gains	**(0.3)%**	**(34)**	(0.9)%	(116)	(0.2)%	(21)
Net unrealised investment gains	**(0.1)%**	**(14)**	0.1%	10	0.2%	19
Ending assets		**12,957**		12,841		12,566
Equity securities						
Net investment income	**2.5%**	**1,135**	2.6%	997	2.6%	929
Net realised investment gains	**2.0%**	**901**	2.3%	881	3.8%	1,354
Net unrealised investment gains (losses)	**(2.5)%**	**(1,149)**	1.9%	743	4.9%	1,766
Ending assets		**49,001**		42,444		35,442
Debt securities						
Net investment income	**3.9%**	**4,933**	4.0%	4,937	4.4%	5,188
Net realised investment gains (losses)	**1.2%**	**1,534**	1.0%	1,173	1.1%	1,299
Net unrealised investment gains (losses)	**(3.1)%**	**(3,936)**	5.5%	6,688	(3.7)%	(4,308)
Ending assets		**128,662**		127,570		117,675
Other investments (including derivative liabilities)						
Net investment income	**15.5%**	**725**	16.7%	812	12.5%	597
Net realised investment (losses) gains	**(8.7)%**	**(408)**	(1.0)%	(50)	(25.5)%	(1,218)
Net unrealised investment (losses) gains	**(19.8)%**	**(927)**	12.9%	626	(4.6)%	(218)
Ending assets, net of derivative liabilities		**4,138**		5,228		4,484
Deposits						
Net investment income	**0.7%**	**85**	0.7%	85	0.8%	85
Ending assets		**11,039**		12,158		11,191
Total						

Net investment income	**3.8%**	**8,204**	4.0%	8,109	4.2%	8,063
Net realised investment gains (losses)	**1.0%**	**2,194**	1.0%	1,929	0.7%	1,408
Net unrealised investment gains (losses)	**(2.5)%**	**(5,367)**	4.4%	8,898	(1.2)%	(2,365)
Ending assets, net of derivative liabilities		**217,227**		211,110		190,935

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Prudential s Insurance Investment Strategy and Objectives

Prudential s insurance investments support a range of businesses operating in many geographic areas. Each of the operations formulates a strategy based on the nature of its underlying liabilities, its level of capital and its local regulatory requirements.

Internal Funds Under Management

Prudential manages 68 per cent of its group funds principally through its fund management businesses, M&G in the UK, PPM America in the United States and Eastspring Investments in Asia. The remaining 32 per cent of the Group s funds mainly relate to assets held to back unit-linked, unit trust and variable annuity liabilities.

In each of the operations, local management analyses the liabilities and determines asset allocation, benchmarks and permitted deviations from these benchmarks appropriate for its operation. These benchmarks and permitted deviations are agreed with internal fund managers, who are responsible for implementing the specific investment strategy through their local fund management operations.

Investments Relating to UK Insurance Business

Strategy

In the UK, Prudential tailors its investment strategy for long-term business, other than unit-linked business, to match the type of product a portfolio supports. The primary distinction is between with-profits portfolios and non-participating portfolios, which include the majority of annuity portfolios. Generally, the objective is to maximise returns while maintaining investment quality and asset security and adhering to the appropriate government regulations.

Consistent with the product nature, in particular regarding guarantees, the with-profits fund s investment strategy emphasises a well-diversified equity portfolio (containing some international equities), real estate (predominantly in the UK), UK and international fixed income securities and cash.

For Prudential s UK pension annuities business and other non-participating business the objective is to maximise profits while ensuring stability by closely matching the cash flows of assets and liabilities. To achieve this matching, the strategy is to invest in fixed income securities of appropriate maturity dates.

For Prudential s unit-linked business, the primary objective is to maximise investment returns subject to following an investment policy consistent with the representations Prudential has made to its unit-linked product policyholders.

Investments

The following table summarises the total investments, net of derivative liabilities, of the UK insurance business at 31 December 2015.

	At 31 December 2015 £m					
	SAIF	PAC with-	Other	Total	Less: assets	Total

		profits fund			to cover linked liabilities and external unit holders[(a)]	excluding assets to cover linked liabilities and external unit holders
Investment properties	**358**	**10,757**	**2,297**	**13,412**	**(3,026)**	**10,386**
Investment accounted for using the equity method	**-**	**434**	**-**	**434**	**-**	**434**
Financial investments:						
Loans	**61**	**1,998**	**1,512**	**3,571**	**-**	**3,571**
Equity securities	**2,530**	**29,804**	**15,259**	**47,593**	**(11,394)**	**36,199**
Debt securities	**2,331**	**42,204**	**38,566**	**83,101**	**(8,930)**	**74,171**
Other investments	**210**	**4,807**	**469**	**5,486**	**(174)**	**5,312**
Deposits	**399**	**8,383**	**2,444**	**11,226**	**(835)**	**10,391**
Total financial investments	**5,531**	**87,196**	**58,250**	**150,977**	**(21,333)**	**129,644**
Total investments	**5,889**	**98,387**	**60,547**	**164,823**	**(24,359)**	**140,464**
Derivative liabilities	**(76)**	**(1,436)**	**(613)**	**(2,125)**	**89**	**(2,036)**
Total investment, net of derivative liabilities	**5,813**	**96,951**	**59,934**	**162,698**	**(24,270)**	**138,428**

(a) Please refer to the notes in the total Group investments table within the Prudential s Total Investments section

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The following table shows additional analysis of the investments relating to Prudential s UK insurance business, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2015. The Other column includes investments relating to solvency capital of unit-linked funds and investments relating to non-life long-term business.

	At 31 December 2015 £m					
	With-Profits	PRIL	SAIF	Other	Total	Total %
Investment properties	8,436	1,383	358	209	10,386	7.5
Investments accounted for using the equity method	434	-	-	-	434	0.3
Financial investments:						
Loans:						
Mortgage loans	727	290	-	1,218	2,235	
Policy loans	5	-	3	-	8	
Other loans	1,266	4	58	-	1,328	
Total loans and receivables	1,998	294	61	1,218	3,571	2.6
Equity securities:						
United Kingdom:						
Listed	11,827	-	890	37	12,754	
Unlisted	820	-	9	-	829	
Total United Kingdom	12,647	-	899	37	13,583	9.8
International:						
United States	4,241	-	373	1	4,615	
Europe (excluding the United Kingdom)	10,930	-	814	1	11,745	
Japan	2,078	-	173	-	2,251	
Pacific (excluding Japan)	2,500	-	169	1	2,670	
Other	1,233	-	102	-	1,335	
Total international	20,982	-	1,631	3	22,616	16.3
Total equity securities	33,629	-	2,530	40	36,199	26.1
Debt securities:						
UK government	1,761	3,342	38	909	6,050	
US government	1,499	-	196	1	1,696	
Other	36,501	24,683	2,097	3,144	66,425	
Total debt securities	39,761	28,025	2,331	4,054	74,171	53.6
Other investments:						
Other financial investments	3,274	-	185	1	3,460	
Derivative assets	1,380	440	25	7	1,852	
Total other investments	4,654	440	210	8	5,312	3.8
Deposits	8,383	1,142	399	467	10,391	7.5
Total investments	97,295	31,284	5,889	5,996	140,464	101.5
Derivative liabilities	(1,364)	(533)	(76)	(63)	(2,036)	(1.5)
Total investment, net of derivative liabilities	95,931	30,751	5,813	5,933	138,428	100.0

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Equity Securities

Prudential s UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £36,199 million invested in equities at 31 December 2015. Most of these equities support Prudential Assurance s with-profits fund and the SAIF fund, both of which are managed using the same general investment strategy.

The following table shows the geographic spread of this equity portfolio by market value in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2015 Market Value	
	£m	**%**
United Kingdom	**13,583**	**37.5**
United States	**4,615**	**12.7**
Europe (excluding United Kingdom)	**11,745**	**32.4**
Japan	**2,251**	**6.2**
Pacific (excluding Japan)	**2,670**	**7.4**
Other	**1,335**	**3.8**
Total	**36,199**	**100.0**

The equity holdings of the UK insurance operations are well diversified. Prudential held direct equities in 363 companies at 31 December 2015. The ten largest holdings in direct equities at 31 December 2015 amounted to £3,136 million, accounting for 8.7 per cent of the total equity holdings of £36,199 million supporting the UK insurance operations. The following table shows the market value of the ten largest holdings in direct equities at 31 December 2015.

	At 31 December 2015 Market Value	
	£m	**Percentage of Total UK equities**
British American Tobacco	**419**	**1.2**
HSBC Holdings	**384**	**1.1**
BP	**380**	**1.0**
GlaxoSmithKline	**337**	**0.9**
Royal Dutch Shell	**331**	**0.9**
Vodafone Group	**275**	**0.8**
BT	**272**	**0.8**
Astrazeneca	**252**	**0.7**
Imperial Tobacco	**244**	**0.7**
Roche Holdings	**242**	**0.6**
Total	**3,136**	**8.7**

A wide variety of industry sectors are represented in UK insurance operations equity portfolio. At 31 December 2015, within the £36,199 million in equities supporting the UK insurance operations, Prudential had £27,484 million, or 75.9

per cent of the holdings, invested in ten industries. The following table shows the primary industry concentrations based on market value of the portfolio of direct equities relating to the UK insurance business at 31 December 2015.

	At 31 December 2015	
	Market Value	Percentage of total
	£m	UK equities
Financial	**7,139**	**19.7**
Consumer, non-cyclical	**6,244**	**17.2**
Consumer, cyclical	**3,006**	**8.3**
Communications	**2,895**	**8.0**
Industrial	**2,392**	**6.6**
Energy	**1,822**	**5.0**
Technology	**1,489**	**4.1**
Basic Materials	**1,151**	**3.2**
Utilities	**1,070**	**3.0**
Diversified	**276**	**0.8**
Total	**27,484**	**75.9**

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Debt Securities

At 31 December 2015, of the debt securities held by the UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, 97.7 per cent were issued by corporations and overseas governments other than the US, 8.2 per cent were issued or guaranteed by the UK government and 2.3 per cent were issued or guaranteed by the US government. These guarantees relate only to payment and, accordingly, do not provide protection against fluctuations in market price that may occur during the term of the fixed income securities.

The following table shows the market value of the debt securities portfolio by maturity at 31 December 2015, in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2015 Market Value	
	£m	**%**
Securities maturing:		
Within one year	**2,069**	**2.8**
Over one year and up to five years	**14,569**	**19.6**
Over five years and up to ten years	**13,549**	**18.3**
Over ten years and up to fifteen years	**10,650**	**14.4**
Over fifteen years	**33,334**	**44.9**
Total debt securities	**74,171**	**100.0**

The following table shows debt securities by rating:

	At 31 December 2015 Market Value	
	£m	**%**
S&P AAA	**8,495**	**11.5**
S&P AA+ to AA	**10,346**	**13.9**
S&P A+ to A	**15,217**	**20.5**
S&P BBB+ to BBB	**15,578**	**21.0**
S&P Other	**2,232**	**3.0**
	51,868	**69.9**
Moody s Aaa	**1,710**	**2.3**
Moody s Aa1 to Aa3	**6,738**	**9.1**
Moody s A1 to A3	**2,626**	**3.5**
Moody s Baa1 to Baa3	**924**	**1.2**
Moody s Other	**178**	**0.2**
	12,176	**16.3**
Fitch	**506**	**0.7**
Other	**9,621**	**13.1**
Total debt securities	**74,171**	**100.0**

In the table above, Standard & Poor s (S&P) ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody s and then Fitch have been used as an alternative. Where no external ratings are available, internal ratings produced by the Group s asset management operation, which are prepared on the Company s assessment of a comparable basis to external ratings, are used where possible. Further information is provided in note C3.3 to the consolidated financial statements in Item 18.

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Real Estate

At 31 December 2015, Prudential s UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £10,386 million of investments in real estate. The following table shows the real estate portfolio by type of investment. The real estate investments are shown at market value in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	At 31 December 2015	
	Market Value £m	**%**
Office buildings	**4,363**	**41.9**
Shopping centers/commercial	**3,644**	**35.1**
Retail warehouses/industrial	**1,608**	**15.5**
Development	**434**	**4.2**
Other	**337**	**3.3**
Total	**10,386**	**100.0**

Approximately 54.7 per cent of the UK held real estate investment is located in London and Southeast England with 40.3 per cent located throughout the rest of the UK and the remaining 5.0 per cent located overseas.

Investments Relating to Prudential s US Insurance Business

Strategy

The investment strategy of the US insurance operations, for business other than the variable annuity business, is to maintain a diversified and largely investment grade debt securities portfolio that maintains a desired investment spread between the yield on the portfolio assets and the rate credited on policyholder liabilities. Interest rate scenario testing is continually used to monitor the effect of changes in interest yields on cash flows, the present value of future profits and interest rate spreads.

The investment portfolio of the US insurance operations consists primarily of debt securities, although the portfolio also contains investments in mortgage loans, policy loans, common and preferred stocks, derivative instruments, cash and short-term investments and miscellaneous other investments.

Investments

The following table shows total investments, net of derivative liabilities, relating to the US insurance operations at 31 December 2015.

	31 December 2015 £m		
	Variable annuity separate account assets	**Fixed annuity, GIC and other business**	**Total**
Investment properties	**-**	**5**	**5**

Financial investments:			
Loans	**-**	**7,418**	**7,418**
Equity securities*	**91,022**	**194**	**91,216**
Debt securities	**-**	**34,071**	**34,071**
Other investments	**-**	**1,715**	**1,715**
Total financial investments	**91,022**	**43,398**	**134,420**
Total investments	**91,022**	**43,403**	**134,425**
Derivative liabilities	**-**	**(249)**	**(249)**
Total investment, net of derivative liabilities	**91,022**	**43,154**	**134,176**

*Equity securities include investments in mutual funds, the majority of which are equity-based.

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The following table further analyses the investments, net of derivative liabilities, of the US insurance operations, excluding the separate account investments supporting the variable annuity business, at 31 December 2015.

	31 December 2015	
	£m	%
Non-institutional		
Investment properties	5	-
Loans	6,876	15.9
Equity securities	135	0.3
Debt Securities		
Corporate securities	22,673	52.6
Government securities	4,241	9.8
Residential mortgage-backed securities	1,207	2.8
Commercial mortgage-backed securities	2,157	5.0
Other debt securities	436	1.0
Total debt securities	30,714	71.2
Other investments	1,632	3.8
Derivative liabilities	(50)	(0.1)
Total non-institutional	39,312	91.1
Institutional		
Loans	542	1.3
Equity securities	59	0.1
Debt Securities		
Corporate securities	2,837	6.6
Government securities	-	-
Residential mortgage-backed securities	77	0.2
Commercial mortgage-backed securities	246	0.6
Other debt securities	197	0.5
Total debt securities	3,357	7.9
Other investments	83	0.2
Derivative liabilities	(199)	(0.5)
Total institutional	3,842	9.0
Total		
Investment properties	5	-
Loans	7,418	17.2
Equity securities	194	0.4
Debt Securities		
Corporate securities	25,509	59.2
Government securities	4,242	9.8
Residential mortgage-backed securities	1,284	3
Commercial mortgage-backed securities	2,403	5.6
Other debt securities	633	1.5
Total debt securities	34,071	79.1
Other investments	1,715	3.9
Derivative liabilities	(249)	(0.6)

Total	**43,154**	**100.0**

Under IFRS, for the insurance operations, debt securities are shown at fair value and loans are at amortised cost (with the exception of certain policy loans which are held to back liabilities for funds withheld under reinsurance arrangements, which are also accounted on a fair value basis). Equity securities and investment properties are shown at fair value. The fair value of unlisted securities is estimated by Jackson using independent pricing services or analytically determined values.

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Debt Securities

Corporate Securities

At 31 December 2015, the US insurance operations had £25,509 million of corporate securities representing 59.2 per cent of the US insurance operations total investments excluding separate account investments. Of the £25,509 million, £21,776 million consisted of debt securities that are publicly traded or trade under Rule 144A under the Securities Act of 1933, as amended (Rule 144A) and £3,733 million consisted of investments in non-Rule 144A privately placed fixed income securities.

Rule 144A is a 1990 United States Securities and Exchange Commission (SEC) rule that facilitates the resale of privately placed securities that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.

For statutory reporting in the US, debt securities are classified into six quality categories specified by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC). The categories range from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5. Securities in or near default are designated Class 6. Securities designated as Class 3, 4, 5 and 6 are non-investment grade securities. Generally, securities rated AAA to A by nationally recognised statistical ratings organisations are reflected in Class 1, BBB in Class 2, BB in Class 3 and B and below in Classes 4 to 6. If a designation is not currently available from the NAIC, Jackson s investment adviser, PPM America, provides the designation for the purposes of disclosure below.

The following table shows the quality of the publicly traded and SEC Rule 144A debt securities by NAIC classifications:

	2015 Carrying value	
	£m	**% of total**
NAIC designation:		
1	**8,777**	**40**
2	**12,151**	**56**
3	**594**	**3**
4	**230**	**1**
5	**22**	**-**
6	**2**	**-**
	21,776	**100**

The following table shows the quality of the non-SEC Rule 144A private placement portfolio by NAIC classifications:

	2015 Carrying value	
	£m	**% of total**
NAIC designation:		
1	**1,775**	**48**
2	**1,832**	**49**

3	**87**	**2**
4	**38**	**1**
5	**1**	**-**
6	**-**	**-**
	3,733	**100**

Residential Mortgage-Backed Securities

At 31 December 2015, the US insurance operations had £1,284 million of residential mortgage-backed securities, representing 3.0 per cent of US insurance operations total investments, excluding separate account investments. At 31 December 2015, of the £1,284 million, of which £902 million were prime securities with 77 per cent of the balance rated AA.

The primary investment risk associated with residential mortgage-backed securities is that a change in the interest rate environment or other economic conditions could cause payment of the underlying obligations to be made slower or quicker than was anticipated at the time of their purchase. If interest rates decline, then this risk is called pre-payment risk and the underlying obligations will generally be repaid quicker when the yields on reinvestment alternatives are lower. Alternatively, if interest rates rise, the risk is called extension risk and the underlying obligations will generally be repaid slower when reinvestment alternatives offer higher returns. Residential mortgage-backed securities offer additional yield to compensate for these risks. The US operations can manage pre-payment risk, in part, by reducing crediting rates on its products.

Commercial Mortgage-Backed Securities

At 31 December 2015, the US insurance operations had £2,403 million of commercial mortgage-backed securities, representing 5.6 per cent of US insurance operations total investments, excluding separate account investments. Of this total, 56.9 per cent were rated AAA (Standard & Poor s ratings have been used where available and for securities where S&P ratings are not immediately available, those produced by Moody s and then Fitch have been used as an alternative). Due to the structures of the underlying commercial mortgages, these securities do not present the same pre-payment or extension risk as residential mortgage-backed securities.

Other Debt Securities

At 31 December 2015, the US insurance operations had £633 million of other debt securities, representing 1.5 per cent of US insurance operations total investments, excluding separate account investments.

Loans

At 31 December 2015, loans totaled £7,418 million, representing 17.2 per cent of US insurance operations total investments, excluding separate account investments. Of the total, £4,367 million related to commercial mortgage loans and £3,051 million to policy loans. Of the £3,051 million policy loans, £2,183 million were held to back the liabilities for funds withheld under reinsurance arrangement attaching to the purchase of REALIC in 2012.

Commercial Mortgage Loans

At 31 December 2015, commercial mortgage loans represented 10.1 per cent of US insurance operations total investments, excluding separate account investments. The average loan size is £8.6 million, collateralised by properties located in the United States.

Jackson has addressed the risk of these investments by building a portfolio that is diverse both in geographic distribution and property type.

The property types are mainly industrial, multi-family residential, suburban office, retail and hotel. The breakdown of the market value by property type is as follows:

	31 December 2015 %
Multi-family residential mortgage loans	**29.9**
Industrial mortgage loans	**27.5**
Retail mortgage loans	**17.3**

Suburban office mortgage loans	**11.3**
Hotel mortgage loans	**10.1**
Other loans	**3.9**
Total	**100.0**

The following table shows the geographic split of the collateral for these loans:

	31 December 2015 %
California	**11.8**
Florida	**6.9**
Texas	**7.0**
Ohio	**6.5**
Washington	**5.2**
Other (sum of all states < 5% each)	**62.6**
Total	**100.0**

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Commercial mortgages generally involve more credit risk than residential mortgages due to several factors, including larger loan size, general and local economic conditions, local real estate conditions and the credit quality of the underlying tenants for the properties. Jackson s investment policy and strict underwriting standards are designed to reduce these risks while maintaining attractive yields. In contrast to residential mortgage loans, commercial mortgage loans have minimal or no pre-payment and extension risk.

Policy Loans

Policy loans represented 7.0 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2015. Policy loans are fully secured by individual life insurance policies or annuity policies and are contractual arrangements made under the policy. As described above, £2,183 million out of the £3,051 million policy loans were held to back the liabilities for funds withheld under reinsurance arrangement attaching to the purchase of REALIC in 2012.

Equity Securities

Equity securities supporting US insurance operations, excluding separate account investments, totaled £194 million at 31 December 2015.

Other

Other financial investments of £1,715 million, representing 3.8 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2015 were made up of £810 million of limited partnership interests and derivative assets of £905 million.

The largest investment in the limited partnerships category is a £72 million interest in the PPM America Private Equity Fund. The remainder of this category consists of diversified investments in 162 other partnerships managed by independent money managers that generally invest in various equity and fixed income loans and securities.

Investments Relating to Asian Insurance Business

Prudential s Asian insurance operations investments, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, largely support the business of Prudential s Singapore, Hong Kong and Malaysia operations.

The following table shows Asia s investments, net of derivative liabilities, at 31 December 2015. In this table, investments are valued in accordance with the policies described in note A3.1 to the consolidated financial statements in Item 18.

	31 December 2015 £m						
	With-profits business	Unit-linked assets	Other	Total	Less: assets to cover linked liabilities and external unit holders[(a)]	Total excluding assets to cover linked liabilities	%

						and external unit holders	
Investment properties	-	-	5	5	-	5	-
Investments accounted for using the equity method	-	-	475	475	-	475	1.5
Financial investments:							
Loans	540	-	544	1,084	-	1,084	3.3
Equity securities	6,861	10,831	840	18,532	(6,036)	12,496	38.2
Debt securities	16,335	2,809	9,148	28,292	(10,076)	18,216	55.6
Other investments	28	16	13	57	(16)	41	0.1
Deposits	188	214	371	773	(214)	559	1.7
Total financial investments	23,952	13,870	10,916	48,738	(16,342)	32,396	98.9
Total investments	23,952	13,870	11,396	49,218	(16,342)	32,876	100.4
Derivative liabilities	(124)	(2)	(14)	(140)	3	(137)	(0.4)
Total investment, net of derivative liabilities	23,828	13,868	11,382	49,078	(16,339)	32,739	100.0

(a) Please refer to notes in the total Group investments table.

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Prudential manages interest rate risk in Asia by matching liabilities with fixed interest assets of the same duration to the extent possible. Asian fixed interest markets however generally have a relatively short bond issue term, which makes complete matching challenging. A large proportion of the Hong Kong liabilities are denominated in US dollars and Prudential holds US fixed interest securities to back these liabilities.

Debt Securities

The following table shows rating categorisation of the debt security investments of Prudential Corporation Asia s long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2015.

	31 December 2015	
	Market Value £m	**%**
S&P AAA	**804**	**4.4**
S&P AA+ to AA	**6,485**	**35.6**
S&P A+ to A	**2,504**	**13.7**
S&P BBB+ to BBB	**1,731**	**9.5**
S&P Other	**1,166**	**6.4**
	12,690	**69.6**
Moody s Aaa	**816**	**4.5**
Moody s Aa1 to Aa3	**1,355**	**7.4**
Moody s A1 to A3	**322**	**1.8**
Moody s Baa1 to Baa3	**247**	**1.4**
Moody s Other	**14**	**0.1**
	2,754	**15.2**
Fitch	**834**	**4.6**
Other*	**1,938**	**10.6**
Total debt securities	**18,216**	**100.0**

*Further information is provided in note C3.3 to the consolidated financial statements in item 18.

Equity Securities

The following table shows a geographic analysis of equity security investments of Asia s long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at 31 December 2015.

	31 December 2015	
	Market Value £m	**%**
Hong Kong	**6,686**	**53.5**
Singapore	**4,941**	**39.5**
Taiwan	**538**	**4.3**
Malaysia	**243**	**1.9**
Other	**88**	**0.8**
Total	**12,496**	**100.0**

Description of Property Corporate Property

As at 31 December 2015, Prudential s UK headquartered businesses occupied 71 properties in the United Kingdom, Europe, India and Africa. These properties are primarily offices with some ancillary storage facilities. Prudential s global headquarters is located in London and is held on a freehold basis. Of the remainder, the most significant holdings are offices in London and Reading in England, Stirling in Scotland and Mumbai in India. The property in Stirling is held on a freehold basis, and is leased by the business from PAC s with-profits fund. The rest of the properties occupied by Prudential s UK based businesses, in the UK and India, are held leasehold. Elsewhere in Europe, 25 of the properties are occupied leasehold and the rest (eleven) are short-term serviced offices. Seventeen properties are leased in Ghana, Kenya and Uganda, Africa. The leasehold properties range in size from 500 to 225,000 sq. ft. Overall, the UK, Europe, Africa and Asia occupied property portfolio totals approximately 835,000 sq. ft.

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Prudential s UK headquartered businesses also hold one surplus owned property and approximately 18 surplus leasehold properties in the United Kingdom, spread geographically throughout the country. This surplus accommodation (i.e. not occupied by the Group but including those sublet) totals approximately 263,000 sq. ft. There are also two surplus land holdings in the United Kingdom, totalling 57 acres. A high proportion of the surplus estate has been sublet to third party occupiers generating income for the Group to cover this overhead. As at 31 December 2015 vacancy within the surplus estate stood at 47,000 sq. ft.

In the United States, Prudential owns Jackson National Life s executive and principal administrative office located in Michigan. Prudential owns a total of eight facilities in Lansing, Michigan, which total approximately 867,665 sq. ft. Prudential also leases premises in Michigan, Colorado, Tennessee, California, Illinois, New York, New Jersey, Georgia, Florida, Wisconsin, Massachusetts, Connecticut, New Hampshire, Pennsylvania, Texas, Maryland and North Dakota for certain of its operations. Prudential holds 31 operating leases with respect to office space, throughout the United States. The leasehold properties range in size from 500 180,000 sq. ft. In the United States, Prudential owns and leases a total of approximately 1,489,000 sq. ft. of property. In addition to the owned and leased properties, Prudential also owns a total of 446 acres of surplus land, all located in Lansing, Michigan.

Prudential s United States headquartered business also sublets two surplus office properties in Lansing, Michigan, totalling approximately 14,200 sq. ft., located in one of its owned properties.

In Asia, Prudential owns or leases properties principally in Hong Kong, Singapore, Malaysia, Indonesia, Thailand, the Philippines, China (50 per cent joint venture), Taiwan, Japan, Vietnam, India (26 per cent joint venture), Korea, United Arab Emirates, Myanmar, Laos and Cambodia.

Within these countries, Prudential owns 59 property assets (including those owned by its with-profits funds), ranging from office space to land holdings. The breakdown of these owned assets by country is as follows:

Malaysia (including the Malaysia Takaful joint venture): thirty two individually saleable owned assets Office and residential space totalling 307,104 sq. ft.

Philippines: two owned assets Office space totalling 4,278 sq. ft.

Singapore: one owned asset Office space totalling 11,883 sq. ft.

Taiwan: sixteen owned assets All surplus land holdings totalling 30,137 sq. ft.

Thailand: eight owned assets Office space and surplus land holdings totalling 36,481 sq. ft.

Prudential has (excluding India but including the China and Malaysia Takaful joint ventures), a total of 504 external operating leases, totalling approximately 4.43 million square feet of property.

In India, Prudential holds a minority stake (26 per cent) with ICICI in a joint venture which holds the property interests. The property is occupied by the ICICIPru Life and ICICIPru AMC businesses. The holding comprises approximately 660 leased properties, totalling approximately 930,000 sq. ft. There is one owned and occupied asset comprising approximately 40,000 sq. ft. in Mumbai.

Prudential Corporation Asia s real estate strategy involves consolidation of its existing property portfolio to support its local business strategies throughout the region, to take advantage of opportunities in the regional markets in securing long term cost savings for the business while maintaining competitive advantage.

M&G has agreed a pre-let transaction with a developer to lease 323,000 sq ft of offices in Central London, commencing in 2018. The building is currently under construction. The Malaysian headquartered businesses (forming part of Prudential Corporation Asia) have agreed a pre-let transaction with a developer to lease 326,500 sq ft of offices in Kuala Lumpur, commencing in 2018. Building groundworks have commenced.

There have been no other property transactions subsequent to 31 December 2015 which would have a material impact on the financial position of Prudential.

Prudential believes that its facilities are suitable for the conduct of its businesses. We periodically review our space requirements and may acquire or lease new space as needed to accommodate any future needs of our businesses. Prudential s operating leases have no material commercial value.

In summary, Prudential owns 43 properties which it also occupies and which are accounted for as owner occupied. These properties are comprised of thirty four in Asia, one in the UK and eight in the US. ICICI Pru also owns and occupies one property in India. The total value of Prudential s owner occupied properties at 31 December 2015 was £411 million. This represents less than 1 per cent of Prudential s total assets.

Prudential is the lessee under 592 operating leases used as office accommodation, comprising 504 leases held by the Asia business, 31 leases held by the US business and 57 leases held by the UK businesses. For the UK based businesses, Prudential holds 13 short-term serviced offices.

Investment Interests

Prudential also holds interests in properties within its investment portfolios accounted for as investment property. At 31 December 2015 the total value of investment properties was £13,422 million and comprised 471 properties held by the UK,3 held in Asia and 6 held by the US. In total they comprised 3.5 per cent of Prudential s total assets. The UK business holdings account for over 99 per cent by value of the total investment properties.

Competition

General

There are other significant participants in each of the financial services markets in which Prudential operates. Its competitors include both mutual and stock financial companies. In addition, regulatory and other developments in many of Prudential s markets have blurred traditional financial service industry lines and opened the market to new competitors and increased competition. In some of the Prudential s markets, other companies may have greater financial resources, allowing them to benefit from economies of scale, and may have stronger brands than Prudential does in that market.

The principal competitive factors affecting the sale of Prudential s products in its chosen markets are:

- price and yields offered,
- financial strength and ratings,
- commission levels, charges and other expenses,
- range of product lines and product quality,
- brand strength, including reputation and quality of service,

- distribution channels,
- investment management performance and
- historical bonus/contract enhancement and bonus interest levels.

An important competitive factor is the ratings Prudential receives in some of its target markets, most notably in the United States, from recognised rating organisations. The intermediaries with whom the Prudential works, including financial advisers, tied agents, brokers, wholesalers and financial institutions consider ratings as one factor in determining which provider to purchase financial products from.

Prudential offers different products in its different markets in Asia, the United Kingdom and the United States and, accordingly, faces different competitors and different types of competition in these markets. In all of the markets in which Prudential operates, its products are not unique and, accordingly, it faces competition from market participants who manufacture a varying range of similar and identical products.

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Asia

The competitive landscape across the Asia Pacific region differs widely by geographical market, reflecting differing levels of market maturity and regulation. Prudential s competitors include both the subsidiaries of global life insurers and local domestic (including state-owned) entities. Subsidiaries of global life insurance groups that operate in the Asia Pacific region tend to operate in multiple markets in the region, and some currently have top five market shares in a small number of markets. The majority of local domestic life insurers in the Asia Pacific region remain focused on their core home markets. The developed and liberalised markets of Hong Kong and Singapore are dominated by subsidiaries and branches of global life insurance groups. The developing markets in South East Asia such as Indonesia, Vietnam and the Philippines also see a high level of participation by global life insurance groups. The large and relatively mature markets of Korea and Taiwan are dominated by local domestic insurers. In certain countries with continued foreign ownership restrictions (such as China and India), the life insurance markets are dominated by local domestic insurers or by joint venture entities between global insurance groups and local companies.

The global life insurers that are Prudential s competitors in the Asia Pacific region include AIA, Allianz, Aviva, AXA, and Manulife. Other competitors relevant in some of Prudential s key markets include HSBC Life in Hong Kong, Hanwha Life (formerly Korea Life), Kyobo Life and Samsung Life in Korea, Thai Life in Thailand, Great Eastern in Singapore and Malaysia, and China Life, China Pacific and Ping An in China. Prudential s principal competitors in respect of its fund management operations across the region largely comprise multinational asset manager such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management, Franklin Templeton, Fidelity Worldwide Investment and Aberdeen Asset Management.

United States

Prudential s insurance operations in the United States operate under the Jackson brand. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Jackson s competitors in the United States include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies. National banks, in particular, may become more significant competitors in the future for insurers who sell annuities, due to current legislation, court decisions and regulatory actions. Jackson s principal life insurance company competitors in the United States include AIG, Prudential Financial, MetLife, Lincoln National, AXA Financial, AEGON and Allianz.

Jackson does not have a career agency sales force to distribute its annuity products in the United States and, consequently, competes for distributors such as banks, broker-dealers and independent agents.

United Kingdom

Prudential s principal competitors include many of the major retail financial services and fund management companies operating in the United Kingdom. These companies include Aviva, Legal & General, Standard Life, Scottish Widows, Aegon, AXA, Just Retirement, Zurich Financial Services, Liverpool Victoria, Fidelity, Invesco Perpetual, Jupiter, Threadneedle, Schroders and BlackRock. Prudential competes with other providers of financial products to be included on financial advisors panels of preferred providers.

Intellectual Property

Prudential conducts business under the Prudential , Jackson , M&G and Eastspring Investments brand names and lo
It is also the registered owner of over 100 domain names, including www.prudential.co.uk ,

www.prudentialcorporation-asia.com , www.jackson.com , www.mandg.co.uk , www.eastspringinvestments.com and www.pru.co.uk .

Prudential does not operate in the United States under the Prudential name and there have been long-standing arrangements between it and Prudential Financial, Inc. and its subsidiary, the Prudential Insurance Company of America, relating to their respective uses of the Prudential name. Under these arrangements Prudential Financial Inc has the right to use the Prudential name in the Americas and certain parts of the Caribbean, Japan, Korea and Taiwan and Prudential has the right to use the name everywhere else in the world although third parties have rights to the name in certain countries.

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Legal Proceedings

The Group is involved in a number of litigation and regulatory issues. These include civil proceedings involving Jackson, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. Whilst the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group s financial condition, results of operations, or cash flows.

Sources

Throughout this annual report, Prudential describes the position and ranking of its overall business and individual business units in various industry and geographic markets. The sources for such descriptions come from a variety of conventional sources generally accepted as relevant business indicators by members of the financial services industry. These sources include information available from the Annuity Specs, Asia Asset Management Magazine, Asosiasi Asuransi Jiwa Indonesia, Association of British Insurers, Association of Vietnamese Insurers, Association of Unit Trusts and Investment Funds, Fitch, Hong Kong Federation of Insurers, Hong Kong Office of the Commissioner of Insurance, HSBC Global Research, Insurance Regulatory and Development Authority of India, Insurance Services Malaysia Berhad, Investment Management Association, Life Insurance Marketing and Research Association (LIMRA), Life Insurance Association of Malaysia, Life Insurance Association of Singapore, Life Insurance Association of Taiwan, Lipper Inc., Morningstar, Moody s, Neilsen Net Ratings, Propriety Research, Service Quality Management Group, SNL Financial, Standard & Poor s, Thai Life Assurance Association, The Asset Benchmark Research, The Advantage Group, The Asset, Townsend and Schupp and UBS.

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SUPERVISION AND REGULATION OF PRUDENTIAL

Prudential s principal insurance and investment operations are in Asia, the United Kingdom (UK), and the United States (US). Accordingly, it is subject to applicable Asian, UK and US insurance and other financial services regulation which is discussed below.

Since April 2013, the Prudential Regulation Authority (the PRA) has been Prudential s lead supervisor and played a principal role in assessing and ensuring the adequacy of Prudential s solvency and financial stability on a Group-wide basis. Draft UK legislation in the Bank of England Financial Services Bill proposes to change the PRA s status as a separate legal entity and subsidiary of the Bank of England and instead make it an integral part of the Bank of England itself. A new committee of the Bank of England, the Prudential Regulation Committee (the PRC) will be established to exercise the functions of the PRA. It is anticipated that the draft Bill will be enacted and come into force in the spring of 2016. The PRA brand and objectives will remain unchanged.

The regulators supervising the Group do so on a cross-border basis through a regulatory college . The college meets at an annual event hosted by the PRA and includes a number of non-UK regulators who supervise Prudential s overseas operations, as well as representatives from the Financial Conduct Authority (FCA) and European Insurance and Occupational Pensions Authority (EIOPA). In 2015, other participants included representatives from regulators in Singapore, Taiwan, Hong Kong, Malaysia, Ireland and Michigan (US). The annual PRA college process began in 2014 and EIOPA has full participation rights. The aim of the college is to enhance cooperation and coordination of activities between the Group s key regulators.

As well as coordinating EU-level local regulators and hosting the college described above, since both Prudential s parent company and a significant proportion of its global insurance operations are in the UK, the PRA plays an important coordinating role in regulatory initiatives at a global level. This role is less formal than within the EU and depends principally on the various memoranda of understanding signed with non-EU regulators, including in the US and Asia. In consequence, although the PRA s role as a lead supervisor does not restrict the role of individual local regulators or override the local insurance and other financial services regimes described in the following sections, the PRA s rules and its regulatory agenda impact Prudential s operations globally.

Moreover, because the UK regulatory framework is considerably shaped and influenced by regulations, directives and subsidiary legislation and rules emanating from the EU, the significant Group-wide impact of such rules may, at times, result in legal and regulatory developments in the EU having a significant impact on the business and operations of the Group as a whole.

Global Regulatory Developments and Trends

There are a number of ongoing policy initiatives and regulatory developments at a global level that are having, and will continue to have, an impact on the way Prudential is supervised. These include the work of the Financial Stability Board (FSB) (an international body established to coordinate, develop and promote effective regulatory, supervisory and other financial sector policies in the interests of financial stability) and the work of standard-setting institutions such as the International Association of Insurance Supervisors (IAIS).

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying G-SIIs, and a set of policy measures that will apply to them, which the FSB endorsed. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential s designation as a G-SII was reaffirmed on 3 November 2015. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential s designation as a G-SII. The IAIS is also developing ComFrame which is focused on the supervision of large and complex Internationally Active Insurance Groups (IAIGs). ComFrame will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions.

See the Group Risk Framework section in Item 4 of this document for more on these two regulatory developments.

Similar national and regional efforts to curb systemic risk and promote financial stability are also underway in certain of the jurisdictions in which Prudential operates, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) in the US (further discussed in US Supervision and Regulation Financial services regulatory and legislative issues), and legislation in the European Union related to the financial services industry. The aggregate impact and possible interaction of these regulatory developments is difficult to determine at this stage.

At the national level, regulation and supervisory practice is evolving rapidly as regulators seek to strengthen their regimes in light of the lessons of the financial crisis and the influence of international standards (eg IAIS). The following points are discussed in greater detail in the regional sections below, but are referenced here due to their significant impact.

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

The IAIS Insurance Core Principles (ICP), which provide a globally accepted framework for the supervision of the insurance sector and ComFrame evolution, are expected to create continued development in both prudential and conduct regulations over the next two to three years, particularly in the emerging markets of Asia.

The regulatory environment continues to evolve in Asia, where economies in the region are in various phases of maturity. In general (though there are exceptions), regulators in developing economies continue to build the regulatory framework relevant to their level of economic development. This increased regulatory pressure will continue to affect Prudential s Asian businesses as Asian regulators begin to adopt the new IAIS standards, which is expected to cause sharper focus on risk management systems and in some jurisdictions may result in a requirement to hold more capital to manage asset and liability positions.

Consumer protection continues to be a key theme influencing regulatory change in Asia. For example, in 2015 Bank Negara Malaysia (BNM) finalised the Life Insurance and Family Takaful Framework with the aim of increasing the professionalism of intermediaries, enhancing the transparency around the provision of products and services to consumers and achieving higher levels of insurance and Takaful penetration in Malaysia. Specific initiatives based on this framework will follow during 2016 up to early 2019.

A major focus of regulators and policymakers in recent years has been combating money laundering, terrorist financing, bribery and corruption, as well as enforcing compliance with economic sanctions. Such matters are not limited to certain jurisdictions, although the risks of non-compliance in developing markets are considered higher than in more established markets. In addition, laws in one country can affect how a firm operates in another country. For example, the UK Bribery Act 2010 and the U.S. Foreign Corrupt Practices Act (as amended in 1998) have a very broad jurisdictional reach, allowing for the prosecution of an individual or company with links to the UK or U.S., regardless of where the crime or potential crime occurred.

UK Supervision and Regulation

The Financial Services and Markets Act 2000

Prudential s insurance and investment businesses in the UK are regulated under the Financial Services and Markets Act 2000 (FSMA 2000), as amended by the 2012 Financial Services Act (FS Act). In addition, those businesses are subject to various UK laws (for example, the Data Protection Act 1998 in relation to the processing of customer data and various Pension Acts) some of which require the relevant Prudential entity to be licensed or registered.

UK regulatory regime

There are two principal financial services regulators in the UK:

- The PRA, which oversees micro-prudential regulation of deposit-takers, insurers and some systemically important investment firms; and

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The FCA, which is responsible for conduct of business regulation of all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the market regulatory functions (excluding certain functions which are the responsibility of the Bank of England) previously held by the FSA.

In discharging their respective functions, the PRA and FCA have separate objectives as defined in FSMA 2000 as amended by the FS Act. The general objective of the PRA is to promote the safety and soundness of PRA-authorised persons. The PRA also has an insurance objective, which is to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders. The strategic objective of the FCA is to ensure that the relevant markets that it regulates function properly. The FCA has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

The approach of the PRA and FCA

Close and regular contact between the PRA and FCA and senior management and those individuals in firms performing controlled functions remains a feature of the UK regulatory regime. Both regulators have continued to focus on risk, but with their approaches informed by separate statutory objectives and pursued through distinct supervisory programmes.

Both the PRA and FCA have sought to adopt a more judgement-led approach to supervision while also being more forward-looking in relevant judgments by assessing firms against both current and future risks. The approach of both the PRA and the FCA is also principles-based; reliance on technical rules is insufficient to ensure the correct outcomes are met. This has resulted in a more intrusive and proactive approach to supervision.

The PRA is weighting its supervision towards those issues and those insurers that, in its judgment, pose the greatest risk to its statutory objectives, conducting its assessment work on a continuous cycle. For significant firms such as Prudential, the PRA conducts detailed analysis of their business models including, in the case of an insurer, forming its own projection of the insurer s ability to generate returns and the associated risks. In line with a more interventionist approach, the PRA has indicated that it will require the insurer to change its business model if it believes that mitigating measures alone cannot adequately reduce material risks to safety and soundness and policyholder protection. Both the PRA and the FCA have placed a significant focus on assessing the governance frameworks and culture that exist within financial firms.

The FCA s supervision model is built upon three pillars of supervision activity:

Pillar I is a programme of proactive, firm-specific supervision for the largest firms and groups;

Pillar II is event-driven, reactive supervision, which is focused on dealing with crystallised or crystallising risks in accordance with the FCA s risk appetite; and

Pillar III is the FCA s thematic approach, where it focuses on risks and issues for a sector as a whole.

The FCA is responsible for supervising around 73,000 firms and thus has to allocate its resources by perceived risk. All authorised firms have been allocated to one of the two following conduct categories.

Fixed portfolio firms: Fixed portfolio firms are the largest firms and groups across both retail and wholesale markets. These firms, which include subsidiaries of Prudential, have an ongoing proactive relationship with a dedicated team of supervisors at the FCA and are subject to an ongoing cycle of proactive supervision.

Flexible portfolio firms: Flexible portfolio firms are supervised through thematic and market-based work, along with programmes of communication, engagement and education activity aligned to the key risks identified in the relevant sector.

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While the PRA has prudential responsibility for all deposit takers, insurers and significant investment firms, the FCA is the prudential supervisor for most firms across the financial services industry, such as asset managers, financial advisers, and mortgage and insurance brokers. The FCA is the conduct supervisor for all UK regulated financial services firms.

The FCA s approach aims to minimise the harm to consumers, wholesale market participants and market stability when firms experience financial stress or fail in a disorderly manner. The starting principle is that, if firms are failing, they should be allowed to do so in an orderly manner, regardless of their size. Firms that are solely regulated by the FCA are allocated to one of three prudential categories:

- P1 firms, whose failure would cause lasting and widespread financial and reputational damage to their customers, client assets and the marketplace beyond, are subject to periodic capital and, if applicable, liquidity assessment, conducted by the FCA s prudential specialists every 24 months.

- P2 firms are those whose disorderly failure would damage consumers and client assets but are more easily dealt with than the failure of a P1 firm. They are subject to periodic capital and, if applicable, liquidity assessment, conducted by prudential specialists every 48 months.

- P3 firms are those whose failure, even if disorderly, is unlikely to cause any significant harm to consumers or market integrity. These firms are supervised on a reactive basis.

Whilst some of the UK regulated entities in the Prudential Group are dual regulated, the relevant entities in our M&G fund management business are solely regulated by the FCA and are classified as P1 on the above scale.

Overview of FSMA 2000 regulatory regime

Principles for Businesses and Fundamental Rules

An authorised firm is subject to a range of ongoing regulatory requirements supervised by the FCA and, for dual-regulated firms, the PRA. These include the requirement to meet at all times specified threshold conditions, which include possession of adequate resources for the carrying on of its business and being fit and proper. Key features of the regime are the FCA s 11 Principles for Businesses and the PRA s 8 Fundamental Rules . These cover key areas such as the firm s relationship with the FCA and PRA, the need to conduct business with integrity and the requirement to pay due regard to the interests of customers and treat them fairly.

Main features of regulation applicable to Prudential s insurance and investment businesses

Supervision of management of authorised firms

Until 7 March 2016, the PRA and FCA supervised the management of all authorised firms through the approved persons regime, under which any appointment of a person who performed a controlled function , including functions that enable the exercise of significant influence over an authorised firm, must have been pre-approved by the PRA or FCA, as applicable. Increasingly the regulators are looking to understand how senior managers discharge their responsibilities and are holding them to account for regulatory failings.

A number of senior managers in the Group Head Office were registered as approved persons for certain of the regulated subsidiaries with either just the PRA or both the PRA and FCA, even though in most cases they were not directors or senior managers of those entities. This was in recognition of the significant influence these managers exerted over the regulated subsidiaries.

The new Senior Insurance Managers Regime (SIMR) has applied since 7 March 2016. It was proposed by the PRA in November 2014 and is broadly in line with the regime implemented for the banking sector in the UK, following the Financial Services (Banking Reform) Act 2013. The SIMR replaced the approved persons regime previously in place for insurance firms, and brings extra emphasis on the conduct of senior managers and their individual responsibility for decisions, which could lead to firms facing regulatory censure. Senior managers have core responsibilities prescribed to them, according to their role.

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Under the SIMR, firms have to maintain a governance map that describes their management and governance arrangements and to ensure there are no gaps in the allocation of responsibilities. There are also some changes to the fit and proper requirements under Solvency II, which were implemented at the same time as the SIMR came into force. In addition to the new regime for senior managers, a new set of conduct standards have been introduced which apply to senior managers as well as to a wider class of insurance firm employees to the extent that they perform a key function . A grandfathering exercise took place before the end of March 2016 to ensure staff authorised under the previous regime were transitioned across to SIMR, as appropriate, including those in Group Head Office.

The PRA published a Consultation Paper in May 2015 on corporate governance and board responsibilities. This paper sought views on a draft supervisory statement which drew on the PRA s regulatory experience to identify some key issues for boards to consider, and to which the PRA pays close attention in the conduct of its supervision. The draft statement underscores the collective responsibilities shared by board members, and as such, complements the individual accountabilities which the PRA has introduced through SIMR.

The PRA published a Consultation Paper in September 2015 relating to the implementation of audit committee requirements under the revised Statutory Audit Directive. The requirements apply to a range of firms, including Solvency II insurers. Key provisions include a requirement that the audit committee should be a sub-committee of the Board and membership should consist entirely of independent NEDs. The requirements are consistent with the way that the Group Audit Committee currently functions. However the proposals may have a significant impact on the composition of subsidiary audit committees. The changes will apply to financial years beginning on or after 17 June 2016.

Conduct of Business Rules

The FCA s Conduct of Business Rules regulate the day-to-day conduct of business standards to be observed by authorised persons in carrying on regulated activities.

The scope and range of obligations imposed on an authorised firm under the Conduct of Business Rules varies according to its business and the range of its clients. Generally, however, the obligations imposed on an authorised firm include the need to categorise its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional materials which it produces are clear, fair and not misleading, assess suitability when advising on certain products, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets. Additional details of relevance to the insurance and investment businesses are discussed below.

Authorised firms which advise and sell to retail customers packaged products such as life insurance policies are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

Financial Advice and Fairness

In August 2015, HM Treasury and the FCA announced the launch of the Financial Advice Market Review (FAMR), which is intended to consider the current regulatory and legal frameworks governing the provision of financial advice to consumers, and its effectiveness in ensuring that all consumers have access to the information, advice and guidance necessary to enable them to make effective decisions about their finances. This review:

examined the advice gap for people who do not have sufficient wealth;

ensured the regulatory and legislative environment allows and encourages firms to innovate and grow their business models to include affordable and accessible financial advice; and

considered ways to encourage people to seek financial advice, addressing unnecessary barriers that currently deter them.

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This review considered all types of retail financial products including pensions, savings, mortgages and insurance and reported ahead of the Budget in March 2016. On 14 March 2016, the FCA and HM Treasury published their final report setting out 28 recommendations to increase the accessibility and affordability of the advice and guidance that consumers get in the UK. The recommendations focus on three key areas:

- Affordability: advice and guidance to the mass market should be more cost-effective. Firms should develop more streamlined services and engage with customers in a more effective way. There is a proposal for the FCA to set up a dedicated team to help firms develop large-scale automated advice models to bring these to market more quickly.

- Accessibility: implementing procedures to help consumers engage more effectively with advice. These include making consumers own information more easily available to them and those who advise them; the development of rules of thumb and the use of nudges to encourage customers to seek support at key life stages. The report also recommends measures to help employers to give more support to their staff on financial matters.

- Liabilities and consumer redress: recommendations to increase clarity and transparency about the way in which the Financial Ombudsman Service deals with consumer complaints. The report also makes recommendations in relation to the FCA s review of funding of the Financial Services Compensation Scheme to assist advisers struggling to predict and budget for the levy they have to pay.

The FCA announced in 2014 that it would assess whether life insurance firms are operating historic (often termed legacy or heritage) products in a fair manner. For example, the project assessed:

- whether firms strategies towards these business lines adequately consider the fair treatment of customers;

- to what extent firms review legacy products to ascertain whether they remain fit for purpose;

- whether customers receive appropriate information about policy benefits;

- the causes of poor fund performance and whether apportionment of costs and expenses to these products is fair; and

- the nature and extent of discontinuance charges that potentially inhibit customers from switching to better performing products.

On 3 March 2016, the FCA published a report setting out its findings from the above thematic review covering eleven firms, including Prudential s UK business. The FCA has issued a statement clarifying that in order to address the findings identified by the thematic review, it will consult on guidance which will provide firms with extra detail on the actions they should be taking in order to treat their closed-book customers fairly in the future. In addition, the FCA will convene an industry-wide discussion with the aim that the industry reaches a voluntary solution to capping or removing exit and/or paid-up charges on relevant products.

In addition, the FCA announced in its statement that further work is required to consider whether six of the eleven firms (including Prudential s UK business) have failed to meet the FCA s standards in relation to disclosure to customers of exit and paid-up charges and, if so, whether remedial and/or disciplinary action is necessary or appropriate in relation to these firms or others across the market. These investigations have commenced and will enable the FCA to establish the reasons for the practices within firms; whether customers have suffered detriment as a result and how widespread any practices are within the six firms. The FCA has stated that no conclusion has been reached as to whether there have been any breaches of regulatory requirements.

The Independent Project Board (IPB), which was responsible for overseeing the audit of charges and benefits in legacy defined contribution workplace pension schemes, issued its report in December 2014. Providers of schemes where savers are potentially exposed to high charges or where savers face exit charges were asked to review their data and identify what actions could be taken to improve outcomes for savers. Prudential considered the report findings and, working alongside governance bodies, an implementation plan was agreed by the end of 2015, to be delivered during 2016.

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Consumer protection, the Financial Ombudsman Service (FOS), the Financial Services Compensation Scheme (FSCS) and the Pension Protection Fund (PPF)

The consumer protection agenda in the UK is within the remit of the FCA. The FCA s focus is on product scrutiny, sales practices and firms cultures, including assessment of how remuneration structures affect consumer outcomes. In addition, the FCA has a specific remit to promote competition within the financial services industry.

Authorised firms must have appropriate complaints handling procedures, the standards for which are defined in the FCA Handbook. However, once these procedures have been exhausted, qualifying complainants may turn to the FOS. The Ombudsman is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as the Ombudsman determines to be just and appropriate in order to remedy a complaint.

The FSCS is intended to compensate individuals and other groups of eligible claimants , including certain trustees for claims against an authorised firm where the authorised firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). Both the PRA and the FCA have rule-making powers for the FSCS, and the FSCS is accountable to both regulators.

In addition, the PPF is a statutory fund aimed at protecting members of eligible pension schemes where their employer (or a past employer) has become insolvent and the pension scheme can no longer afford to pay the promised pension.

All the above schemes are funded by levies on the UK financial services industry.

Financial Crime

The prevention of financial crime is a key element of the FCA s statutory remit to protect the integrity of the UK financial system. The FCA has responsibility for preventing firms from being used as a channel for financial crime. This includes anti-money laundering, sanctions, and anti-bribery and corruption. As one of the lead supervisors of Prudential, the FCA has this responsibility for the whole Group. The FCA requires firms to put in place systems and controls to mitigate financial crime, and it examines these as part of its proactive supervision agenda on an ongoing basis.

The UK is a member of the Financial Action Task Force (FATF), an international body that sets the standard for anti-money laundering and sanctions. The FATF conducts scheduled mutual evaluation reviews of member countries and these help anticipate future regulatory expectations. The UK will be subject to its next evaluation by 2018.

The UK financial crime landscape is set for changes as Member States must implement the Fourth EU Money Laundering Directive by December 2016. UK firms will be required to comply with the updated requirements.

UK firms are required to disclose suspicions of money-laundering to the National Crime Agency. The FCA can take enforcement action against firms that fail to effectively manage their financial crime risks.

Regulation of insurance business

Most of Prudential s subsidiaries that carry on insurance business in the UK, including The Prudential Assurance Company Limited (PAC), Prudential Retirement Income Limited, Prudential Pensions Limited and Prudential Holborn Life Limited are dual-regulated firms, meaning that they are regulated by the PRA for prudential purposes and by the FCA for conduct purposes. The exceptions are Prudential Distribution Limited, Prudential Financial Planning Limited and Scottish Amicable ISA Managers Limited, which are regulated by the FCA only due to their business model.

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Capital requirements for insurers

As noted above, in order to maintain authorised status under the FSMA 2000, firms must continue to satisfy certain threshold conditions, which, inter alia, require firms to have adequate resources for the carrying on of their business. The majority of the rules which govern the prudential regulation of insurers are currently found in the Minimum Capital Requirement , Own Funds and Solvency Capital Requirement parts of the PRA Rulebook, which came into force to implement Solvency II on 1 January 2016.

Solvency II is the new prudential framework for insurance companies. This repeals and replaces the existing Life, Non-life, Re-insurance and IGD directives. The main aim of this framework is to ensure the financial stability of the insurance industry and protect policyholders through solvency requirements better matched to the true risks of the business. The framework is outlined in the Solvency II Directive, with much of the detail in the rules set out in Level 2 implementing measures. These measures are accompanied by further requirements developed by EIOPA, namely the Implementing Technical Standards, which aim to ensure the uniform application of the Solvency II Directive and Guidelines necessary to guarantee convergence of the Solvency II implementation.

In the UK, the PRA was responsible for implementation of the Solvency II framework. Solvency II adopts a three-pillar approach to prudential regulation, which is similar to the CRD IV approach that has already been adopted in the banking sector in Europe.

Although the Solvency II Directive has similarities to the previous UK regime set out in GENPRU and INSPRU in terms of its risk-based approach to the calculation of capital requirements and use of capital tiering, there are also many differences both in terms of substance and terminology. For example, while both regimes share the principle of a market consistent valuation of assets and liabilities, there are differences in the detailed valuation methodologies.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurers have been encouraged to improve their risk management processes and are allowed to make use of internal economic capital models to calculate capital requirements, subject to approval by the local regulator (the PRA in the UK). In addition, Solvency II requires firms to develop and embed an effective risk management system as a fundamental part of running the firm.

The new regime also requires firms to disclose a considerably greater level of qualitative and quantitative information than under current rules, both to their own supervisor through Regular Supervisory Reporting (RSR) and to the market through the publication of a Solvency and Financial Condition Report (SFCR). This is intended to increase transparency, allowing easier comparison across the industry and enabling supervisors to identify sooner if firms are heading for financial difficulty. In turn, increased transparency is intended to drive market discipline, arising from the reaction of ratings agencies and the capital markets to firms performance.

During 2015, Prudential submitted a number of Solvency II applications to the PRA. Following review of these applications the PRA confirmed that Prudential has been granted the following Solvency II approvals:

- Approval for use of a partial internal model to calculate the Group Solvency Capital Requirement (SCR) as well as solo SCRs for each European based insurance entity

Approval for use of the Deduction & Aggregation (D&A) method to bring material US insurance entities and their subsidiaries into the Group SCR. This approval was granted for a period of three years (until 31 December 2018) following approval of final Delegated Acts relating to US provisional Solvency II equivalence.

Approval for use of both the matching adjustment and transitional measures for relevant UK solo insurance entities.

Approval to exclude a small number of immaterial entities from the scope of Group supervision under Solvency II.

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Further details on the Group Solvency II capital position at 31 December 2015 are set out in the Capital Management section within Item 4.

Key insurance functions

From 1 January 2016, the PRA Rulebook has contained the concept of Key Functions . These are functions whose operation, if not properly managed and overseen, could potentially lead to significant losses being incurred or to a failure in the ongoing ability of the firm to meet its obligations to policyholders. The system of governance of each Solvency II insurance firm and group needs to cover at least the following key functions: risk management, compliance, internal audit, and actuarial.

Solvency II insurers were required to notify the PRA of its Key Function Holders by 1 January 2016. In addition, as part of the SIMR which came into force on 7 March 2016, firms are required to make an ongoing assessment of the fit and proper status of all Key Function Holders. Solvency II insurers also need to prepare and maintain a governance map. This should set out clearly the key functions at the firm and the Key Function Holders responsible for these functions, along with their lines of accountability and responsibility both within that firm and any wider group.

There is a requirement for every insurance company that carries on long-term business to appoint one or more actuaries to perform the actuarial function in respect of all classes of its long-term insurance business and the with-profits actuary function in respect of all classes of its with-profits business (if any). Alongside the with-profits actuary, and also forming part of the second line of defence from a compliance perspective, with-profits businesses are required to appoint a with-profits committee. This committee is composed of independent persons and acts in an advisory capacity to inform the decision-making of an insurer s governing body and to ensure that the interests of with-profits policyholders are adequately considered. The with-profits committee advises on the appointment of, and works closely with, the with-profits actuary.

The actuary performing the actuarial function must prepare, at least annually, a report for the company s directors quantifying the company s long-term liabilities attributable to the insurance company s long-term insurance business, determining the value of any excess over those liabilities of the assets representing the long-term insurance fund and, where any rights of long-term policyholders to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of each of those parts.

The actuary performing the with-profits actuary function must, amongst other responsibilities, advise the firm s management on key aspects of the discretion to be exercised affecting these classes of the with-profits business of the firm, and, at least once a year report to the firm s governing body on key aspects (including those aspects of the firm s application of its Principles and Practices of Financial Management (PPFM) on which the advice described above has been given) of the discretion exercised in respect of the period covered by his report. All firms that carry on with-profits business are required to publish the PPFM that are applied in the management of their with-profits funds.

With-profits business

The with-profits business has long been an area of focus for regulators, including: the costs charged to a with-profits fund by the firm managing the fund; penalties and charges levied on policyholders who surrender their policies early; the need for funds to be managed with the objective of ensuring that maturity payouts fall within a target range set for the fund; and the provision of information to with-profits policyholders or potential policyholders in a format that they can readily understand.

The PRA and FCA share responsibility for the supervision of with-profits business. Certain rules in relation to the with-profits business are contained in the With Profits part of the PRA Rulebook following the implementation of Solvency II on 1 January 2016. Changes in rules are proposed to align the UK s with-profits regulatory regime with Solvency II. The PRA views the regulation of with-profits business as an important element of its approach to insurance supervision. The PRA and FCA will continue to liaise on the regulation and supervision of with-profits business according to the framework set out in the with-profits Memorandum of Understanding dated 1 April 2013. The PRA seeks to ensure that any discretionary benefit allocations or other changes with financial implications that the insurer has proposed are compatible with its continued safety and soundness, whereas the FCA has responsibility for monitoring whether the proposed changes are consistent with the insurer s previous communications, the FCA s conduct rules and the overriding obligation to treat customers fairly. The PRA has the power to prevent allocations being made if they would materially impair the firm s safety and soundness.

Pensions

In April 2005, the Pensions Regulator was set up as the statutory regulator for all work-based pension schemes. Pensions schemes are regulated independently of the PRA and FCA, by the Pensions Regulator, although there is also a role for the FCA in respect of contract-based schemes. A work-based pension scheme is any scheme that an employer makes available to employees. There is also a separate Ombudsman, the Pensions Ombudsman, who investigates and decides complaints and disputes over the manner in which pension schemes are run.

In March 2014, the UK government announced wide-ranging changes affecting pensions to allow people the freedom to choose how and when to access their pensions during retirement. There have been impacts on the retirement market specifically for drawdown. Individuals, up until the time of this announcement, opted for an annuity at retirement that would pay an income for life, unless their pots were *de minimis*. The alternate to an annuity was for individuals in Direct Contribution schemes to consider income drawdown, with compulsory annuitisation at age 75 at the latest. From April 2015, it has been the case that, regardless of size of pension pot, people aged 55 and over have been able to access their pension funds at their discretion, subject to their applicable marginal rate of income tax that year. The age 75 limit has now been removed.

From April 2015, defined contribution workplace pensions have been subject to new regulatory measures, including charging constraints and additional requirements for scheme governance and disclosure. This has entailed changes to the fund proposition and system enhancements. Active members of qualifying schemes for auto-enrolment who previously contributed to default funds that are not charge cap compliant, have only been able to continue to contribute to such funds where they specify to do so. For contract-based schemes, the Department of Work and Pensions and the FCA have required providers to set up Independent Governance Committees (IGCs) with a broad Treating Customers Fairly and Value for Money remit. The IGC will also monitor progress in respect of the IPB initiative on fair treatment for individual leavers.

HM Treasury consulted in July 2015 on strengthening the incentive to save and how pensions tax relief influences this.

The direct financial impact of these changes has included an increase in ongoing operating costs and probable reductions in profit margins for all firms operating in this sector. This may be offset by an increase in market share, if the measures lead to further industry consolidation. It is still too early to know the impact of these changes on Prudential UK in particular.

Regulation of investment business

Certain of Prudential s subsidiaries are authorised to carry on investment business and are subject to regulation and supervision under FSMA 2000. UK asset management can also be subject to additional regulation in other jurisdictions in which they operate. For example, certain M&G UK subsidiaries which operate outside of the UK are also subject to regulation by local regulatory authorities.

Markets in Financial Instruments Directive (MiFID)

MiFID sets out detailed authorisation and operating conditions for investment firms and regulated markets. In October 2011, the European Commission published proposals to amend MiFID, the MiFID2 Directive and introduce a new Markets in Financial Instruments Regulation (MiFIR). Implementation of the new laws was due to take effect from 3 January 2017. However, the detailed Level 2 rules are still in consultation and as a result it was confirmed by the European Commission in February 2016 that implementation of the new markets framework in the EU has been delayed by one year. However, firms still face a challenging implementation period, with the detailed rules yet to be finalised.

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Once they take effect, MiFID and MiFIR will have a broad impact on the financial markets in Europe. The new regulations are wide ranging and the greatly increased pre- and post-trade transparency around fixed income trading and ban on all independent advisors and discretionary portfolio managers from retaining most inducements are likely to impact the M&G investment management business. M&G has begun taking measures to comply with the draft rules, though further changes may need to be made once these rules are finalised.

Packaged Retail Insurance-Based and Investment Products Regulation (PRIIPs)

In order to facilitate similar disclosure for all investment products sold to retail clients (including insurance contracts), the European Commission proposed adopting a modified version of the Key Investor Information Document (KIID) for all such products. The KIID will be a two-sided information sheet that will give investors all the key facts and figures about a fund. PRIIPs was agreed by the European Parliament and EU Council of Ministers in March 2014 and will take effect in December 2016. The relevant entities in the M&G Group to which PRIIPs will apply are currently reviewing the draft Level 2 rules and expect to begin an implementation project shortly.

Undertakings in Collective Investments and Transferable Securities Directive (UCITS V)

Following the publication of the Alternative Investment Fund Managers Directive (AIFMD), the European Commission proposed to incorporate some of its provisions on depositaries, remuneration and sanctions into the existing mutual funds directive, UCITS IV. UCITS V was agreed by the European Parliament and EU Council of Ministers in March 2014 and entered into effect in March 2016. The relevant M&G Group entities to which UCITS V will apply are currently reviewing the draft Level 2 rules concerning increased depository liability, in order to incorporate the relevant provisions into the depository contracts. Given that these rules are not likely to be agreed by the EU legislators until after March 2016, it is expected that full implementation of UCITS V will be delayed by at least six months.

European Market Infrastructure Regulation (EMIR)

The Regulation of the European Parliament and of the Council on OTC derivative transactions, central counterparties (CCPs) and trade repositories, widely known as European Market Infrastructure Regulation, or EMIR , came into force on 16 August 2012, with its key provisions taking effect on a phased basis. Full implementation is expected to be achieved by the end of 2019. EMIR s rules are intended to lessen risk and increase transparency within the OTC derivative markets by introducing for most counterparties: (i) a reporting obligation for all derivatives; (ii) a clearing obligation for eligible OTC derivatives; (iii) measures to reduce counterparty credit risk and operational risk for bilaterally traded OTC derivatives, including through collateral requirements; (iv) common rules for CCPs and for trade repositories; and (v) rules on the establishment of interoperability between CCPs.

The relevant EU-domiciled Prudential Group entities have implemented the necessary changes to comply with EMIR requirements currently in effect, including the start of reporting practices and measures to reduce risk for bilaterally traded OTC derivatives. The clearing obligation for certain interest-rate derivatives will apply to Prudential Group entities and a few M&G funds on 21 December 2016 and preparation of the operational capacity to clear OTC derivatives trades is well underway.

Market Abuse Directive / Regulation (MAD2 / MAR)

Following a review of the EU s Market Abuse Directive (MAD), the European Commission proposed a new Market Abuse Regulation (MAR) and a new Market Abuse Directive (MAD2) in October 2011. The proposals included extending the scope of MAD to new trading venues, determining that attempted manipulation and use of inside information constitute market abuse, and providing for a minimum EU-wide level of administrative sanctions and criminal liability for more serious market abuse.

MAD2 and MAR were adopted by the European Parliament in June 2014 and will take effect in July 2016. The UK Government has announced that it will not exercise its right under the Lisbon Treaty to opt into MAD2, preferring instead to maintain a modified version of the existing UK current regime for market abuse. M&G is currently implementing the revised rules based on the draft Level 2 implementing legislation and standards; further changes may follow once these standards have been agreed.

Financial Transaction Tax (FTT   )

In February 2013, the European Commission proposed a Council Directive implementing a procedure of   enhanced cooperation   on a common FTT for a sub-group of eleven EU Member States. One of these eleven EU member States (Estonia) withdrew its support for the FTT in December 2015. Although the UK is not one of the participating Member States, under the current proposal, the FTT could in certain circumstances apply to transactions in the UK. If a FTT were to be implemented in its proposed form, M&G may need to review its trading strategy and, from an operational perspective, make changes necessary to comply with any tax collection mechanism established. The FTT remains subject to negotiation amongst the participating Member States and may be the subject of a legal challenge.

Regimes for the exchange of tax information

Financial institutions in the UK are increasingly being required to provide certain information about their customers, or persons who control their customers, to HMRC. This is due to the introduction and domestic implementation of various international reporting and transparency regimes, including FATCA, the OECD s Common Reporting Standard (the   CRS   ) and the EU directive on administrative cooperation in the field of taxation (the   DAC   ). The information obtained by HMRC may be exchanged with tax authorities in other countries. The obligations of UK financial institutions to report information to HMRC for the purposes of FATCA, the CRS and the DAC are set out in International Tax Compliance Regulations 2015 (SI 2015/878) (the   International Tax Compliance Regulations   ).

For further information about the impact of FATCA, please see   US Supervision and Regulation   Implementation of US Foreign Account Tax Compliance Act (FATCA   ) provisions   below.

Asian Supervision and Regulation

1. Regulation of insurance business

Prudential s businesses in Asia are subject to all relevant local regulatory and supervisory schemes. These laws and regulations vary from country to country, but it is the local regulators that typically grant (or revoke) licenses and therefore control the ability to operate a business.

Industry regulations are usually widely drawn and include provisions governing both financial matters and the way business is conducted. In general, regulatory regimes will include features governing the registration of agents, regulation of product features, approval of products, asset allocation, minimum capital, the basis for calculating the company s solvency and reserves, the valuation of policyholder liabilities, conditions for outsourcing non-core functions, policyholder and investor protection, as well as anti-money laundering (AML   ) and   know your client requirements and data protection requirements. Regulatory authorities may also regulate affiliations with other financial institutions, shareholder structures and the injection of capital and payment of dividends. Financial statements and other returns are filed with the regulators. The regulators may also conduct physical inspections of the operations from time to time. A number of jurisdictions across Asia require insurance companies to participate in policyholder protection schemes (ie contribute to a fund to support policyholders in the event of an insurance company failing).

The increasingly extraterritorial approach of certain regulators outside Asia, aimed among other things at protecting financial systems from systemic risks and curbing tax avoidance, could have wider consequences on financial groups in the Asia-Pacific region. For example, financial institutions are increasingly being required to comply with new tax information exchange/disclosure regulations or standards with extraterritorial reach such as FATCA (see   US

Supervision and Regulation Implementation of US Foreign Account Tax Compliance Act (FATCA) provisions below) and the Organisation for Economic Co-operation and Development s Common Reporting Standard (see further sections on FATCA under US regulations below) which aims to increase global tax transparency and improve international tax compliance. Significant changes to business processes and systems are required by Prudential s businesses in Asia in order to comply with the new requirements to identify and report on non-local tax residents.

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The effects of anti-bribery legislation in the UK, US and elsewhere have also become increasingly significant outside of such legislations home jurisdictions. Further, Prudential Corporation Asia s (PCA s) business units will be required to adhere to Prudential s group-wide policy designed to comply with the EU Solvency II requirements (although they will not each be required to comply with the Solvency II capital requirements on a solo entity basis). Asian regulators are monitoring closely how Solvency II is developed and implemented but are not currently requiring regulated insurance entities to comply.

Certain additional details of the regulatory regimes to which PCA s insurance operations are subject are discussed below:

Indonesia PT. Prudential Life Assurance

Overview

PT. Prudential Life Assurance is authorised to carry on long-term (ie, for an indefinite period) insurance business in Indonesia. Prudential s operations in Indonesia are authorised to distribute life insurance products based on either conventional or Shariah principles, through agency and bancassurance (including direct marketing) channels.

The Otoritas Jasa Keuangan (OJK) is the regulator responsible for supervising the banking industry, capital markets and the insurance industry. Established as an independent regulator in 2013, the OJK has assumed supervisory responsibility of the non-bank financial institutions from the Ministry of Finance (MoF) and the banking sector from Bank Indonesia (BI). The financial regulatory regime in Indonesia now operates on a twin peaks model with the OJK responsible for microprudential supervision and BI retaining its macroprudential responsibilities. The Indonesia Life Insurance Association (AAJI) continues to act as a conduit between insurers and the MoF and OJK in terms of the development of new regulations and guidelines. Insurance sales forces are licensed by the AAJI. The Indonesia Sharia Insurance Association (AASI) acts in the similar capacity as AAJI in relation to the Shariah (known as Syariah in Indonesia) business. The implementation of AML controls in the insurance industry is monitored by the Indonesian Financial Transaction Reports and Analysis Center (or Pusat Pelaporan dan Analisis Transaksi Keuangan in Indonesian (the PPATK)).

While the regulations for life products based on conventional principles are fully developed (in accordance with current market conditions), the government has promulgated new regulations in relation to life products with Shariah principles. OJK is expected to provide more clarity on the implementation plan and timelines in 2016. An OJK consultation on Regulation on Insurance Products and Marketing of Insurance Products , initiated in November 2014, proposed further requirements on product design, risk profiling questionnaire and disclosure. The regulation came into effect in November 2015.

Pursuant to Law Number 40, year 2014, the Indonesia Government will discuss in the Indonesia Parliament the maximum cap on foreign ownership and issue new regulations in due course. The Indonesia Ministry of Finance is responsible for drafting definitive rules on the maximum cap for foreign ownership, but to date nothing has been issued, including any implementation timeline.

Capital requirements

The minimum capital requirement for insurers who operate in Indonesia is Indonesian Rupiah (IDR) 100 billion. Further, the minimum regulatory requirement for solvency margin is 120 per cent, which is a percentage of net admitted assets, as defined by the regulation, to the minimum risk-based capital for regulatory solvency.

In March 2014, the OJK instituted an annual levy on insurance companies for general OJK supervision in accordance to Regulation 11 of 2014. The quantum of the levy imposed is 0.045 per cent of the value of the assets, with a minimum of IDR 10 million (US$770).

In December 2015, the OJK issued a draft regulation on minimum integrated capital for financial conglomerates. The draft regulation requires the minimum paid-up capital of the holding company/main entity of a financial conglomerate to be equal to the total amount of the minimum capital requirement imposed on each of its existing business units in Indonesia.PT. Prudential Life Assurance is the holding company and main entity of its financial conglomerate in Indonesia with PT. Eastspring investments Indonesia as its sole member.

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Singapore Prudential Assurance Company Singapore (Pte.) Limited

Overview

Prudential Assurance Company Singapore (Pte.) Limited is registered by the Monetary Authority of Singapore (the MAS) to design and sell both life and accident & health insurance products pursuant to the Singapore Insurance Act and Financial Advisers Act.

Under the Singapore Insurance Act, the MAS is responsible for insurance regulation and supervision of insurance companies. MAS regulation covers, among other things, product development, pricing and management of insurance products, market conduct standards, investments undertaken, public disclosure requirements, reinsurance management, maximum representatives tier structure, loans and advances and product disclosure. The MAS also has responsibility for supervising compliance with AML provisions, though suspicious transactions must also be notified to the Commercial Affairs Department, an enforcement agency of the Singapore Police Force.

In addition, the Singapore Financial Adviser Act gives the MAS the authority to regulate and supervise all financial advisory activities conducted by insurance companies. MAS regulation covers, among other things, the appointment and training of representatives, disciplinary action, mandatory clients disclosure, sales and recommendations process on investment products, replacement (switching) of investment products and fair dealings with customers. Mandatory clients disclosure covers both product information and basic data about the representatives and the firm.

In 2012, the MAS conducted the Financial Advisory Industry Review (FAIR) with the aim of raising the standards and professionalism of the financial advisory industry and enhancing the market efficiency of the distribution of life insurance and investment products in Singapore. Arising from the FAIR Panel s recommendations, the MAS implemented in 2015 some key changes to the industry, namely a balanced scorecard remuneration framework that rewards the provision of quality advice in order to align the interest of representatives with that of customers, a direct channel through which basic insurance products can be purchased with a nominal administration fee and a web aggregator to enhance comparability amongst life insurance products.

Another relevant regulatory authority for the Singapore business is the Central Provident Fund (the CPF) Board, which acts as a trustee of social security savings schemes jointly supported by employees, employers and the government. The CPF Board regulates insurers in the operation of various CPF schemes including the CPF Investment Scheme where CPF monies are used by policyholders to purchase insurance policies such as annuities and investment linked policies.

The MAS and CPF Board have very detailed regulatory frameworks to govern insurance companies and the distribution of insurance products in Singapore.

Capital requirements

The capital adequacy requirement of a registered insurer shall at all times be such that the financial resources of the insurer are not less than (a) the sum of: (i) the aggregate of the total risk requirement of all insurance funds established and maintained by the insurer under the Singapore Insurance Act; and (ii) where the insurer is incorporated in Singapore, the total risk requirement arising from the assets and liabilities of the insurer that do not belong to any insurance fund established and maintained under the Singapore Insurance Act; or (b) a minimum amount of $5 million Singapore Dollars (US$3.58 million), whichever is the higher.

Registered insurers in Singapore are subject to a Risk Based Capital (RBC) framework. The framework sets out the valuation methodology for assets and liabilities, rules relating to the operations of life insurance funds, capital requirement rules, the role of actuaries, and a set of statutory reporting standards. An insurer must notify the MAS when it has failed or is likely to fail to comply with the mandated RBC indicators or when a financial resources warning event, defined as an event that results in the financial resources of the insurer being less than 20 per cent of the aggregate of (a) mentioned immediately above, or a minimum amount of 5 million Singapore Dollars, has occurred or is likely to occur.

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The MAS also has the authority to direct that the insurer satisfy capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if the MAS considers such additional requirements appropriate.

Hong Kong

Overview

Prior to 2014, the Hong Kong insurance business operated as a branch of PAC. Accordingly, the branch was indirectly regulated by UK regulators, as a result of PAC s requirements to satisfy relevant UK capital requirements in addition to those of the local laws and regulations. Its insurance operations were directly regulated by the relevant Hong Kong regulators.

The Hong Kong branch of PAC was domesticated on 1 January 2014, creating two subsidiaries, Prudential Hong Kong Limited (PHKL) and Prudential General Insurance Hong Kong Limited (PGHK), to separately manage the life and general businesses. Both entities market conduct is regulated by the relevant regulators in Hong Kong.

The Office of the Commissioner of Insurance (the OCI) is currently the regulatory body that administers the Insurance Companies Ordinance (the ICO). The OCI is headed by the Commissioner of Insurance who has been appointed as the Insurance Authority (the IA) for administering the ICO. The principal functions of the IA are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry, including by authorising insurers to carry on insurance business in Hong Kong, regulating insurers conduct primarily through the examination of the annual audited financial statements and business returns insurers submit, and development of legislation and guidelines on insurance supervision. A key supervisory responsibility relates to solvency margin requirements contemplated by the ICO, as further discussed below.

In October 2013, a working group was established to ensure a smooth transition to the statutory licensing regime under the Independent Insurance Authority (IIA). Legislation was enacted by way of the Insurance Companies (Amendment) Ordinance 2015 to facilitate the establishment of the Provisional Insurance Authority in 2015 and the IIA tentatively by 2016/2017. Both subsidiaries are also subject to the codes and guidance developed by a self-regulatory body the Hong Kong Federation of Insurers (the HKFI). HKFI actively promotes its self-regulatory regime with respect to areas like conduct of insurers and insurance intermediaries, cooling off initiatives, policy replacement and initiative on needs analysis. The Insurance Agents Registration Board of the HKFI is responsible for administering the registration and approval of insurance agents, their responsible officers and technical representatives; and handling complaints against them and providing enquiry services to and handling complaints from the public relating to insurance agents.

In addition, the sale of mandatory pension products by agents is regulated by the Mandatory Provident Fund Authority (the MPFA), which licenses and supervises the conduct of MPF intermediaries.

The Hong Kong Life business is also regulated by the Hong Kong Securities and Futures Commission (the SFC) for its offering of investment linked products.

The OCI published two guidance notes (GN15 and GN16), on 30 July 2014 and 30 July 2015, respectively. GN15 came into operation on 1 January 2015 and sets out the comprehensive requirements for insurers underwriting Class C business (ie investment linked assurance scheme policies) from product design to clarification of illustration, sales and underwriting processes, as well as post-sales control. GN16 applies to long term insurance other than Class C business and aims to promote transparency and fair customer treatment. The key requirements of GN 16 include management supervision, product design, clear information disclosure, suitability assessment, advice to customers, appropriate remuneration structure, ongoing monitoring, and post-sale control. GN16 applies to all new products from 1 April 2016 and existing products from 1 January 2017.

Capital requirements

Under the ICO, an insurer is required to maintain at all times an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer s assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating results or the value of its assets and liabilities.

For long-term business insurers, the ICO stipulates an absolute minimum solvency margin of HK$2 million. Above this minimum level, solvency margins are determined in accordance with the Insurance Companies (Margin of Solvency) Regulation (Chapter 41 F of the Laws of Hong Kong), which sets out a series of calculations to be used depending on the particular class of long-term business involved.

For general business insurers, the ICO stipulates an absolute minimum solvency margin of HK$10 million. Above these minimum levels, solvency margins are calculated on the basis of the greater of an insurer s relevant premium income (defined as the greater of gross premium income after deduction of reinsurance premium payments or 50 per cent of gross premium income) or relevant outstanding claims (defined as the additional amount for unexpired risks plus the greater of 50 per cent of claims outstanding before deduction of sums recoverable from reinsurers or the amount of claims outstanding after deduction of sums recoverable from reinsurers, plus the insurance fund for classes accounted for on a fund accounting basis, if any).

There was also a consultation by the IA in considering moving towards a risk-based capital (RBC) regime. The IA published in September 2015 the conclusions on the RBC framework stating, inter alia, that the RBC regime would be developed in four phases.

Malaysia Prudential Assurance Malaysia Berhad

Overview

Prudential Assurance Malaysia Berhad has a composite licence to carry out both life and general insurance business in Malaysia.

The Bank Negara Malaysia (BNM) is the central bank of Malaysia and is the regulatory body responsible for supervising and regulating the financial services sector, including the conduct of insurance and Takaful business. BNM places considerable emphasis on fair market conduct by the insurance industry and protection of consumers interests. BNM is also responsible for administering legislation in relation to AML matters. Further, under the Financial Services Act, 2013 (the FSA), BNM may enforce sanctions on financial institutions.

In addition, Prudential Assurance Malaysia Berhad is a member of the Life Insurance Association of Malaysia and the General Insurance Association of Malaysia, which are both self-regulated bodies. Resolutions and circulars issued by these associations are binding on the member insurance companies.

The regulatory and supervisory framework of Malaysia entered a new stage of its development with the introduction of the FSA on 30 June 2013. The FSA is now the principal legislation governing insurance business in Malaysia. Under this new statutory framework, insurers are required to restructure their lines of business. Composite insurers will be required to establish separate entities or divest one of their lines of business within a period of five years. The regulations also require additional resources to be allocated to address any weaknesses of internal controls within the business. The FSA also places greater accountability on the board of directors and senior management in their management and oversight of an insurer. Prudential Assurance Malaysia Berhad, to the extent applicable, has established policies and procedures to ensure compliance with the FSA.

During 2014, BNM issued a number of guidelines aimed at further enhancing the effectiveness of the control functions, governance framework and overall supervision of both conventional insurers and Takaful operators. In

2015, BNM has continued doing so by issuing two separate policy documents on Management of Participating Life (PAR) Business and Compliance. The policy document on PAR business sets out requirements for management of PAR business so as to promote sustainability of the business and the protection of policyowners interests. The policy document on compliance aims to promote higher standards of compliance in financial institutions, highlighting the importance of a strong compliance culture underpinned by high ethical standards and integrity and clear responsibilities of the board and senior management, compliance function and internal audit function. This policy document also stressed the importance of setting the tone from the top and encouraged management not only to adhere to regulatory requirements, but also high standards of ethical conduct.

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Following up on the concept paper on Life Insurance and Family Takaful Framework (LIFE Framework) which BNM published in November 2013, BNM issued the finalised LIFE Framework in November 2015. The LIFE Framework aims to promote innovation and a more competitive market supported by higher levels of professionalism and transparency in the provision of insurance and Takaful products and services. This will be achieved through specific initiatives introduced under the 3 Pillars of the LIFE Framework.

- Under Pillar 1, limits on operational costs will gradually be removed to promote product innovation while preserving policy value.
- Under Pillar 2, distribution channels will be widened. Life insurance/family Takaful products will be accessible to consumers through a wide range of delivery channels that are most convenient and appropriate.
- Under Pillar 3, market conduct in general will be strengthened to enhance consumer protection. The level of professionalism of intermediaries is proposed to be enhanced so as to ensure consumers are given proper advice.

The LIFE Framework is expected to be implemented in phases by BNM between 1 December 2015 to 1 January 2019 to take into account the current state of readiness of the life insurers, family Takaful operators and intermediaries, and the level of consumer awareness and literacy.

Capital requirements

Minimum paid up share capital for insurers is RM 100 million (US$24 million).

BNM has introduced an RBC framework aimed at improving the risk management practices of insurers. Under the RBC framework, insurers are required to maintain a capital adequacy level that is commensurate with their risk profiles. Each insurer is required to determine the adequacy of the capital available in its insurance and shareholders fund to support the total capital it requires. This serves as a key indicator of the insurer s financial resilience and is used by BNM to determine the need for supervisory interventions.

Under the RBC framework guidelines, the Board of Directors and senior management of an insurer are also expected to identify, monitor and control risks which are not adequately addressed under the framework. An insurer is also expected to manage actively its capital adequacy by taking into account the potential impact of its business strategies on its risk profile and overall financial resilience. BNM has set a Supervisory Target Capital Adequacy Level of 130 per cent.

BNM implemented the internal capital adequacy assessment process (ICAAP) regime for the insurance sector in September 2012. This set out the framework for meeting risk-based capital requirements. The ICAAP is a comprehensive and forward-looking assessment which requires insurance companies to consider material risks and to demonstrate how these risks will be addressed by their capital management program.

Malaysia (Takaful business) Prudential BSN Takaful Berhad

Overview

Prudential BSN Takaful Berhad (Prudential Takaful) (a Prudential joint venture with Bank Simpanan Nasional) was among the first overseas insurer to be granted a domestic Takaful License in Malaysia.

The Takaful business in Malaysia is also regulated by BNM. In addition, Prudential Takaful is required to be a member of the Malaysian Takaful Association (MTA), an association for Takaful operators that seeks to improve industry self-regulation through uniformity in market practice and to promote a higher level of co-operation.

Takaful in Malaysia is considered to be part of mainstream mercantile law, and is subject to the civil court structure at the federal level. It is not regulated by Shariah law in Shariah courts as the Shariah courts do not deal with commercial transactions. However, the operations of a Takaful Operator (TO) must conform to the rules and requirements of Shariah as regulated in the Islamic Financial Services Act 2013 (IFSA), which came into effect from 30 June 2013, repealing the earlier Takaful Act 1984. The IFSA now provides a comprehensive legal framework that is fully consistent with Shariah in all aspects of regulation and supervision, from licensing to the winding-up of an institution. The IFSA is similar to the FSA issued for conventional insurers.

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The IFSA recognises the BNM s Shariah Advisory Council (SAC) as the sole authority on Shariah matters. As the reference body and advisor to BNM on Shariah matters, the SAC is also responsible for validating all Takaful products to ensure their compatibility with Shariah principles. A TO is also required to establish a Shariah Committee, approved by BNM, to which the SAC will give guidance and advice on operations and business activities. BNM has also issued a specific Shariah Governance Framework that prescribes governance arrangements for Islamic Financial Institutions, including TOs.

The BNM s LIFE Framework and policy document on compliance referred to in the subsection above also impacts on the family Takaful industry.

Capital requirements

The Takaful Operational Framework, which came into force on 2 January 2012, strengthens the operational and valuation requirements of Shariah law such that the paid-up capital requirement is RM 100 million (US$24 million). The regulator has also published a new RBC framework for Takaful which aims to facilitate sound management of capital, aligned to the TO s risk profile. Full implementation began in January 2014.

In August 2015, BNM issued a concept paper on the internal capital adequacy assessment process (ICAAP) regime for Takaful operators. This paper set out the framework for meeting risk-based capital requirements. The ICAAP is a comprehensive and forward-looking assessment regime that requires Takaful operators to consider material risks and to demonstrate how these risks will be addressed by their capital management program. BNM has not confirmed the implementation date of the ICAAP regime.

Vietnam Prudential Vietnam Assurance Private Limited

Overview

Prudential Vietnam Assurance Private Limited (PVA) is licensed and regulated by the Ministry of Finance of Vietnam (the MoF) as a life insurance company. In September 2015, the MoF approved the PVA s application to commercialise individual pension products. An insurance company is not permitted to operate both life and non-life insurance at the same time, except in the case of a life insurance company that offers personal health and protection care insurance as a supplement to life insurance.

The Insurance Supervision Authority of the MoF specifically undertakes the supervision of insurance companies. The fundamental principles of the operation of insurance companies are set out in the Insurance Business Law.

Generally, the Insurance Business Law and its guiding regulations focus on administrative supervision of insurance operations. In practice, the Insurance Business Law reserves most of its items for insurance contracts (ie, for the terms and conditions of policies) in order to protect policyholders interests. Furthermore, the MoF has issued the new regulation on bankruptcy procedures for insurers, securities and financial institutions in late 2008, to allow it to take timely intervention to control the solvency of insurance companies.

AML controls in the insurance industry are monitored by the Anti-Money Laundering Department under the Banking Inspection, State Bank of Vietnam. In relation to AML, a new circular was published in February 2014 to establish electronic reporting of large cash transactions and enhanced due diligence, including ongoing diligence of high risk customers. A circular on insurance business carried out by credit institutions and branches of foreign banks was also effected in September 2014, strengthening market conduct requirements on licensing and training, including monitoring of credit institutions and bank staff.

Other significant regulatory developments include the draft amendment to Circulars 194 on 17 December 2014, amending Circulars 124 and 125 (issued previously). Circular 194 provides further guidance in relation to the implementation of the Insurance Business Law, and took effect on 1 February 2015. Significant changes include the requirement that insurance businesses use the same compensation scheme for new and current agents, removal of the requirements of training time and trainer s criteria, and agent licence examination to also be organised by the MoF.

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Capital requirements

Insurers are required to have funds of at least Vietnamese Dong 600 billion (US$26.4 million) in capital, throughout the course of their operations. Further, solvency capital requirement is determined as 4 per cent of reserves plus a specified percentage of 0.1 per cent of sums at risk for policies with original term less than or equal to five years or 0.3 per cent of sums at risk for policies with original term of more than five years. Additional capital requirements of Vietnamese Dong 200 billion and 1,000 billion are also required for companies transacting unit-linked business and pension business.

Thailand Prudential Life Assurance (Thailand) Public Company Limited

Overview

Prudential Life Assurance (Thailand) Public Company Limited (PLT) holds a life insurance license and is authorised to offer life insurance products. This also includes an authorisation to offer products with an investment linked feature.

PLT is regulated and supervised by the Office of Insurance Commission (OIC), the independent regulatory organisation handling day-to-day insurance business affairs and reporting to the Ministry of Finance. The OIC has the power to manage and supervise insurance companies, protect insured persons and the general public, implement policies with respect to insurance funds, and regulate the professional conduct, qualifications and licensing of insurance brokers, agents and actuaries.

In respect of AML, all life insurance businesses are also regulated by the Anti-Money Laundering Office (AMLO). All suspicious transaction reporting is to be made to the AMLO.

In the fourth quarter of 2015, the OIC released the Insurance Development Plan Volume 3 (2016-2020). The vision is to further develop and strengthen the insurance industry as well as to ensure sustainable growth and to better gain trust from the public. This plan has set four important strategies, which will foster the development of the insurance system: (i) increasing the financial stability of the insurance industry, improving the insurance industry standard and marketing behaviour of the insurance system; (ii) improving assurance awareness as well as increasing the insurance accessibility to the public; (iii) creating and supporting a competitive and entrepreneurial environment; and (iv) strengthening the infrastructure of the insurance business.

Furthermore, regulations covering audit, internal controls and governance were implemented in 2014 to strengthen the management and oversight of insurance companies. Key requirements include mandating more independent directors in the various governance fora and prescribing terms of conduct for audit committee members. These regulations also prescribe formal reporting procedures for companies to bring matters to their boards of directors or to their audit committees.

Capital requirements

Since 2011, all insurance companies have been required to comply with the RBC framework. Capital adequacy is measured based on the Capital Adequacy Ratio (CAR), which is determined as the Total Capital Available divided by the Total Capital Required, using the appraisal value of assets and liabilities as prescribed by OIC Notifications. The capital to be preserved should be not less than the sum of capital for all risks and assets as prescribed in the regulation, subject to a minimum requirement of 50 million Thai Baht (US$1.4 million).

Insurers are required by law to maintain capital greater than the prescribed minimum CAR of not less than 100 per cent. However, in case the insurer has a CAR of less than 140 per cent, the OIC may intervene to oversee the insurer s financial status.

India ICICI Prudential Life Insurance Company Limited

Overview

ICICI Prudential Life Insurance Company Limited (Prudential s joint venture with ICICI Bank Limited in which Prudential has a 26 per cent share) is authorised to carry on long-term life insurance business in India.

Insurance is subject to federal regulation in India. The Insurance Regulatory & Development Authority (IRDA) which was set-up under the IRDA Act, 1999, is the regulator for insurance business in India. The IRDA s duties include issuing certificates of registration to insurance companies, protecting the interests of policyholders, and regulating, promoting and ensuring the orderly growth of the insurance industry.

The principal legislation for insurance business is the Insurance Act, 1938. Regulations and guidelines on specific matters have also been notified to carry out the purposes of the Insurance Act and to provide rules and norms for conduct of operations. In relation to AML & CFT requirements, insurers must also adhere to requirements of the Prevention of Money Laundering Act, 2002 and specific guidelines issued by the IRDA in this regard. The Financial Intelligence Unit-India (FIU-IND) is entrusted with the responsibility of receiving cash/suspicious transaction reports, analysing them and, as appropriate, disseminating valuable financial information to intelligence/enforcement agencies and regulatory authorities.

In October 2012, the cabinet approved an amendment to the Insurance Bill 2008 to raise the Foreign Direct Investment (FDI) from 26 per cent to 49 per cent. Besides raising the FDI ceiling, the Insurance Bill proposes about 100 amendments, which include key changes such as placing responsibility on insurers for the acts and omissions of its agents. The Insurance Bill was made effective from 26 December 2014 with the issue of The Insurance Laws (Amendment) Ordinance, 2014. The Insurance Amendment Bill was passed by both the upper and lower houses by the Indian Parliament in March 2015. In October 2015, IRDA issued guidelines on Indian Owned and Controlled , which set out the criteria on which control can be exercised through shareholdings, management rights, shareholders agreements, voting agreements or any other manner as per the applicable laws. These guidelines also require the nomination/ appointment of the majority of directors (excluding independent directors) and key management personnel (ie, Chief Executive Officer/Managing Director/Principal Officer) by Indian promoters or investors. In addition, the guidelines require that control over significant policies of the insurance company should be exercised by the company s board, provided that its bylaws comply with the nomination/appointment requirement mentioned above.

In September 2015, IRDA issued the regulations on Registration of Corporate Agents (CA s). The regulations allow a CA to have arrangements with a maximum of three insurers in each category (ie Life, General and Health). Any change to such arrangements shall be done only with prior approval of the IRDA and after due arrangements for servicing policyholders. The regulations prohibit insurers paying any sign up fees or incentives to CAs or their employees.

Capital requirements

According to the Insurance Act 1938 (as amended by the Insurance Laws (Amendment) Act 2015, every insurer shall have a paid-up equity capital of Rs.1 billion (US$15 million). In addition, every insurer shall at all times maintain an excess of value of assets over liabilities of not less than 50 per cent of the amount of minimum capital, calculated in the manner specified by the regulations.

South Korea PCA Life Insurance Company Limited

Overview

PCA Life Insurance Company Limited is authorised to carry on life insurance business in South Korea including but not limited to casualty insurance, illness insurance, nursing insurance and incidental business and services related thereto.

South Korea s financial supervision structure is composed of the Financial Services Commission (the FSC) and the Financial Supervisory Service (the FSS). As South Korea s principal supervisory authority, the FSC is given a broad statutory mandate to carry out three key functions: financial policy formulation, financial institution and market oversight, and anti-money laundering. It also issues regulatory licenses to financial institutions. The FSS acts as the executive supervisory authority for the FSC and principally carries out examination of financial institutions along with enforcement and other oversight activities as directed or charged by the FSC.

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The Korea Financial Intelligence Unit leads the government s AML and CFT efforts by formulating and implementing AML/CFT policies and regulations, supervising and overseeing financial institutions compliance to the AML/CFT obligations and collecting and analysing reports filed by financial institutions.

In recent years, the FSC has moved away from its interventionist approach in response to the evolving and liberalised landscape. The most prominent change has been a deregulation in asset management and product design activities. However, in connection with deregulation, the FSC has also sought to strengthen supervision.

Capital requirements

A risk-based supervision framework applies to insurers, encompassing an RBC solvency requirement, a risk assessment and application system (RAAS), which assesses insurers various risks, relevant internal controls, and risk disclosure.

Under the RBC solvency requirement, the ratio of an insurer s available capital to required capital is calculated, and the analysis of equity capital used to determine capital adequacy must take into account market, credit, operational, insurance and interest rate risks. The scheme requires the RBC ratio be calculated based on integrated financial statements reflecting assets, liabilities and capital of affiliates and subsidiaries.

In the event an insurer fails to satisfy the applicable capital adequacy requirement and this poses a threat to the financial soundness of that insurer in South Korea, the FSC may take corrective action, ranging from issuing a recommendation to an insurer to increase its capital reserves or to restrict its investments in high-risk securities and other assets to issuing an order to an insurer to suspend its business or transfer its business to a third party.

On 31 July 2014, FSS announced plans to improve their supervisory system on the insurers financial solvency. New changes are expected in phases and would involve strengthening RBC capital requirement from various risk assessments, adopting the Own Risk & Solvency Assessment (ORSA) system & disclosure and introducing IFRS reporting. These actions are part of the regulator s efforts to improve financial consumer protection, achieving greater consistency with global regulatory standards and adopting a new accounting standard. Actual implementation is expected to be in 2018.

China CITIC-Prudential Life Insurance Company Limited

Overview

CITIC-Prudential Life Insurance Company Limited (Prudential s joint venture with CITIC in which Prudential has a 50 per cent share) is authorised to conduct life insurance business in China. To date, CITIC-Prudential Life had business across China including the key markets of Guangdong, Beijing, Shanghai, Shenzhen, Hubei, Shandong, Zhejiang, Jiangsu, Tianjin, Guangxi, Fujian, Hebei, Liaoning, Shanxi and Henan.

The body responsible for regulation of the insurance sector is the China Insurance Regulatory Commission (CIRC). CIRC reports directly to the State Council. CIRC is authorised to conduct the administration, supervision and regulation of the Chinese insurance market, and to ensure that the insurance industry operates in a stable manner in compliance with the law. CIRC also has local offices in all 41 provinces and selected direct administrative cities and regions across the country which set and administer implementation rules and guidelines in the application of the regulations introduced by CIRC.

CIRC has focused specific attention on the area of risk prevention, with five identified lines of defence against risks, namely internal management and control systems, supervision of solvency adequacy, on-site inspection, fund management regulation and insurance security fund. In response to the global financial crisis, more importance has been attached to the supervision of internal control systems, corporate governance, and market conduct and information disclosure by insurance companies.

Market conduct remains a key topic for CIRC with detailed guidelines and rules introduced in 2013 related to the areas of complaint handling and dealing with specific illegitimate sales activities.

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The People s Bank of China (PBOC) is entrusted with responsibility and authority to regulate all anti-money laundering activities in China and has actively been developing rules and guidance, requiring insurance companies to abide by the PRC s main AML law and regulations in connection with capital investment, transfers and set-up of new branches, and specify senior management s responsibilities on AML.

Capital requirements

The minimum registered paid-up capital of a foreign invested insurance company is RMB200 million (US$31.3 million). A similar requirement is imposed on a Chinese branch of a foreign insurance company. Both foreign invested insurance companies and Chinese branches of foreign insurance companies are required to maintain an adequate solvency ratio as per the relevant PRC regulations. Under the new solvency regulation on the China Risk Oriented Solvency System, or C-ROSS , insurers will be required to maintain a core solvency ratio (core capital over minimum capital) and an overall solvency ratio (actual capital over minimum capital) of not lower than 50 per cent and 100 per cent respectively. The actual capital is the difference between the admitted assets and admitted liabilities. The CIRC requires solvency reports to be submitted quarterly, annually or ad hoc as requested by the regulator. Where an insurer is not able to meet its solvency requirement, it is required to report immediately to the CIRC.

CIRC published 17 solvency regulatory rules on 13 February 2015 to launch C-ROSS. The system is similar to Solvency II, given the adoption of a three-pillar solvency framework encompassing quantitative capital requirements, qualitative supervisory requirements and a market discipline mechanism. By including appropriately both the quantitative and qualitative solvency requirements covering various key aspects of insurance business management, CIRC hopes to improve both the overall enterprise risk management and the capital efficiency of the industry. Insurers are required to comply with C-ROSS from 2016 onwards.

Philippines Pru Life Insurance Corporation of UK

Overview

Pru Life Insurance Corporation of UK is licensed in the Philippines as a life insurance company and is also permitted to offer health, accident and disability insurance.

The Insurance Code of the Philippines, as amended (Insurance Code), gives the power to supervise and regulate the operations and business of insurance companies to the Insurance Commission (IC). The IC is a government agency under the Department of Finance, and is headed by the Insurance Commissioner. IC regulation and supervision seeks, amongst other things, to ensure that adequate insurance protection is available to the public at a fair and reasonable cost and to ensure the financial stability of the insurance industry so that all legitimate claims of the insured public are met promptly and equitably, and to safeguard the rights and interests of the insured.

Major revisions were made to the Insurance Code in 2013 with the objectives of promoting Bancassurance by removing the equity ownership of banks in insurance companies and preparing insurance companies for the implementation of ASEAN Free Trade Area in 2015 by requiring staggered increases in capitalisation.

Capital requirements

The revised Insurance Code requires new insurance companies to have a paid-up capital of at least Php 1 billion (US$21.3 million), whilst all existing insurance companies must comply with the staggered increase in net worth of Php 250 million from June 2013 to Php 1.3 billion by the end of 2022. According to the Insurance Code, net worth shall consist of (a) paid-up capital, (b) retained earnings, (c) unimpaired surplus, and (d) revaluation of assets as may be approved by the Insurance Commissioner.

The Insurance Code also provides the President of the Philippines with the authority to order a periodic review every two years of the capital structure set out above to determine the capital adequacy of the local insurance industry. For this purpose, a review committee consisting of representatives from Department of Finance, the

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Insurance Commission, the National Economic and Development Authority, the Securities and Exchange Commission (of the Philippines) and other agencies which the President may designate, shall conduct the review and may recommend to the President to adopt adjustments to the capital requirements of insurance companies.

Taiwan PCA Life Assurance Company Limited

Overview

PCA Life Assurance Company Limited is licensed to conduct life insurance business in Taiwan.

The Financial Supervisory Commission (FSC) is responsible for regulating the entire financial services industry, including the banking, securities and insurance sectors. The FSC s responsibilities include supervision, examination and investigation. The Insurance Bureau (IB) under the FSC acts as the executive supervisory authority for the FSC and is responsible for the insurance sector, while the Financial Examination Bureau (the FEB) principally carries out examinations and on-site visits of all financial institutions, including insurance companies, generally every two years. The Investigation Bureau under the Ministry of Justice is responsible for supervision of AML and counter financing of terrorism (CFT) efforts.

The International Financial Business Act was amended on 4 February 2015, allowing insurance companies to set up Offshore Insurance Units (OIUs) to conduct offshore insurance business. The FSC subsequently issued regulations on 25 May 2015 related to the governing of such units. OIUs will be branches of the insurance companies with separate accounting arrangements and capital requirements (currently set as a minimum of US$2 million). The units will also be subjected to different tax and foreign exchange rules. All businesses are to be conducted in Taiwan but are sold to foreigners and are foreign-currency-denominated. PCA Life Assurance Company Limited obtained approval to establish an OIU in July 2015 and received all required certificates to operate in September 2015.

Capital requirements

The Insurance Act requires all insurance companies to maintain an RBC ratio of not less than 200 per cent. The ratio is determined as the adjusted net capital compared against the risk-based capital. This measurement takes into consideration asset, insurance, interest and other relevant risks as required in calculating the capital on a risk-adjusted basis. Any company failing the threshold may be subjected to measures ranging from restrictions in business operations to receivership by the regulator. In 2015, the Insurance Act was revised, granting the regulator specific authority to take differentiated supervisory actions, depending on the severity of the capital insufficiency, over any insurance companies whose RBC ratios are less than 200 per cent.

The regulator may also introduce different ratio limits for the purpose of qualifying insurance companies to conduct certain business activities, such as imposing limitations on foreign investment by such companies.

Cambodia Prudential (Cambodia) Life Assurance Plc

Prudential (Cambodia) was granted in-principle approval in June 2012 to establish life insurance operations in Cambodia and received its full operating licence from the Ministry of Economy and Finance (MEF) on 31 December 2012 and started selling life insurance policies in January 2013.

The Insurance and Pension Department of the General Department of Financial Industry, a division of the MEF, is the insurance regulator.

Insurance activities are principally governed under the Insurance Law, which came into effect in 2000 (and was further amended in 2014) and the Sub-Decree on Insurance, which was adopted by the Government in September 2001. The MEF has also published specific guidelines on aspects of insurance operations and corporate governance.

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Capital requirements

A life insurance company is required to have a minimum capital of International Monetary Fund special drawing rights (SDR) 5 million (equivalent to approximately US$6.9 million). Insurers must maintain a deposit with the National Treasury, equivalent to 10 per cent of registered capital, and also a solvency margin determined on the basis of years of operation and net premium income. In order to provide new requirements on the administration of investment of the minimum capital and strengthen the controlling and auditing capitalisation and solvency standards, the MEF issued draft regulations titled the Capitalisation and Solvency Standards for Insurance in November 2015. The draft regulations are still at an industry consultation stage and it is unclear when they will become effective.

2. Regulation of investment and funds businesses and other regulated operations

Prudential conducts investment and fund businesses through subsidiaries or joint ventures in the following countries in Asia through Eastspring Investments: Hong Kong, Japan, Korea, Taiwan, The People s Republic of China, India, Singapore, Malaysia, Dubai, Vietnam and Indonesia. Eastspring Investments also has entities in the US and Luxembourg. All operations are authorised and licensed by the relevant authorities, or exempted from licensing under the relevant regulations, where applicable.

All of the relevant authorities generally have broad supervisory and disciplinary powers, including, among others, the power to set minimum capital requirements, to temporarily or permanently revoke the authorisation to carry on regulated business, to suspend registered employees/licensed representatives, and to invoke censures and fines for both the regulated business and its registered employees/licensed representatives. Although the detail of regulation varies, common features of the regulatory regimes in each jurisdiction tend to include investment restrictions, advertising codes, disclosure requirements in prospectuses and/or marketing materials, and requirements to seek unit holders approvals in certain instances, provision of financial statements and other periodic disclosures to regulators and audits by regulators.

Indonesia

PT Eastspring Investments Indonesia (Eastspring Investments Indonesia) is regulated and supervised by the OJK (as defined above, the Indonesian financial service authority). The OJK is responsible for establishing and coordinating an integrated regulatory and supervisory system towards the overall activities in the Indonesian financial sector. Eastspring Investments Indonesia has been licensed as an Investment Manager Company since 25 April 2012 and is therefore authorised to manage collective investment portfolios as well as discretionary portfolios. In addition, Eastspring Investments Indonesia may also act as an investment advisor for the sale or purchase of securities by its clients, but may not receive any financial compensation for this service (due to regulatory restriction).

In a move towards achieving financial system stability and establishing more robust corporate governance, the OJK now requires the designation of financial conglomerate among financial institutions that meet certain regulatory criteria. Eastspring Investments Indonesia and PT Prudential Life Assurance have formed a financial conglomerate in 2015.

Singapore

Eastspring Investments (Singapore) Limited (Eastspring Singapore), an indirect wholly-owned subsidiary of Prudential plc, is regulated by the MAS. Eastspring Singapore holds a Capital Markets Services (CMS) license, to conduct the regulated activities of fund management and dealing in securities. Eastspring Singapore is also an exempt financial adviser under the Financial Advisers Act. In addition, Eastspring Singapore is admitted by the CPF as a Fund Management Company (FMC) under the CPF Investment Scheme (CPFIS) and manages unit trusts included under the CPFIS. It also holds certain registrations in foreign jurisdictions including the US, South Korea, India, Japan and Australia.

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Hong Kong

Products and services offered by Prudential in Hong Kong are regulated under separate statutory regimes by different regulatory bodies, including the Hong Kong Securities and Futures Commission (HKSFC), the Hong Kong Monetary Authority and the Mandatory Provident Fund Schemes Authority (MPFA).

The MPFA regulates the compulsory Mandatory Provident Fund (MPF). In addition, the selling of MPF products by agents is regulated by the MPFA. The MPFA is responsible for the licensing and supervision of trustees who wish to administer MPF schemes and MPF intermediaries.

The Securities and Futures Ordinance (SFO) and other subsidiary legislation govern the key regulatory requirements in Hong Kong relating to licensing requirements for persons carrying out regulated activities, including dealing in securities, advising on securities, fund management, market conduct, disclosure of interests, offering document requirements for securities and products including mutual funds and unit trusts, as well as investment-linked assurance products. The HKSFC is the statutory body responsible for the administration of the SFO and the related subsidiary legislations and rules.

Eastspring Investments (Hong Kong) Limited (Eastspring HK), incorporated in Hong Kong, is a wholly-owned subsidiary of Prudential Plc. Eastspring HK is licensed with the HKSFC and authorised to deal in and advise on securities and undertake asset management activities in Hong Kong. It also holds a QFII (Qualified Foreign Institutional Investors) license issued by the China Securities Regulatory Commission (CSRC). The company is also registered with the Korea Financial Supervisory Service (KFFS) as an offshore investment advisor for investment advisory business and investment discretionary management business. The funds authorised for offering in Hong Kong by Eastspring HK are also registered in Macau with the Monetary Authority of Macau.

Material regulatory developments in Hong Kong in 2015 include the implementation of a resolution regime for financial institutions, in accordance with the standards set by the FSB.

BOCI-Prudential Asset Management Limited (BOCIP), incorporated in Hong Kong, is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOCI Asset Management Limited (64 per cent). BOCIP is licensed by the HKSFC and is authorised to deal in and advise on securities, advise on corporate finance, advise on futures contracts and undertake asset management activities. It is also registered with the MPFA as an MPF corporate intermediary. It also holds a QFII license issued by the CSRC. The investment funds registered in Hong Kong by BOCIP are also registered in Macau with the Monetary Authority of Macau.

BOCI-Prudential Trustee Limited is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOC Group Trustee Company Limited (64 per cent). The company is incorporated in Hong Kong and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance and an associated entity to the BOCIP under the SFO.

Malaysia

Eastspring Investments Berhad was incorporated in November 2000 in Malaysia and holds a licence for dealing in securities and fund management. Eastspring Al-Wara Investments Berhad was incorporated in June 2009 in Malaysia and holds a licence for fund management.

Both companies are regulated by the Securities Commission Malaysia (SC), a statutory body formed under the Securities Commission Act 1993, which reports to the Minister of Finance.

Eastspring Investments Berhad is also an appointed Fund Management Institution for Unit Trust Fund under the Employees Provident Fund s (EPF) Members Investment Scheme. The EPF is a social security institution formed according to the Laws of Malaysia, Employees Provident Fund Act 1991 (Act 452) which provides retirement benefits for members through management of their savings in an efficient and reliable manner.

Vietnam

Eastspring Investments Fund Management Limited Liability Company (Eastspring Investments Vietnam) was established in May 2005 and operates under a business registration for securities investment fund management and securities portfolio management and securities investment advisory services.

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Eastspring Investments Vietnam is regulated by the State Securities Commission of Vietnam (SSC), which is overseen by the MoF. In keeping with its mandate to establish and develop the securities markets, the SSC supervises the organisation and operation of securities investment funds and fund management companies.

India

ICICI Prudential Asset Management Company Limited (AMC), a joint venture between Prudential plc and ICICI Bank Ltd., is approved by the Securities and Exchange Board of India (SEBI) to act as an Investment Manager of ICICI Prudential Mutual Fund (the Fund). The Fund was set up as a Trust sponsored by Prudential (through its wholly owned subsidiary Prudential Corporation Holdings Ltd) and ICICI Bank Ltd. ICICI Prudential Trust Limited (the Trust Company), is the Trustee to the Fund.

Mutual funds in India are comprehensively regulated by SEBI (Mutual Funds) Regulations, 1996, the Indian Trusts Act, 1882, relevant provisions of Companies Act, 2013, and other applicable laws. All mutual funds are required to be in the form of trusts. The trustee functions are carried out by separately established trust companies or boards of trustees. In all cases, the trust deed must be approved by the SEBI. AMC has obtained registration from the SEBI to act as a Portfolio Manager under SEBI (Portfolio Managers) Regulations 1993. AMC under its portfolio management license has also been appointed as the investment manager by the Trust for managing the scheme launched under the ICICI Prudential Venture Capital Fund.

ICICI Prudential Venture Capital Fund (VCF) also has registration from SEBI under the SEBI (Venture Capital Funds) Regulations, 1996 (the VCF Regulations). Our joint venture in India now has three licences as a result of this, in mutual fund, portfolio management and venture capital, and is also permitted to act as the investment manager to funds launched under Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

South Korea

Prudential conducts a fund business in South Korea through an indirect, wholly-owned subsidiary, Eastspring Asset Management Korea Co. Ltd. The bodies responsible for the regulation of asset management companies, investment advisers and discretionary management companies are the FSC and its executive arm, the FSS.

China

CITIC-Prudential Fund Management Company Limited, a joint venture between Prudential and CITIC Group (China International Trust and Investment Corporation), was incorporated in Shanghai in September 2005. It is regulated by the China Securities Regulatory Commission (CSRC) and holds the license of mutual funds, DAM products, QDII products and advisory services. The CSRC supervises the establishment of fund management companies (FMCs) and the launch of securities investment funds.

The legislative framework of China s fund industry comprises the China Securities Investment Funds Law (the Fund Law) and a set of ancillary regulations (the Fund Regulations). The Fund Law was revised, and supplemental measures thereto were enacted on 1 June 2013. This revision to the Fund Law allows individual ownership of fund management companies and removes personal trading and investment restrictions, granting more discretion to FMCs in their daily operation. While the Fund Law and Fund Regulations articulate the rules and requirements which must be adhered to by all FMCs, the supervisory approach of CSRC, to a certain extent, is also principles- based. The Chinese authorities aim to protect the legitimate rights and interests of investors and other relevant parties, and thereby to promote the healthy development of securities investment funds and securities markets.

Taiwan

In Taiwan, Prudential conducts a fund business through Eastspring Securities Investment Trust Co. Ltd. The Taiwanese body responsible for regulation of securities investment trust enterprises (SITE), securities investment consulting enterprises (SICE) and discretionary investment businesses is the Securities and Futures Bureau (SFB) under the FSC. The SFB is responsible for promulgating laws, regulations and policies in relation to these business areas.

Eastspring Securities Investment Trust Co. Ltd is registered as a SITE with the FSC. It is compulsory that all SITEs are members of the Securities Investment Trust and Consulting Association (SITCA), a self-regulatory organisation (SRO). SITCA supports the regulatory and administrative operations entrusted to the SFB by adopting self-regulatory rules and overseeing self-regulation by its members, establishing a membership disciplinary framework and carrying out matters that the SFB has authorised it to handle, such as previewing product filing documents before submission for the SFB s final review. SITCA also acts as liaison between the SFB and its members for matters of business development.

Japan

Eastspring Investment Limited is registered with the Kanto Local Finance Bureau under the JFSA to engage in (a) second financial instruments business, (b) investment management business, (c) investment advisory & agency business and (d) ancillary business under the Financial Instruments and Exchange Act (FIEA).

The company is also a member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association. Both associations are self-regulatory bodies under FIEA. Eastspring Investment Limited is required to comply with the policies and regulations issued by these associations, which are authorised to conduct on and off-site inspection in addition to the inspection conducted by the Securities and Exchange Surveillance Commission which is an inspection arm of the JFSA.

Under its registration in respect of the second financial instruments business, the company is permitted to explain and solicit products but the actual sales of Eastspring Investments Limited s funds are made to investors through distributors. It does not therefore set up or maintain customer accounts for the purposes of direct distribution and settlement of Eastspring Investments Limited s funds to both retail and institutional investors. The customer account should be opened by the distributors, which are financial institutions registered as type one financial instruments business operators, like securities brokers and certified banks.

Dubai

Eastspring Investments Limited (Eastspring Investments Dubai) was incorporated in the Dubai International Financial Centre (DIFC) in September 2006. Eastspring Investments Dubai is an ultimately wholly-owned subsidiary of Prudential Plc. Eastspring Investments Dubai is regulated by the Dubai Financial Services Authority (DFSA), which is the independent regulator for DIFC. Eastspring Investments Dubai holds a license for arranging credit or deals in investments, advising on financial products or credit and has a retail endorsement on its license. The supervisory approach of DFSA is risk-based.

United States

Eastspring Investments Incorporated (Eastspring Investments USA) was incorporated in the State of Delaware in April 2012 and the business was launched in August 2012. Eastspring Investments USA is an indirect wholly owned subsidiary of Prudential plc.

On behalf of its affiliate, Eastspring Singapore, Eastspring Investments USA serves as a marketing office and a solicitor as defined under the provisions of the Investment Advisers Act of 1940, as amended (Investment Advisers Act) and the rules thereunder. Eastspring Investments USA is registered with the SEC as an investment adviser pursuant to the US Investment Advisers Act of 1940.

Certain US states and local governmental bodies may also require that individuals engaged in solicitation activity be either registered or otherwise qualify for an exemption to solicit investors in that jurisdiction. Based on its solicitation activity on behalf of Eastspring Singapore, Eastspring Investments USA is subject to the solicitation restrictions and filings of those individual states, as applicable.

Luxembourg

Eastspring Investments (Luxembourg) S.A. is fully licensed by the Luxembourg supervisory authority (ie, CSSF) to operate as a management company of undertaking for collective investments in transferable securities (eg UCITS and other types of investment products) since 1 April 2013.

Eastspring Investments (Luxembourg) S.A. was appointed in particular to act as management company of Eastspring Investments, a UCITS open-ended investment company organised under the laws of the Grand Duchy of Luxembourg, regulated by the CSSF and passported for sale in many countries, including European and Asian jurisdictions.

Eastspring Investments (Luxembourg) S.A. has been operating a branch in the UK since September 2013, concentrating sales and marketing activities across Europe. The UK branch of Eastspring Investments (Luxembourg) S.A. falls under the supervision of both FCA and CSSF.

The material regulatory developments in Luxembourg in 2015 include the preparation of the implementation of the UCITS V Directive, which will become effective in early 2016 (see UCITS V above for more on this).

US Supervision and Regulation

Overview

Prudential conducts its US insurance activities through Jackson, a life insurance company licensed to transact its insurance business in, and which is subject to regulation by and supervision of, the District of Columbia, and 49 of the 50 states. Jackson operates a subsidiary, Jackson National Life Insurance Company of New York, in the state of New York. The extent of any such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurance companies, including standards of solvency, reserves, reinsurance and capital adequacy and the business conduct of insurance companies. In addition, statutes and regulations usually require the licensing of insurers and their agents and the approval of policy forms and related materials. These statutes and regulations in a US insurance company s state of domicile (Michigan, in the case of Jackson) also regulate the investment activities of insurers.

Insurance regulatory authorities in all the jurisdictions in which Jackson does business require it to file detailed quarterly and annual financial statements, and these authorities have the right to examine its operations and accounts. In addition, Jackson is generally subject to US federal and state laws and regulations that affect the conduct of its business as well as similar laws and regulations in Canada and the Cayman Islands. New York and Michigan require their state insurance authorities to conduct an examination of an insurer under their jurisdiction at least once every five years. Both Michigan and New York are in the process of conducting an examination for the three years ended December 31, 2014. The examinations are expected to be completed in 2016.

Jackson has historic small books of business in places such as the Cayman Islands, Puerto Rico, Guam and Argentina and the business is being managed in run off. In addition, Jackson acquired some policies in Canada from its acquisition of Reassure America Life Insurance Company (REALIC) in 2012.

Jackson s ability to pay shareholder dividends is limited under Michigan insurance law. The Director of the Michigan Department of Insurance & Financial Services (the Michigan Director of Insurance) may limit, or not permit, the payment of shareholder dividends if it determines that an insurer s surplus, with regards to policyholders, is not reasonable in relation to its outstanding liabilities and is not adequate to meet its financial needs as required by

Michigan insurance law. Unless otherwise approved by the Michigan Director of Insurance, dividends may only be paid from earned surplus. Jackson must report any shareholder dividends to the Michigan Director of Insurance before they can be paid. In the case of an extraordinary shareholder dividend or distribution, an insurer may not pay the dividend or distribution until 30 days after the Michigan Director of Insurance has received notice of the declaration and has not disapproved, or has approved, the payment within that period. For this purpose, an extraordinary dividend or distribution means any dividend or distribution of cash or other property where the fair market value, together with that of other dividends or distributions that an insurer made within the preceding twelve months, exceeds the greater of 10 per cent of the insurer s surplus, as regards policyholders as of 31 December of the immediately preceding year, or the net gain from operations of the insurer, not including realised capital gains, for the prior year. In 2013, 2014 and 2015, Jackson paid shareholder dividends to Prudential plc of US$470.0 million, US$680.0 million, and US$710.0 million, respectively.

State regulators also require prior notice or regulatory approval of changes in control of an insurer or its holding company and of certain material transactions with affiliates. Under New York and Michigan insurance laws and regulations, no person, corporation or other entity may acquire control of an insurance company or a controlling interest in any parent company of an insurance company, unless that person, corporation or entity has obtained the prior approval of the regulator. For the purpose of each of New York and Michigan law, any person acquiring, directly or indirectly, 10 per cent or more of the voting securities of an insurance company is presumed to have acquired control in the company. To obtain approval of any change in control, the proposed acquirer must file an application with the New York Superintendent of Financial Services and the Michigan Director of Insurance. This application requires the proposed acquirer to disclose, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will affect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters. The Michigan Director of Insurance can grant an exemption from filing an application if an acquisition does not have the effect of changing or influencing control.

Guaranty associations and similar arrangements

Each of the 50 states of the United States, the District of Columbia and the Commonwealth of Puerto Rico have laws requiring insurance companies doing business within their jurisdictions to participate in various types of guaranty associations or other similar arrangements. These associations and arrangements provide certain levels of protection to policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on a basis that is related to the member insurer s proportionate share of the business in the relevant jurisdiction of all member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years. Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business.

Asset valuation reserve

State regulators generally require that insurers establish an asset valuation reserve that consists of two components: a default component to provide for future credit-related losses on fixed income investments and an equity component to provide for losses on all types of equity investments. The asset valuation reserve establishes statutory reserves for fixed maturity securities, equity securities, mortgage loans, real estate, derivative instruments and other invested assets. The reserve is designed to provide for a normalised level of future losses based on the credit rating of each individual investment. The level of reserves is based on both the type of investment and its rating. Contributions to the reserve may result in a reduction in Jackson s unassigned surplus, which, in turn, may reduce funds available for shareholder distributions. The extent of the impact of the asset valuation reserve on Jackson s statutory surplus depends in part on the future composition of the investment portfolio.

Interest maintenance reserve

State regulators generally require that insurers establish an interest maintenance reserve to defer non-credit-related realised capital gains and losses, net of taxes, on fixed income investments (primarily bonds, derivative instruments and mortgage loans) which are amortised into net income over the estimated remaining periods to maturity of the investments sold and to defer material gains or losses, net of taxes, resulting from market value adjustments on policies and contracts backed by assets carried at book value. The extent of the impact of the interest maintenance reserve on earnings and surplus depends on the amount of future interest rate-related realised capital gains and losses on fixed maturity investments, derivatives and mortgage loans and deferred gains or losses resulting from market value adjustments on policies and contracts backed by assets that are valued at book value.

The National Association of Insurance Commissioners ratios

On the basis of statutory financial statements that insurers file with state insurance regulators, the National Association of Insurance Commissioners (NAIC), in connection with the Insurance Regulatory Information System, annually calculates 12 financial ratios to assist state regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark and departure from the usual range on four or more of the ratios can lead to inquiries from individual state insurance departments. The usual range of results is established by the NAIC for each ratio from studies of the ratios for companies that have become insolvent or have experienced financial difficulties in recent years. As at 31 December 2015, none of Jackson s ratios fell outside the usual range.

Policy and contract reserve sufficiency analysis

State insurance laws require life insurance companies to conduct annually an analysis of the sufficiency of its life and annuity reserves. A qualified actuary must submit an opinion that states that the reserves, when considered in the light of the assets that an insurance company holds with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurance company. If a qualified actuary cannot provide such an opinion, then the insurance company must set up additional reserves by moving funds from surplus. The 2015 opinion has been submitted to the Michigan Department of Insurance & Finance Services without any qualifications.

Jackson s capital and surplus

Michigan insurance law requires Jackson, as a domestic life insurance company, to maintain at least US$7,500,000 in unimpaired capital and surplus. In addition, insurance companies are required to have sufficient capital and surplus to be safe, reliable and entitled to public confidence.

As a licensed insurer in the District of Columbia and every state but New York, where it operates through a subsidiary, Jackson is subject to the supervision of the regulators of each jurisdiction. In connection with the continual licensing of Jackson, regulators have discretionary authority to limit or prohibit the new issuance of business to policyholders when, in their judgment, the regulators determine that such insurer is not maintaining minimum surplus or capital or if the further transaction of business will be hazardous to policyholders.

As a Michigan domiciled insurer, Jackson is subject to a prescribed accounting practice that, under certain circumstances, allows an insurer to include the value of business acquired as an admitted asset in excess of the amount allowed under NAIC guidance. At 31 December 2015, as a result of the acquisition of REALIC, Jackson admitted US$327.5 million of value of business acquired in excess of the amount allowed under NAIC guidance.

Jackson has received approval from the Michigan Department of Insurance & Financial Services regarding the use of a permitted accounting practice. This permitted practice allows Jackson to carry certain interest rate swaps at book value as if statutory hedge accounting were in place instead of at fair value as would have been otherwise required. The permitted practice is effective 31 December 2014 and expires 1 October 2016 unless extended by the Michigan Director of Insurance. The effects of this permitted practice may not be considered by the company when determining the surplus available for dividends, nor the nature of dividends as ordinary or extraordinary. As at December 31, 2015 and 2014, the effect of the permitted practice decreased statutory surplus by US$355.5 million and US$555.0 million, net of tax, respectively. The permitted practice had no impact on statutory net income.

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Risk-based capital

The NAIC has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies report on a risk-based capital formula standard that they calculate by applying factors to various asset, premium and reserve items and separate model based calculations of risk associated primarily with variable annuity products. The risk-based capital formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk, market risk and business risk. The NAIC designed the formula as an early warning tool to identify potentially inadequately capitalised companies for purposes of initiating regulatory action.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Michigan Department of Insurance & Financial Services takes into account the NAICs risk-based capital standards to determine compliance with Michigan insurance law.

At 31 December 2015 Jackson s total adjusted capital under the NAIC s definition substantially exceeded Michigan standards.

Regulation of investments

Jackson is subject to state laws and regulations that require diversification of its investment portfolio, limit the amount of investments in certain investment categories, such as below investment grade fixed income securities, common stock, real estate and foreign securities, and forbid certain other types of investments altogether. Jackson s failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated by the Michigan Director of Insurance as non-admitted assets for purposes of measuring surplus and, in some instances, the Michigan Director of Insurance could require divestiture of non-qualifying investments.

Implementation of US Foreign Account Tax Compliance Act (FATCA) provisions

US federal tax legislation and rules, including those relating to the insurance industry or insurance products, can have a significant impact on Prudential s business. Tax legislation and rules, and their interpretation, may change, possibly with retrospective effect, and proposals that would affect such changes are debated periodically by the US Congress.

FATCA was introduced in the US as part of the Hiring Incentives to Restore Employment (Hire) Act on 18 March 2010. FATCA requires Foreign Financial Institutions (FFI s) (such as Prudential plc and many of its subsidiaries) to identify US customers and report certain information on accounts held by US persons and US-owned foreign entities, to either their domestic tax authority (where there is an intergovernmental agreement to do so) for onwards transmission to the IRS, or directly to the IRS on an annual basis. Failure to report can lead to a 30 per cent withholding tax on certain US payments made to the FFI. The start date for implementation of the FATCA regime was 1 July 2014 with the first reports required in 2015. The majority of countries where Prudential plc has affected subsidiaries have now entered into intergovernmental agreements with the US to simplify compliance for FFIs in those countries and minimise the risk of withholding, while still meeting the reporting obligations to the US. Prudential plc and its affected subsidiaries have established policies and procedures to ensure compliance with FATCA. The first FATCA reports were made in 2015 in relation to the 2014 year.

Securities laws

Jackson, certain of its affiliates and certain policies and contracts that Jackson issues are subject to regulation under the federal securities laws administered by the SEC. The primary intent of these laws and regulations is to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations and (in the case of broker dealers) to impose capital and related requirements. Jackson may also be subject to similar laws and regulations in the states in which it provides investment advisory services, offers the products described above or conducts other securities-related activities.

Jackson National Asset Management, LLC (JNAM) is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act. JNAM is registered as a transfer agent pursuant to the Securities Exchange Act of 1934, as amended (the Securities Exchange Act). The investment companies (mutual funds) for which JNAM serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act of 1940, as amended (the Investment Company Act). Certain of the mutual funds advised by JNAM underlie variable products offered by Jackson. In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product is funded under a separate account that is registered with the SEC as a unit investment trust.

Effective 31 December 2012, the U.S. Commodity Futures Trading Commission (CFTC) eliminated an exclusion previously available to the mutual funds advised by JNAM from the definition of a commodity pool under the Commodity Exchange Act (CEA). Consequently, certain of the mutual funds became commodity pools and became subject to the requirements of the CEA and the rules of the CFTC promulgated thereunder. JNAM is registered as a commodity pool operator with the National Futures Association (NFA) pursuant to CFTC regulations and is acting as a commodity pool operator with respect to the operation of certain of the mutual funds. JNAM and the mutual funds have incurred additional regulatory compliance and reporting expenses as a result. The effects of these regulatory changes could reduce investment returns or harm the mutual fund s ability to implement its investment strategy.

Curian Capital, LLC (Curian Capital) is Jackson s registered investment adviser channel, which offered personalised investment advice through its separately managed account program to a range of clients. Curian Clearing, LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, registered as a broker-dealer in all applicable states, and has served exclusively as the clearing broker-dealer for the Curian Capital separately managed account program. In addition, Curian Clearing, LLC is a member firm of the Financial Industry Regulatory Authority (the FINRA), subject to its oversight and regulatory requirements.

After concluding a business review of Curian Capital and its position in the marketplace, Curian Capital stopped accepting new business as of 31 July 2015. Curian Capital continued to actively manage existing accounts into 2016 to allow financial professionals and clients sufficient time to plan for the transition of accounts and the Curian Capital separately managed account program terminated on 19 February 2016.

Jackson National Life Distributors LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Jackson National Life Distributors LLC is a member firm of the FINRA, subject to its oversight and regulatory requirements.

National Planning Holdings, Inc. (NPH) owns four retail broker dealers, being IFC Holdings, Inc. (doing business as INVEST Financial Corporation), (IFC), Investment Centers of America, Inc (ICA), National Planning Corporation (NPC) and SII Investments, Inc. (SII). These entities conduct business as securities broker-dealers, investment advisers, and insurance agencies (or affiliated with insurance agencies), and are licensed and qualified to transact business pursuant to their respective registration or licensure with the SEC, state securities and insurance authorities, and membership with FINRA and the Municipal Securities Rulemaking Board. NPC, SII, and ICA are also registered with the CFTC, and are members of the NFA for purposes of commodities and futures trading.

Prudential also conducts certain of its US institutional investment management activities through PPM America, Inc., which is registered with the SEC as an investment adviser under the Investment Advisers Act. PPM America serves as the investment adviser to Jackson and as the primary US institutional investment adviser for certain Prudential subsidiaries, including The Prudential Assurance Company Limited, among others. PPM America also acts as investment sub-adviser to certain US and foreign advisers affiliated with Prudential with respect to certain primarily

US portfolios of accounts or products sponsored or managed by such affiliates. These include US mutual funds, a UK-based pooled investment vehicle, Japanese investment trusts, funds organised under Luxembourg-based SICAVs, a South Korean investment trust fund, and Taiwanese investment trust funds for which PPM America serves as investment consultant and dealing services agent. PPM America also serves as an investment adviser to other affiliated and unaffiliated institutional clients such as a Collateralized Loan Obligation, a

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Collateralized Debt Obligation or similar structured vehicles and private investment funds (in which PPM America affiliates such as Prudential UK entities and Jackson and employees of PPM America are generally investors), and a limited number of other unaffiliated accounts. The US mutual funds for which PPM America serves as sub-adviser are subject to regulation under the Securities Act and the Investment Company Act, and other similar vehicles organised outside of the US are also subject to regulation under applicable local law.

PPM America and certain of its subsidiaries are subject to various levels of regulation under the federal securities laws that the SEC administers as well as state securities laws. In connection with providing investment advisory services to certain of its clients, PPM America may also be subject to regulation under applicable foreign laws.

To the extent that Curian, PPM America or the NPH broker-dealers manage accounts with assets of employee benefit plans, individual retirement accounts (IRAs) or similar qualified accounts subject to the Employee Retirement Income Security Act of 1974 (ERISA), or the Internal Revenue Code, they may be subject to certain restrictions imposed by ERISA or the Internal Revenue Code. Such restrictions are summarised in Employee Benefit Plan Compliance in the Section below. The US Department of Labor (DOL) and the IRS have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

Disclosure obligations under the US Securities Exchange Act and in particular under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012

Under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, Prudential is required to disclose certain of its activities and those of its affiliates related to Iran and to persons sanctioned by the US under programs relating to terrorism and proliferation of weapons of mass destruction that occurred in the twelve-month period covered by this report.

Two of Prudential s non-US affiliates have engaged in transactions with persons sanctioned by the US under Executive Order 13224, relating to terrorism. These transactions were entered into in compliance with laws and regulations applicable to the relevant affiliates. The first individual took out a one-off takaful certificate (a Shariah compliant life policy) with Prudential s Malaysian insurance subsidiary in October 2011. It was discovered in March 2012 through automated checking that his name matched various sanctions lists. The policy was for RM600 per month and RM 7,200 was paid for the year in 2015 (equivalent to around US$144 and US$1,728, respectively). The matter was reported to the Malaysian governmental sanctions authority, the Bank Negara Malaysia Financial Intelligence Unit, in March 2012. Currently, the said policy has been frozen with no top-up, withdrawal or claims permitted, although regular premium payment is still allowed. The policy is in force, with no claims submitted or any payment made to date.

The second individual is a beneficiary to three life insurance policies in his wife s name, the first taken out in December 2010 and two others taken out in November 2011 with Prudential s Indonesian insurance subsidiary. The annual premium of the three life insurance policies is IDR 6,000,000 (approximately US$439), IDR 12,000,000 (US$877) and IDR 12,000,000 (US$877), respectively. The matter was notified to the Indonesian governmental sanctions authority, the PPATK, in August 2012. All three policies remain in force, with no claims or other payouts in 2015.

As the provisioning of insurance liabilities is undertaken on a portfolio basis, it is not practical to estimate the 2015 net profits on the contracts referred to above. Prudential does not intend to engage in further new business dealings with these individuals.

In the UK, the Prudential Assurance Company Ltd operates a pension scheme for employees of the UK branch of a government-owned Iranian bank. A total of 66 scheme members are receiving benefits, with 36 deferred members. All members are inactive in that no member contributions are being made. The scheme is closed to new members. Due to the long term nature of a pension scheme it is not practical to advise the net profit, but the fund value at 31 December 2015 stood at £7,259,550.00 (US$10,367,000). In return for administering the scheme there are standard Prudential scheme charges: an annual fee of £737 (US$1,052), plus £11 (US$15.7) per member, £60 (US£85.7) per quote and a Trustee Accounts charge. The annual fees up to 31 July 2015 were £3,736 (US$5,335) (made up of £1,882 (US$2,688) scheme fee and £1,854 (US$2,648) Trustee Accounts). In addition to this an Annual Management Charge of 1.25 per cent is reflected in the fund value. The UK governmental sanctions

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authority, HM Treasury, has been informed of this arrangement and in 2008 advised Prudential that following an analysis of the deeds, the fund is not owned, held or controlled by the Iranian bank. Payments out of the fund have been approved by HM Treasury through a license. There are no plans to discontinue with this contract in light of this license.

Employee benefit plan compliance

Jackson issues certain types of general account stable value products, such as GICs and funding agreements, to employee benefit plans and to investment vehicles that pool the investments of such plans. Many of these plans are retirement plans that are subject to the fiduciary standards of ERISA and that are tax-qualified under the Internal Revenue Code. As such, Jackson may be subject to certain restrictions imposed by ERISA and taxes imposed by the Internal Revenue Code. These restrictions include:

- the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries,
- the requirements under ERISA that fiduciaries may not engage in conflict of interest transactions, and
- the requirements under ERISA that a fiduciary may not cause a covered plan to engage in certain prohibited transactions with certain persons who provide services to the plan or are affiliated with the plan sponsor or a plan service provider.

In general, the Internal Revenue Code imposes taxes on persons involved in certain of the transactions described above.

The DOL and the IRS have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

In the instance where an insurer issues a guaranteed benefit policy to a plan, ERISA provides that the insurer need not become a fiduciary with respect to the plan solely as a result of the issuance of the policy. Under Section 401 of ERISA, a guaranteed benefit policy means an insurance policy to the extent such policy provides for benefits the amount of which the insurer guarantees.

In 1993, in John Hancock Mutual Life Insurance Company v. Harris Trust & Savings Bank, the US Supreme Court held that a portion of the funds held under a certain type of general account annuity contract did not constitute a guaranteed benefit policy within the meaning of ERISA, a holding which potentially exposes insurers with similar types of contracts to the application of ERISA s fiduciary and prohibited transaction provisions in connection with the management of assets in their general accounts.

Although no assurances can be given, Jackson believes that none of its contracts are of the type to which the holding in Harris Trust would be applicable. Moreover, the DOL has issued PTE 95-60, which generally exempts external, unaffiliated investment transactions from ERISA s prohibited transaction provisions. If the Harris Trust holding is applied to its contracts, Jackson would be subject to ERISA s fiduciary and prohibited transaction provisions described above

Financial services regulatory and legislative issues

The DOL released a proposed regulation in April 2015 accompanied by new class exemptions and proposed amendments to long-standing exemptions from the prohibited transaction provisions under ERISA. The DOL announced that it had finalised a series of new rules and amendments on 6 April 2016. The new rules redefine who is considered a fiduciary for purposes of transactions with qualified plans, plan participants and Individual Retirement Accounts. Jackson is evaluating the final rules (independently and in consultation with its business partners) and will, among other things, need to consider changing its sales practices and compensation paid to sales personnel and the types of services or products Jackson makes available.

The Dodd-Frank Act, which represents a comprehensive overhaul of the financial services industry within the US, was enacted in July 2010. The full impact of the Dodd-Frank Act on Prudential s businesses is not currently clear,

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however, as many of its provisions primarily affect the banking industry, have a delayed effective date and/or require rulemaking or other actions by various US regulators over the coming years.

The Dodd-Frank Act vests the Financial Stability Oversight Council (the Council) with the power to designate domestic systemically important non-bank institutions which will be subject to special regulatory supervision and other provisions intended to prevent or mitigate the impact of future disruptions in the US financial system. If Jackson is designated in the US as a systemically important non-bank institution, it may be subject to heightened prudential standards to be administered by the US Federal Reserve Board, including heightened capital, leverage and liquidity standards, risk management requirements, single counterparty credit concentration limits, resolution plans and stress tests, and potential discretionary requirements relating to contingent capital, enhanced public disclosure and short term debt limits. As discussed under the Global Regulatory Developments and trends section, Prudential Group was designated as a G-SII in July 2013, but that is separate from a Dodd-Frank designation.

Dodd-Frank Rules and guidance outlining the manner in which the Council will determine which companies should be so designated in the US were adopted in April 2012. The rules set forth a three-stage process of increasingly in-depth evaluation and analysis, drawing on both qualitative and quantitative information (but preserving significant Council discretion). The rules do not, however, permit a definitive view as to whether Jackson would or would not be designated as systemically important in the US context.

The Dodd-Frank Act also established the Federal Insurance Office (FIO). The FIO has no direct regulatory authority over US insurers, but it does have certain authority to represent the US government on prudential aspects of international insurance matters, including at the IAIS. The FIO is also authorised to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry.

In addition, Title VII of the Dodd-Frank Act created a new regulatory regime for certain derivatives called swaps and security-based swaps. Prudential and Jackson have determined that they are not required to register as swap dealers, security-based swap dealers, major swap participants, or major security-based swap participants under Title VII of the Dodd-Frank Act. However, CFTC regulations requiring that swaps be reported to trade repositories and, in some cases, cleared through registered central counterparties and traded on registered exchanges, may apply to certain derivatives entered into by Jackson and, in some circumstances, Prudential. Similar rules for security-based swaps have been proposed, and in some cases finalised, but not yet implemented.

Under Title VII of the Dodd-Frank Act, certain derivatives instruments, including standardised interest rate swaps and index credit default swaps, are required to be cleared and traded on an exchange. While the transition to exchange-traded derivative instruments may limit counterparty risk, it could increase costs associated with such investments, including transaction and exchange fees. The standardisation of exchange-traded derivative instruments may also limit the ability of Jackson and the mutual funds to customise certain derivative instruments with their counterparties. Exchange-traded derivative instruments may also require Jackson and the mutual funds to post additional collateral or limit the types of collateral that may be used for such transactions. Additionally, requirements to post margin for uncleared swaps are expected to come into effect in phases over the next few years. These developments may limit the ability of Jackson and the mutual funds that its subsidiaries advise to effectively deploy assets in a timely manner.

The timing and the ultimate impact on the management and operations of Prudential and the regulations promulgated, or to be promulgated, pursuant to these statutory provisions, cannot yet be definitively determined.

Proposals to change the laws and regulations governing the financial services industry are frequently introduced in the US Congress, in the state legislatures and before the various regulatory agencies. The likelihood and timing of any proposals or legislation, and the impact they might have on Jackson, its subsidiaries, or other Prudential subsidiaries doing business in the US, cannot be determined at this time.

State legislatures and/or state insurance regulatory authorities frequently enact laws and/or regulations that significantly affect insurers supervised by such authorities. Although the US federal government does not directly regulate the insurance business, federal initiatives may also have an impact on the insurance industry.

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Federal and state regulators have focused on the mutual fund and variable annuity and insurance product industries including the broker-dealer system. As a result of publicity relating to widespread perceptions of industry abuses, including fraudulent and anti-competitive practices among insurance brokers and mutual funds, there have been numerous regulatory inquiries and proposals for legislative and regulatory actions that could affect the operations and management of market participants. It is difficult to predict at this time whether changes resulting from industry investigations and/or new laws and regulations will affect the Group s insurance or investment management businesses, and, if so, to what degree.

Additional Jurisdictions

The Group has also invested in businesses located in various new markets.

A new sales operation was launched in Poland during 2013 under the auspices of Prudential UK with an agency network rolled out in the country during 2014. The business is currently offering two simple life and protection products.

The Myanmar business unit is not yet fully operational as a business, although Prudential was awarded a licence to establish a representative office in Yangon, Myanmar in late 2013.

Prudential completed the purchase of Ghana s Express Life Co. in April 2014, marking the entry of the firm into the African life insurance market. Three more acquisitions have since been made in Africa, in Kenya (2014), Uganda (2015) and Zambia (2016, expected to complete shortly).

These developments and such incremental regulation remain immaterial at present in terms of the overall business of the Group.

Capital Expenditure and Divestitures

Please refer to Item 5 Operating and Financial Review Liquidity and Capital Resources Corporate transactions for a discussion of the principal capital expenditures and divestitures during the period under review.

Item 4A. Unresolved Staff Comments

None

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Item 5. Operating and Financial Review and Prospects

The following discussion and analysis should be read in conjunction with Prudential s consolidated financial statements and the related notes to Prudential s consolidated financial statements included in this document.

A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled IFRS Critical Accounting Policies .

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors, including those set forth in the section below entitled Principal Factors Affecting Results of Operations and in Item 3, Key Information Risk Factors and elsewhere in this document.

Introduction and Overview

Prudential plc is an international financial services group serving circa 24 million insurance customers and with £509 billion of assets under management. We are listed on stock exchanges in London, Hong Kong, Singapore and New York.

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

Eastspring Investments, part of the Group s asset management operations since 1994, is a leading asset manager in Asia and provides investment solutions across a broad range of asset classes.

Founded 50 years ago, Jackson is one of the largest life insurance companies in the US, providing retirement savings and income solutions aimed at the 75 million baby-boomers . Jackson s pursuit of excellence in product innovation and distinctive distribution capabilities has helped it forge a solid reputation for meeting customer needs. Jackson has a long and successful record of providing advisers with the products, tools and support to design effective retirement solutions for their clients.

Founded in the UK in 1848, Prudential is a long established leading provider of life and pensions, with a relentless focus on the needs of the age cohorts where wealth is most heavily concentrated. Our core strengths in with-profits and retirement are underpinned by our expertise in areas such as longevity, risk management and multi-asset investment, together with our financial strength and widely recognised brand. These attributes position Prudential UK well to meet customer needs in the UK s evolving marketplace.

M&G has been investing money for individual and institutional clients for over 80 years. M&G has grown to be one of Europe s largest retail and institutional fund managers by developing its expertise in active investment. M&G has a conviction-led and long-term approach to investment, developing a deep understanding of the companies and organisations in whose equities, bonds or property it invests.

Summary of Performance

Prudential reported a strong performance in 2015.

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

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Currency volatility

We continue to comment on our international business performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in a period of currency volatility. We have used this basis in discussions below for our Asian and US businesses to maintain comparability. Currency values in the countries in which we operate have fluctuated in the course of 2015. As a significant proportion of our earnings and capital are US dollar denominated, the weaker sterling benefited our reported results, shareholders equity and solvency.

In 2014 we adopted the approach of evaluating the financial performance of the Group by presenting percentage growth rates before the impact of the fluctuations in the value of sterling against local currencies in the US and Asia. In a period of currency volatility this approach allows a more meaningful assessment of underlying performance trends. This is because our businesses in the US and Asia receive premiums and pay claims in local currencies and are, therefore, not exposed to any cross-currency trading effects. To maintain comparability in the discussion below the same basis has been applied. Growth rates based on actual exchange rates are also shown in the financial tables presented in this report. Consistent with previous reporting periods, the assets and liabilities of our overseas businesses are translated at period-end exchange rates so the effect of currency movements has been fully incorporated within reported shareholders equity.

The table below presents a summary of the Group s profit before tax on an IFRS basis. The table presents the full year 2014 results on both an actual exchange rate and constant exchange rate basis so as to eliminate the impact of exchange translation. Actual Exchange Rates (AER) are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate		Actual Exchange Rate
	2015 £m	2014 £m	Change %	2014 £m	Change %	2013 £m
Operating profit before tax						
Long-term business:						
Asia	**1,209**	1,050	15	1,040	16	1,001
US	**1,691**	1,431	18	1,543	10	1,243
UK[1]	**1,167**	729	60	729	60	695
Long-term business operating profit[1]	**4,067**	3,210	27	3,312	23	2,939
UK general insurance commission	**28**	24	17	24	17	29
Asset management business:						
M&G	**442**	446	(1)	446	(1)	395
Prudential Capital	**19**	42	(55)	42	(55)	46
Eastspring Investments	**115**	90	28	91	26	74
US	**11**	12	(8)	13	(15)	59
Other income and expenditure	**(675)**	(661)	(2)	(661)	(2)	(599)
Results of the sold PruHealth and PruProtect business	**-**	23	(100)	23	(100)	11

Total operating profit based on longer-term investment returns before tax	**4,007**	3,186	26	3,290	22	2,954
Non-operating items	**(859)**	(572)	(50)	(654)	(31)	(1,319)
Profit before tax attributable to shareholders	**3,148**	2,614	20	2,636	19	1,635
Tax charge attributable to shareholders returns	**(569)**	(398)	(43)	(396)	(44)	(289)
Profit for the year attributable to shareholders	**2,579**	2,216	16	2,240	15	1,346

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In the remainder of this Introduction and Overview , every time we comment on the performance of our businesses, (except with respect to cash remittances), we focus on their performance measured in local currency (presented here by reference to percentage growth expressed at constant exchange rates) unless otherwise stated.

Group performance

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

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

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

UK life IFRS operating profit of £1,167 million grew by 60 per cent[16], and included £339 million arising in the second half of 2015 from specific management actions taken to position the balance sheet more efficiently under the new Solvency II regime.

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

The Group is focused on delivering strong cash generation, which underpins both our strategic and financial flexibility. In total, our businesses remitted cash to the corporate centre of £1,625 million, up 10 per cent on an actual exchange rate basis. Cash remittances of £467 million from Asia were 17 per cent higher while those from the US increased by 13 per cent to £470 million, both on an actual exchange rate basis. In the UK, our life operation remitted £331 million in line with last year and M&G delivered a 6 per cent increase in remittances to £302 million.

The sales increase of the Group is led by Asia. In the US, sales were higher as demand for our sales of variable annuities remained strong. In 2015, Jackson continued to proactively manage sales of variable annuities with living benefits while diversifying sales mix. In the UK, sales grew, based on our attractive with-profits product propositions sold through an expanding range of wrappers including income drawdown, individual pensions, ISAs and investment bonds. M&G experienced net outflows of £7.0 billion (2014: net inflows of £7.1 billion) driven by retail net outflows of £10.9 billion, due to redemptions from bond funds reflecting softer consumer sentiment on fixed income assets. Eastspring Investments, our Asia asset management business, delivered a strong performance in 2015, with third party net inflows of £6.0 billion (2014: net inflows of £5.4 billion).

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

2017 Objectives

The objectives discussed below assume exchange rates at December 2013 and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume that the existing EEV, IFRS and free surplus methodology at December 2013 will be applicable over the period.

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

We announced new objectives for 2017 at our investor conference in December 2013 in London. These objectives are:

(i) Asia Underlying Free Surplus Generation[(17),(18)] of £0.9 billion to £1.1 billion in 2017 (2012: £484 million on an actual exchange rate basis)

(ii) Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012 2017 to reach at least £1,858 million in 2017 (2012: £924 million[(19)] on an actual exchange rate basis)

(iii) Group Underlying Free Surplus Generation[(18)] of at least £10 billion cumulatively over the four-year period from 2014 to end- 2017.

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

Our operating performance by business unit

Asia

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

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

In 2015 new business sales increased driven by growth in regular premium new business offsetting the reduction in single premiums, which are more susceptible to softer economic conditions. Our sales performance continues to benefit from our broad-based multi-channel distribution platform, new product launches and continued actions to improve both distribution scale and productivity. Agency sales were higher across the region, reflecting continued investment in agency manpower and an improvement in average agent productivity of 25 per cent. Our core bank partnerships continue to make good progress, led by Standard Chartered Bank.

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

Mainland Chinese customers.

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

(18) Underlying free surplus generation is defined in the section EEV Basis, New Business Results and Free Surplus Generation .

(19) Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards, and excludes the one-off gain of £51 million from the sale of the Group s holding in China Life Insurance Company of Taiwan.

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

In **Singapore**, we continue to lead the market for regular premium products with a market share of 23 per cent[20] and the largest agency force in the industry. During 2015, we have focused on growing regular premium agency-sourced protection sales, which has enhanced the mix of business through this channel. Reflecting the lower average case size of this business, our pro-active de-emphasis of universal life sales, and the effect of cessation of distribution relationships with Maybank and Singpost, total sales were lower in 2015.

Indonesia continues to generate material levels of new business value for our Asia business, and the recurring regular premium nature of our in-force portfolio has driven a 21 per cent increase in IFRS operating profit (15 per cent on an AER basis). Our sales performance reflects both softer market conditions and the impact of deliberate, pro-active actions to further improve the quality of our distribution. While this might affect shorter-term sales progression, it conserves value and positions us well to capitalise on the eventual upturn. Market conditions for new business sales remain challenging, with suppressed consumer sentiment making it harder to close sales, reflected in lower sales. However, average agency case sizes increased by 9 per cent in 2015. We remain confident about our long-term prospects in Indonesia given the low insurance penetration levels and we are continuing to invest in building our agency force nationwide.

In **Malaysia**, we have seen continued success from our strategy to increase our penetration of the Bumi sector, where we are the largest provider with a 37 per cent share of the Takaful market. In addition to growing the agency force, we have also increased our activity in bancassurance with sales from this channel up strongly.

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

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

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

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

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

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US

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

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

Overall, in 2015 the US competitive landscape remained relatively stable, although the industry continued to adjust its products and benefits in reaction to regulatory developments and economic conditions. Within variable annuities, providers are mainly choosing to modify their product offerings through reductions in fund availability and increased fees. A final set of rules and amendments were announced by the US Department of Labor on 6 April 2016. We had been working on contingency plans in advance of the rules being published and will now consider how the rules should be implemented. Given Jackson s proven record of product innovation, best-in-class infrastructure, access to competitive intelligence and integration of product design with distribution, we believe we are well positioned to respond, adapt and take advantage of any market disruptions.

Jackson achieved sales levels in 2015 which are broadly consistent with the levels in 2014. Including institutional sales, sales increased slightly.

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

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

UK and Europe

Our UK business delivered strong growth in IFRS operating profit. We continue to execute successfully our UK strategy, focusing on our core strength of investment-based retail offerings, selective participation in the wholesale

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business segment and active management of our in-force book. Life IFRS operating profit was 60 per cent[(21)] higher at £1,167 million and includes £339 million from the positive impact of specific management actions undertaken in the second half to position the balance sheet more efficiently under the new Solvency II regime, which are not expected to recur going forward. Cash remitted to the Group increased to £331 million (2014: £325 million).

In 2015, sales grew demonstrating the strength of our customer propositions in retail risk-managed investment products, combined with our diversified distribution capability. In 2015, we continued to participate in the pensions de-risking market in a disciplined manner, and delivered a robust performance from this sector.

Our **retail** business achieved sales growth driven by a growing demand for our savings and retirement products and specifically the distinctive PruFund range, with momentum increasing through the year as additional products and services came online including PruFund ISA, Flexible Income Drawdown and our simplified non-advised drawdown Pension Choices Plan. Our capabilities in multi-asset investing, the strength of our brand and diversified distribution, collectively position us well to meet evolving customer needs in a post-pension freedoms retirement market. Retail business benefitted from increased sales volumes partially offset by a lower contribution from **individual annuity sales**. Sales of individual annuities decreased sharply from 2014 levels to and now represent a smaller proportion of retail sales.

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

Onshore bonds sales and **offshore bonds** sales rose over the previous year. Reflecting increased demand for our wider range of retirement solutions post-pension reforms, **income drawdown** sales have grown significantly and **individual pensions** sales have more than doubled compared to 2014. We continue to diversify our product portfolio in response to the expanding market for flexible retirement income and pensions products.

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

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

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

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

Africa

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

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

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M&G

M&G s focus on producing superior long-term investment returns, coupled with well-established distribution in the UK and across Europe, underpins its financial results. IFRS operating profit of £442 million was broadly in line with 2014, with cash remittances to Group of £302 million up 6 per cent. At the end of 2015 M&G s total funds under management were 7 per cent lower at £246.1 billion (2014: £264 billion), with external funds under management of £126.4 billion accounting for 51 per cent of the total compared with 45 per cent five years ago. Despite outflows in 2015, M&G s total funds under management have grown from £198.0 billion at the end of 2010 to £246.1 billion at the end of 2015, reflecting M&G s continued focus towards innovation and asset class diversification.

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

In the fourth quarter of 2015, M&G experienced net retail outflows of £3.5 billion, including £2.4 billion from Europe. This reflected the continuation of a market-wide change in investor sentiment away from fixed income, against a backdrop of high levels of volatility and macroeconomic uncertainties, conditions that have continued into the early part of 2016. These conditions also resulted in a period of lower relative performance in some of our well established retail funds. Our strategy of diversification by asset class has helped attract good net inflows into several M&G multi-asset funds totalling (£2 billion) and into our retail property fund (£0.5 billion) in 2015.

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

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

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

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

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

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

Capital and risk management

We continue to take a disciplined approach to capital management and have implemented a number of measures over the last few years to enable us to make our capital work more efficiently for the Group. Our Solvency II outcome, following approval by the Prudential Regulation Authority of our internal model in December 2015, underscores the strength and resilience of the Group s capital position. At 31 December 2015, Group Solvency II capital surplus[(22),(23)] was estimated at £9.7 billion, which is equivalent to a Group Solvency II capital ratio of 193 per cent.

[(22)] The methodology and assumptions used in calculating the Group Solvency II capital results are set out in the Capital Management Section in Item 4. The Group Solvency II capital ratio is based on outputs from the Group s Solvency II internal model, approved by Prudential Regulation Authority in December 2015.

[(23)] Before allowing for second interim ordinary and special dividends.

Based on the Insurance Groups Directive solvency measure, our surplus position[(23)] at 31 December 2015 was estimated at £5.5 billion (31 December 2014: £4.7 billion[(24)]), equivalent to a cover of 2.5 times.

In July 2013, Prudential plc was listed by the Financial Stability Board as one of nine companies to be designated as a Global Systemically Important Insurer, a classification that was reaffirmed in November 2015. Prudential is monitoring the development and potential impact of the related framework of policy measures and is engaging closely with the Prudential Regulation Authority on the implications of this designation.

Dividend

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

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

Outlook

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

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

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

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

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

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

(24) Before allowing for 2014 final dividend.

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

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

Principal factors affecting Prudential s results of operations

Prudential s results of operations are affected, to a greater or lesser degree, by a variety of factors, including demographics, general economic and market conditions, government policy and regulation and exchange rate fluctuations, as discussed in greater detail below. In addition, changes in interest rates and returns from equity, real estate and other investments as well as volatility in these items may affect Prudential s profitability.

Please refer to Introduction and Overview , Item 3 Key Information Risk Factors and Item 4 Information on the Company Business of Prudential for additional discussion of factors that may affect Prudential s results of operations.

General economic and market conditions

Prudential s results of operations are impacted by general economic and market conditions and are sensitive to the pace of and extent of changes in equity markets and interest rates, as well as the changes in behaviour of individuals and institutions that these changes in economic and market conditions may cause. Particular features of relevance to the Prudential s geographic areas of operations are shown below:

Asia

Asia (excluding Japan) is leading the world in terms of GDP growth. In the period 2014 to 2020, it is expected to generate around US$7.0 trillion(25) of new GDP, more than the US and the other advanced economies combined.

Economic growth is contributing to the rapid increase of the Asian middle class. Between 2010 and 2020 it is estimated that there will be over 700 million people who will have risen from rural subsistence to middle-class lifestyles. Families are getting smaller, life expectancies are lengthening and the incidence of chronic diseases is increasing significantly.

As people move into the middle class, their increased wealth and higher income give them the opportunity to make financial plans for the first time. Typically the priority is to provide protection for their families and establish a regular savings plan through a life insurance policy.

Social welfare provisions vary by market in Asia but generally fall well below the levels people need to sustain their families lifestyle in the event of a personal tragedy such as the diagnosis of a critical illness. Also, while basic medical services may be provided by the state, there can be a high level of out-of-pocket expenses, creating demand for financial solutions to significantly improve an individual s experience through access to private medical services. Therefore, critical illness and medical riders are popular additions to life insurance policies.

Traditionally, Asians would have relied on their children to provide for them in their retirement but with family sizes decreasing people are increasingly making their own financial provisions and life insurance policies are a popular part of a retirement plan.

Once the savings and protection solutions are in place there is the opportunity to invest. Single premium insurance policies are also important in more developed markets and it is likely that customers will increasingly seek access to different asset classes through mutual funds as their wealth grows and financial needs become more sophisticated.

United States

The US is the world s largest retirement savings market with total assets in the annuity sector of over US$2.6 trillion[26]. Each year, approximately four million baby boomers reach retirement age.

(25) Prudential estimates based on IMF data October 2013

(26) LIMRA, Annuity U.S. Individual Annuities Survey Participant s Report (Q3 2015).

The number of retirees entering this stage of their life are triggering a shift from savings accumulation to retirement income generation of more than US$10 trillion[(27)].

However, as a group, baby boomers are under-saved and, in addition, their life expectancies continue to rise. They are in need of insurance products that offer the opportunity to grow their assets and to provide with guaranteed lifetime income to support them through these challenges.

The US retirement market continues to offer significant opportunities for profitable growth by providing solutions to the millions of baby boomers and to the future generations that will follow.

Despite a noticeable deceleration in consumer spending and a contraction in business investment in the fourth quarter, the US economy continued its trend of modest annual growth. While some sectors were disappointing, notably manufacturing, the US economy created 2.7 million new jobs[(28)], pushed unemployment down to 5.0 per cent and showed continued improvement in the housing market.

In December, the Federal Reserve raised the Fed Funds rate by 25 basis points, their first increase in almost 10 years. The S&P 500 returned approximately negative 1 per cent in 2015, after much stronger returns in 2013 and 2014, while the benchmark 10 years US Treasury note yield rose from 2.18 per cent at the end of 2014 to 2.28 per cent at 31 December 2015.

In general, Jackson s results are significantly affected by fluctuations in economic and market conditions, especially interest rates, credit conditions and equity markets. The profitability of Jackson s spread based business depends largely on its ability to manage interest rate exposure, as well as the credit and other risks inherent in its investment portfolio. Jackson designs its products and manages the investments and liabilities to reduce overall interest rate sensitivity. This has the effect of moderating the impact on Prudential s results of changes in prevailing interest rates.

Jackson s exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Changes in interest rates, either upward or downward, including changes in the difference between the levels of prevailing short-term and long-term rates, can expose Jackson to the risk of not earning anticipated spreads. For example, if interest rates increase and/or competitors offer higher crediting rates, withdrawals on annuity contracts may increase as contract holders seek higher investment returns elsewhere. In response, Jackson could (i) raise its crediting rates to stem withdrawals, decreasing its spread; (ii) sell assets which may have depressed values in a high interest rate environment to fund policyholder payments, creating realised investment losses; or (iii) pay out from existing cash which would otherwise have been invested and earned interest at the higher interest rates.

Conversely, if interest rates decrease, withdrawals from annuity contracts may decrease relative to original expectations, creating more cash than expected to be invested at lower rates. Jackson may have the ability to lower the rates it credits to contract holders as a result, but may be forced to maintain crediting rates for competitive reasons or because there are minimum interest rate guarantees in certain contracts. In either case, the spread earned by Jackson would be compressed.

The majority of assets backing the spread-based business are invested in fixed income securities. Jackson actively manages its investment and derivative portfolio, considering a variety of factors, including the relationship between the expected duration of its assets and its liabilities.

Recent periods have been characterised by low interest rates. The current low interest rate environment is likely to be prolonged. A prolonged low interest rate environment may result in a lengthening of maturities of the contract holder liabilities from initial estimates, primarily due to lower policy lapses. As interest rates remain at low levels, Jackson may also have to reinvest the cash it receives as interest or proceeds from investments that have matured or that have been sold at lower yields, reducing its investment margins. Moreover, borrowers may prepay or redeem the securities in its investment portfolio with greater frequency in order to borrow at lower market rates, which exacerbates this risk.

(27) US Census Bureau.
(28) Bureau of Labor Statistics, U.S. Department of Labor.

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The majority of Jackson s fixed interest rate annuities and life products were designed with contractual provisions that allow crediting rates to be re-set annually subject to minimum crediting rate guarantees. Therefore, on new business written, as well as on in-force business above minimum guarantees, Jackson has adjusted, and will continue to adjust, crediting rates in order to maintain targeted interest rate spreads.

Lowering crediting rates helps to mitigate the effect of spread compression but the spreads could still decline as Jackson is typically only entitled to reset the crediting rates at limited pre-established intervals and the re-setting is subject to the guaranteed minimum rates. As at 31 December 2015, approximately 87 per cent of Jackson s fixed interest rate annuities and interest-sensitive life business account values correspond to crediting rates that are at the minimum guaranteed interest rates (2014: 87 per cent). Tabular disclosures are provided in note C4.2(b) to the consolidated financial statements in Item 18 on the distribution of the account values of these businesses within the range of their contractual minimum guaranteed interest rates. The tables demonstrate that approximately 72 per cent (2014: 71 per cent) of Jackson s combined fixed interest rate annuities and interest sensitive life business account values of £23 billion (2014: £21 billion) have contractual minimum rates of 3 per cent or less.

Jackson s expectation for future spreads is also an important component in the amortisation of deferred acquisition costs. Significantly lower spreads may cause it to accelerate amortisation, thereby reducing total IFRS profit in the affected reporting period. Low market interest rates could also reduce Jackson s return on investments that are held to support the company s capital. In addition, changes in interest rates will affect the net unrealised gain or loss position of Jackson s available-for-sale fixed income securities which is reported as a component of other comprehensive income. Further information on the factors affecting the pricing of products and asset liability management of Jackson is provided in Item 4. Information on the Company Business of Prudential US Business .

In addition to the impact on Jackson s spread product profitability, a prolonged period during which interest rates remain at levels lower than those anticipated in its pricing may result in greater costs associated with certain of Jackson s product features which guarantee benefits, and also result in higher costs for derivative instruments used to hedge certain of its product risks. Reflecting these impacts in recoverability and loss recognition testing under U.S. GAAP as grandfathered under IFRS may require Jackson to accelerate the amortisation of DAC as noted above, as well as to increase required reserves for future contract holder benefits. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and a prolonged period of low interest rates may increase the statutory reserves and capital Jackson is required to hold.

Accordingly, without active management, a prolonged low interest rate environment may materially affect Jackson s financial position, results of operations and cash flows. However, Jackson has and continues to proactively adapt its asset-liability management, hedging programme, product design and pricing and crediting rate strategies to mitigate the downward pressures created by the prolonged low interest rate environment.

The sensitivity of Jackson s IFRS basis profit or loss and shareholders equity to changes in interest rates is provided in note C7.3 to the consolidated financial statements in Item 18.

The profitability of Jackson s fee-based business depends largely on its ability to manage equity market risk. As the investment return on the separate account assets is attributed directly to the contract holders, Jackson s profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to effectively manage Jackson s equity exposure. Jackson believes that the internal management of equity risk, coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility.

Jackson continues to believe that, on a long-term economic basis, its equity exposure remains well managed.

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United Kingdom

The UK is the world s fifth largest retail investment market. Wealth is concentrated in the 50+ age group, with the younger generation of savers being typically less well-funded. In our target over-50 demographic, the population growth rate is almost double the growth rate of the UK population as a whole and while the introduction of pension freedom reforms in April 2015 has fundamentally changed the way in which individuals can access their savings to help fund their income in retirement, the need to accumulate savings remains unchanged. These radical changes, when combined with our trusted brand and product capabilities, provide new and significant opportunities for the profitable and capital efficient growth of our business in the UK.

In the UK, where Prudential s with-profits fund invests in debt and other fixed income securities, equity securities and real estate, shareholders profits under IFRS are strongly related to the bonuses it declares. The most important influences on the bonus rates are the overall rate of return earned on investments and Prudential s expectation of future investment returns. Further information on with-profits products is provided in Item 5 Basis of Profits , With-Profits Products and Bonus Rates below. In addition, shareholders profits under IFRS are significantly influenced by the contribution from the shareholder backed annuity business. The key factors affecting the profitability of this business are described in note C4.2 to the consolidated financial statements in Item 18.

Government policy and regulation

Changes in government policy or regulation applying to companies in the financial services and insurance industries in any of the jurisdictions in which Prudential operates, particularly in Asia, the United Kingdom and the United States, may adversely affect the result of its operations. These include possible changes in the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and solvency standards.

These changes may affect Prudential s existing and future business by, for example, causing customers to cancel existing policies, requiring Prudential to change its range of products and services, redesign its technology or other systems, retrain staff, pay increased tax or incur other costs.

In Asia, each Asian market has evolved its own regulatory regime depending on the heritage of the industry, experiences and developmental priorities. Regulators across the region are generally keen to promote the growth of the life insurance industry as they appreciate the social utility of providing financial security to individuals and the way insurers can channel unproductive cash savings into long-term investments in the economy. However, they are imposing higher standards on the industry and monitoring compliance more actively, with increasing focus on the quality of advice distributors provide and the suitability of the products offered. Although assessments of solvency can vary considerably market by market, there is increasing convergence on risk-based calculations.

In the US, in addition to the uneven economic conditions in 2015, the insurance industry continues to deal with an evolving regulatory landscape and a multitude of initiatives. Many of these initiatives began in response to the financial crisis over eight years ago and were focused on the broader financial services industry. Within the insurance industry, we continue to see changes in supervisory structures, new global group supervision and capital standards and a focus on the reduction of systemic risk . The US Department of Labor (DOL) has also introduced new fiduciary obligations for distributors of investment products of holders of regulated accounts.

The UK life and pensions industry continues to undergo significant change. When compared to 2012, the UK pensions industry today is almost unrecognisable. Three years of unprecedented regulatory change has resulted in a structural marketplace shift in how customers view retirement with consumers being given greater flexibility to access their pension savings in retirement. Customers are engaging more frequently with their providers and the demand for financial advice and guidance is increasing. Those companies who are well-known, financially strong and create products and services to match the pension freedom needs and expectations of customers will prosper.

Prudential is well placed in this evolving marketplace. This is evident in our new business profile relative to a few years ago. Where once bonds and annuities were the dominant components of new business, since the emergence of greater post pension freedoms we have been writing more bond, ISA, pension saving and income drawdown business, and a significantly lower volume of annuity business, giving a better balance to our business portfolio.

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Further details on the regulatory supervision which Prudential is subject to in the UK and internationally are provided in Item 4 Information on the Company Supervision and Regulation .

Exchange rates

Due to the geographical diversity of Prudential s businesses, it is subject to the risk of exchange rate fluctuations. Prudential s international operations in Asia, the United States and Europe, which represent a significant proportion of total group income and expenses, generally write policies and invest in the same local currency, which although limiting the effect of exchange rate fluctuations on local operating results, can lead to fluctuations in Prudential s consolidated financial information upon translation of results into pounds sterling. Please refer to Item 4 Information on the Company Business of Prudential Group Risk Framework Financial Risks Foreign Exchange Risk , Item 5 Other results based information Foreign currency source of IFRS key metrics and Notes C7.2, C7.3 and C7.4 to the consolidated financial statements in Item 18 for additional information on the impact of foreign currency fluctuations on the Group.

IFRS Critical Accounting Policies

Prudential s discussion and analysis of its financial condition and results of operations are based upon Prudential s consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2015, there were no unendorsed standards effective for the three years ended 31 December 2015 affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, Prudential s financial information for the three years ended 31 December 2015 is prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards when required, and may consider earlier adoption where permitted and appropriate in the circumstances.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to the policies referenced below which are described further in the notes to the consolidated financial statements in Item 18.

Critical accounting policies	**Reference to the disclosure notes in Item 18**
Classification of insurance and investment contracts	A3.1(c)
Measurement of policyholder liabilities and unallocated surplus of with-profits fund	A3.1(d)
Measurement and presentation of derivatives and debt securities of US insurance operations	A3.1(j)(v)
Presentation of results before tax	A3.1(k)
Segmental analysis of results and earnings distributable to shareholders	A3.1(m)

The critical accounting policies referenced above are critical for those that relate to the Group s shareholder financed business. In particular this applies for Jackson which is the largest shareholder backed business in the Group. The policies are not critical in respect of the Group s with-profits business. This distinction reflects the basis of recognition of profit and accounting treatment of unallocated surplus of with-profits funds as a liability, as described elsewhere in these financial statements.

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In determining the measurement of the Group s assets and liabilities and in preparing financial statements, more generally, estimates and judgements are required. The critical aspects are set out below by reference to and discussed in the following accounting policies and other notes to the consolidated financial statements in Item 18.

Critical accounting estimates and assumptions	**Reference to the disclosure notes in Item 18**
Classification of insurance and investment contracts	A3.1(c)
Measurement of policyholder liabilities	A3.1(d); C4.2 and C7
Measurement of deferred acquisition costs	A3.1(f); and C4.2
Determination of fair value of financial investments	A3.1(j)(ii)
Determining impairment related to financial assets	A3.1 (j)(iii)
Additional quantitative information on the impairment and realised gains/losses recognised on the available-for-sale debt securities of US insurance operations	C3.5 (d)
Additional quantitative information on the movement in the statement of financial position value of the available-for-sale debt securities of US insurance operations and those which are in a gross unrealised loss position.	C3.3(b)(ii)

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Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential s consolidated total profit for the years indicated.

	Actual Exchange Rate Year Ended 31 December £m		
	2015	**2014**	**2013**
Total revenue, net of reinsurance	**41,305**	60,126	52,375
Total charges, net of reinsurance	**(38,222)**	(57,275)	(50,440)
Share of profits from joint ventures and associates, net of related tax	**238**	303	147
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**3,321**	3,154	2,082
Tax attributable to policyholders returns	**(173)**	(540)	(447)
Profit before tax attributable to shareholders	**3,148**	2,614	1,635
Tax charge	**(742)**	(938)	(736)
Less: tax attributable to policyholders returns	**173**	540	447
Tax charge attributable to shareholders returns	**(569)**	(398)	(289)
Profit for the year	**2,579**	2,216	1,346

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure (which is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders) is not representative of pre-tax profits attributable to shareholders. See Presentation of results before tax under IFRS Critical Accounting Policies section above for further explanation.

Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as with-profits and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its consolidated results by reference to profits for the year, reflecting profit after tax. In explaining movements in profit for the year, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note B1 to the consolidated financial statements in Item 18. This basis is used by management and reported externally to the holders of shares listed on the UK, Hong Kong and Singapore exchanges and to the financial markets in those countries. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

Explanation of Movements in Profits after Tax and Profits before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

(a) Group overview

Profit for the year after tax for 2015 was £2,579 million compared to £2,216 million for 2014. The increase primarily reflects the movement in profit before tax attributable to shareholders, which increased from a profit of £2,614 million in 2014 to a profit of £3,148 million in 2015, which was partially offset by an increase in the tax charge attributable to shareholders from £398 million in 2014 to £569 million in 2015.

The increase in the total profit before tax attributable to shareholders from £2,614 million in 2014 to £3,148 million in 2015 reflects an improvement in operating profit based on longer-term investment returns from £3,186 million in 2014 to £4,007 million in 2015 and an unfavourable change in non-operating items of £287 million, from negative £572 million to negative £859 million. The increase of £821 million or 26 per cent in operating profit based on longer-term investments includes a positive exchange translation impact of £104 million. Excluding the currency volatility, on a constant exchange rate basis, the Group operating profit based on longer-term investment returns increased by £717 million or 22 per cent to £4,007 million, driven by the improved performance in our life operations in Asia, the US and the UK.

The increased charge for non-operating items of £287 million is primarily due to the unfavourable change in short-term fluctuations in investment returns from negative £574 million in 2014 to negative £737 million in 2015. In addition, in 2014, the Group sold its 25 per cent equity stake in the PruHealth and PruProtect businesses resulting in a profit on disposal of £86 million recorded as a non-operating item.

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

Currency values in the countries in which we operate have also fluctuated in the course of 2015. As a significant proportion of our earnings and capital is US dollar denominated, the weaker sterling benefited our reported results, shareholders equity and solvency.

The effective rate of tax at the total profit level was 18 per cent in 2015 compared to 15 per cent in 2014. The increased rate principally reflects a larger overall contribution to the total profit from Jackson which attracts a higher rate of tax than other operations. Further details are provided in note B5 to the consolidated financial statements in Item 18.

Profit for the year after tax for 2014 was £2,216 million compared to £1,346 million for 2013. The increase primarily reflected the movement in profit before tax attributable to shareholders, which increased from 1,635 million in 2013 to a profit of £2,614 million in 2014, which was partially offset by an increase in the tax charge attributable to shareholders from £289 million in 2013 to £398 million in 2014.

The increase in the total profit before tax attributable to shareholders from £1,635 million in 2013 to £2,614 million in 2014 reflected an improvement in operating profit based on longer-term investment returns from £2,954 million in 2013 to £3,186 million in 2014 and a favourable change in non-operating items of £747 million from negative £1,319 million to negative £572 million. The increase of £232 million or 8 per cent in operating profit based on longer-term investments included a negative exchange translation impact of £167 million. Excluding the currency volatility, on a constant exchange rate basis, the Group operating profit based on longer-term investment returns increased by £399 million or 14 per cent, to £3,186 million, which was driven by the broad-based improvement in profitability in all four of our business operations in Asia, the US, UK life and M&G.

The improvement in non-operating items of £747 million from 2013 to 2014 was primarily due to the favourable change in short-term fluctuations in investment returns, from negative £1,110 million in 2013 to negative £574 million in 2014 and no loss attaching to the held-for-sale Japan Life business in compared to a loss of £102 million in 2013. This improvement of £747 million in non-operating items also included an IFRS profit on disposal of PruHeatlh and PruProtect businesses of £86 million in 2014 and a positive exchange translation impact of £64 million. During 2014, the performance of the equity markets in the countries that we operate in was broadly positive. Further, most markets experienced a significant decline in 10-year bond yields during 2014, largely reversing the increases seen in 2013.

The effective rate of tax at the total profit level was 15 per cent in 2014, compared to 18 per cent in 2013. The reduced rate was principally due the negative impact of the sale of Japan Life on the full year Asia 2013 tax rate, the combination of a favourable deduction in respect of portfolio dividends received in Variable Annuity business and the impact of tax relief on negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements, following rises in equity values in the US, and the absence of the restatement of deferred tax balances in 2013 to reflect the reduction in the main rate of UK corporate tax. Further details are provided in note B5 to the consolidated financial statements in Item 18.

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(b) Summary by business segment and geographical region

The Group s operating segments as determined under IFRS 8 are insurance operations split by territories in which the Group conducts business, which are Asia, the United States and the United Kingdom, and asset management operations split into M&G, which is the Group s UK and European asset management business, Eastspring Investments, which is the Asian asset management business and the US broker-dealer and asset management business.

The following table shows Prudential s IFRS consolidated total profit (loss) for the years indicated presented by summary business segment and geographic region. The accounting policies applied to the segments below are the same as those used in the Group s consolidated accounts.

	Year ended 31 December 2015 £m				
	Asia	**US**	**UK**	**Unallocated corporate****	**Total**
Insurance operations	**871**	**963**	**872**	**-**	**2,706**
Asset management*	**101**	**7**	**323**	**-**	**431**
Total profit attributable to the segments	**972**	**970**	**1,195**	**-**	**3,137**
Unallocated corporate	**-**	**-**	**-**	**(558)**	**(558)**
Total profit (loss) for the year	**972**	**970**	**1,195**	**(558)**	**2,579**

	Year ended 31 December 2014 £m (AER)				
	Asia	**US**	**UK+**	**Unallocated corporate****	**Total**
Insurance operations	1,048	249	1,050	-	2,347
Asset management*	78	6	372	-	456
Total profit attributable to the segments	1,126	255	1,422	-	2,803
Unallocated corporate	-	-	-	(587)	(587)
Total profit (loss) for the year	1,126	255	1,422	(587)	2,216

	Year ended 31 December 2013 £m (AER)				
	Asia	**US**	**UK+**	**Unallocated corporate****	**Total**
Insurance operations	540	452	374	-	1,366
Asset management*	64	39	363	-	466
Total profit attributable to the segments	604	491	737	-	1,832
Unallocated corporate	-	-	-	(486)	(486)
Total profit (loss) for the year	604	491	737	(486)	1,346

* For the US, including the broker-dealer business.

** Representing central operations.

+ Includes the results of the sold PruHealth and PruProtect businesses

Profit from insurance operations

Total profit from insurance operations in 2015 was £2,706 million compared to £2,347 million in 2014 and £1,366 million in 2013. All of the profits from insurance operations in 2015, 2014 and 2013 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Profit before shareholder tax	**3,310**	2,798	1,687
Shareholder tax	**(604)**	(451)	(321)
Profit after tax	**2,706**	2,347	1,366

The increase of £512 million in profit before tax attributable to shareholders, from £2,798 million in 2014 to £3,310 million in 2015 is primarily driven by an increase in operating profit based on longer-term investment returns of £821 million. This increase offset by an increased loss in non-operating losses of £287 million, from a loss of £572 million in 2014 to a loss of £859 million in 2015. The increase of £821 million in operating profit based on longer-term investments includes a positive exchange translation impact of £104 million. The increase in operating profit based on longer-term investment returns reflects the growth in the scale of the insurance operations, driven primarily by positive business inflows.

The effective shareholder tax rate on profits from insurance operations increased to 18 per cent in 2015 compared to 16 per cent in 2014. The increased rate reflects a larger overall contribution to the total profit from Jackson which attracts a higher rate of tax. Further details are included in Note B5 to the financial statements at item 18.

The increase of £1,111 million in profit before tax attributable to shareholders, from £1,687 million in 2013 to a profit of £2,798 million in 2014, was primarily driven by an increase in operating profit based on longer-term investment returns of £278 million and an improvement in non-operating items of £833 million, reducing the non-operating loss from £1,292 million in 2013 to a loss of £459 million in 2014. The increase of £278 million in operating profit based on longer-term investments included a negative exchange translation impact of £158 million. The increase in operating profit based on longer-term investment returns reflected the growth in the scale of the insurance operations, driven primarily by positive business inflows.

The effective shareholder tax rate on profits from insurance operations decreased from 19 per cent in 2013 to 16 per cent in 2014. The reduced rate was principally due to the negative impact of the sale of Japan Life on the full year 2013 tax rate, the combination of a favourable deduction in respect of portfolio dividends received in Variable Annuity business and the impact of tax relief on negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values and the absence of the change in deferred tax balances in 2013 to reflect the reduction in the main rate of UK corporate tax. Further details are included in Note B5 to the financial statements at item 18.

In order to understand how Prudential s results are derived it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with grandfathered UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of grandfathered UK GAAP in this respect is permitted.

For Asia operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, the measurement of the insurance assets and liabilities is determined substantially by reference to US GAAP principles. This basis is applied in India, Taiwan and, until its sale in 2015, Japan. For with-profits business in Hong Kong, Singapore and Malaysia, the basis of profit recognition is bonus driven as described under United Kingdom Basis of Profits below.

Comparison of total profit arising from Asia insurance operations

The following table shows the movement in profit arising from Asia insurance operations for the years indicated.

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Profit before shareholder tax	**1,036**	1,220	688
Shareholder tax	**(165)**	(172)	(148)
Profit after tax	**871**	1,048	540

The decrease of £184 million from the profit before tax attributable to shareholders in 2014 of £1,220 to a profit of £1,036 million in 2015 primarily reflects adverse change in non-operating items of £343 million, which was partially

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offset by an increase of £159 million in operating profit based on longer-term investment. The increase of £159 million in operating profit based on longer-term investments includes a negative exchange translation impact of £10 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer-term investment returns was up 16 per cent on a constant exchange basis driven by the contribution from the in-force business, reflecting both its larger scale and our regular premium health and protection oriented focus.

The change of £343 million from a non-operating profit of £170 million in 2014 to a non-operating loss of £173 million in 2015 was primarily due to adverse changes in the short-term fluctuations in investment returns of £297 million and a recycled £46 million cumulative exchange loss related to the sale of Japan Life business in 2015. The adverse change of £343 million in 2015 in non-operating items includes a negative exchange translation impact of £11 million. The negative short-term fluctuations in investment returns primarily reflect net unrealised losses on fixed income securities, primarily due to rises in bond yields.

The effective shareholder tax rate increased to 16 per cent in 2015 compared to 14 per cent in 2014, with the movement principally due to an increase in losses arising in the current year for which no deferred tax asset has been recognised.

The increase of £532 million from the profit before tax attributable to shareholders in 2013 of £688 million to a profit of £1,220 million in 2014 primarily reflected an increase of £49 million in operating profit based on longer term investment and a positive change in non-operating items of £483 million. The increase of £49 million in operating profit based on longer-term investments included a negative exchange translation impact of £96 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer-term investment returns was up 16 per cent on a constant exchange basis, driven by the increasing scale of the in force book and our regular premium health and protection oriented product focus.

The change of £483 million from a non-operating loss of £313 million in 2013 to a non-operating profit of £170 million in 2014 arose from an improvement in the short-term fluctuations in investment returns of £382 million, no loss attaching to the held-for-sale Japan Life business in 2014 (2013: £102 million) and an adverse change of £1 million in other non-operating items. The positive change of £483 million in 2014 in non-operating items included a positive exchange translation impact of £28 million. The positive short-term fluctuations in investment returns primarily reflected net unrealised movement in bond holdings following falls in bond yields across the region during 2014.

The effective shareholder tax rate changed from 22 per cent in 2013 to 14 per cent in 2014, with the movement principally due to the negative impact of the sale of Japan Life on the full year 2013 tax rate.

United States

Basis of profits

The operating profit on Jackson s business predominantly arises from fee income on variable annuity business, spread income from interest sensitive products, such as fixed annuities and institutional products and insurance margin, net of expenses measured on a US GAAP basis. In addition, the profit (including non-operating item) in any period include the incidence of gains and losses (including impairment) on assets classified as available-for-sale, fair value movements on derivatives and securities classified as fair valued through profit and loss and value movements on product guarantees.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profit arising from US insurance operations for the years indicated.

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Profit before shareholder tax	**1,199**	257	553
Shareholder tax	**(236)**	(8)	(101)
Profit after tax	**963**	249	452

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The £942 million increase in profit before tax attributable to shareholders in 2015 against 2014, is primarily due to an increase of £260 million in operating profit based on longer-term investment returns to £1,691 million, together with a decrease in the non-operating loss, which fell by £682 million to £492 million.

The increase of £260 million in operating profit based on longer term investment returns includes a positive translation impact of £112 million. Excluding the currency volatility, the increase in operating profit based on longer-term investment return in 2015 on a constant exchange rate basis compared to 2014 was £148 million or 10 per cent primarily as a result of an increase in fee income, which is now the US operations main income source, and efficient management of costs.

The decrease in non-operating loss was mainly driven by a favourable change in short-term fluctuations in investment returns of £679 million, which decreased by £679 million from a £1,103 million loss in 2014 to a loss of £424 million in 2015. The positive movement in short-term fluctuations in investment returns mainly reflects the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures, as described further in the Charges for short-term fluctuations in investment returns section below.

The effective tax rate on profits from US operations increased to 20 per cent in 2015 from 3 per cent in 2014 principally due to the absence of tax relief on the negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values in 2014. The S&P index ended 2015 roughly in line with year end 2014 levels.

The £296 million decrease in profit before tax attributable to shareholders in 2014 against 2013 was primarily due to an increase of £188 million in operating profit based on longer term investment returns to £1,431 million, which was more than offset by an adverse change in non-operating loss of £484 million.

The increase of £188 million in operating profit based on longer term investment returns in 2014 against 2013 included a negative translation impact of £62 million. Excluding the currency volatility, the increase in operating profit based on longer-term investment return in 2014 on a constant exchange rate basis compared to 2013 was £250 million, or 21 per cent, primarily driven by increased fee income reflecting the growth in average separate account assets.

The increase in non-operating loss was mainly driven by an adverse change in short-term fluctuations in investment returns of £478 million, increasing the loss from £625 million in 2013 to a loss of £1,103 million in 2014. The negative movement in short-term fluctuations in investment returns mainly reflected the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures, as described further in the Charges for short-term fluctuations in investment returns section below.

The effective tax rate on profits from US operations decreased from 18 per cent in 2013 to 3 per cent in 2014 principally due to a combination of a favourable deduction in respect of portfolio dividends received in Variable Annuity business and the impact of tax relief on negative net unrealised value movement on derivatives held to manage the Group s exposure to market movements following rises in equity values.

United Kingdom

Basis of profits

Prudential s results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund as well as profits from its annuity and other businesses.

For Prudential s UK insurance operations, the primary annual contribution to shareholders profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a mix of regular and final bonuses.

For with-profits business (including non-participating business owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognised in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for the with-profits business, which are determined on the same basis as on grandfathered UK GAAP,

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solely reflect one-ninth of the cost of bonuses declared for the year. Further details on the determination of the bonuses (regular and final) are provided in note C4.2(c)(i) to the consolidated financial statements in Item 18.

The results of the UK shareholder-backed annuity business reflect the inclusion of investment return including realised and unrealised gains and losses. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note B4 to the consolidated financial statements in Item 18.

Comparison of total profit arising from UK insurance operations

The following table shows the movement in profit arising from UK insurance operations for the years indicated.

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Profit before shareholder tax	**1,075**	1,321	446
Shareholder tax	**(203)**	(271)	(72)
Profit after tax	**872**	1,050	374

Profit after tax from UK insurance operations of £872 million in 2015 is £178 million lower than the £1,050 million in 2014.

The decrease in profit before tax attributable to shareholders of £246 million to £1,075 million in 2015 was driven by an increase of £419 million in operating profit based on longer term investments return, which was more than offset by an adverse movement in the short-term fluctuations in investment returns for shareholder-backed business of £584 million from £464 million gain in 2014 to £120 million loss in 2015 and an adverse movement of £81 million in the other non-operating items.

The £419 million, or 54 per cent, increase in operating profit based on longer-term investment returns was driven by our focused approach on active management of our in-force portfolio and the positive impact of specific management actions taken to position the balance sheet more efficiently under the new Solvency II regime. Operating profit based on longer term investment returns included general insurance commissions of £28 million in 2015 compared with £24 million for 2014.

The adverse short term fluctuations in investment returns of £120 million include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business. The adverse movement in other non-operating items of £81 million was primarily due to the one-off gain of £86 million arising from the sale of UK insurance operation s 25 per cent equity stake in PruHealth and PruProtect businesses in 2014.

The effective shareholder tax rate on profits from UK insurance operations decreased to 19 per cent compared to 21 per cent for 2014, principally due to the change in the deferred tax balances in 2015 to reflect the reduction in the main rate of UK corporate tax in 2017 and 2020.

Profit after tax from UK insurance operations of £1,050 million in 2014 was £676 million higher than the £374 million in 2013.

The increase in profit before tax attributable to shareholders of £875 million to £1,321 million in 2014 was driven by an increase of £41 million in operating profit based on longer-term investments return, combined with an improvement in the short-term fluctuations in investment returns for shareholder-backed business of £718 million and a favourable change in other non-operating items of £116 million. The favourable change in the UK insurance non-operating items in 2014 includes a one-off gain of £86 million arising from the sale of UK insurance operation s 25 per cent equity stake in PruHealth and PruProtect businesses.

The £41 million, or 6 per cent increase in operating profit based on longer-term investment returns in 2014 against 2013 was principally driven by a £105 million profit contribution from bulk annuity transactions (2013: £25 million), partially offset by a £53 million decline in profit from new retail annuity sales which was affected by the UK market reforms announced in March 2014. Operating profit based on longer-term investment returns included general insurance commissions of £24 million in 2014 compared with £29 million for 2013. The positive short-term fluctuations in investment returns of £464 million includes net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

The effective shareholder tax rate on profits from UK insurance operations for 2014 of 21 per cent compares with the effective tax rate of 16 per cent in 2013, principally due to the absence of the restatement of deferred tax balances in 2013 to reflect the reduction in the main rate of UK corporate tax.

Profit from asset management

The following table shows the movement in profits from asset management for the years indicated.

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Profit before shareholder tax	**522**	573	596
Shareholder tax	**(91)**	(117)	(130)
Profit after tax	**431**	456	466

Total profit from asset management decreased from £456 million in 2014 to £431 million in 2015. The decrease of £51 million in profit before shareholder tax in 2015 compared to 2014 resulted mainly from a decrease for Prudential Capital of £62 million from a profit of £17 million in 2014 to a loss of £45 million in 2015. Further, the M&G profit before shareholder tax decreased by £13 million. These decreases were partially offset by an increase in the profit before shareholder tax for Eastspring Investments of £25 million from £90 million to £115 million.

The £62 million decrease in the profit before shareholder tax of Prudential Capital in 2015 reflected a decrease of £23 million in operating profit based on longer-term investment returns and an adverse change in short-term fluctuations in investment returns of £39 million. During 2015, we started to refocus activity away from revenue generation towards internal treasury services and this reprioritisation will continue into 2016.

The effective tax rate on profits from asset management operations decreased to 17 per cent in 2015 from 20 per cent in 2014, principally due to an increase in the proportion of income received which is not subject to tax or taxed at a concessionary rate and a reduction in the main rate of UK corporate tax that affects M&G and Prudential Capital.

Total profit from asset management decreased from £466 million in 2013 to £456 million in 2014. The decrease of £23 million in profit before shareholder tax in 2014 compared to 2013 resulted mainly from a decrease for US broker-dealer and asset management operations of £47 million (from £59 million in 2013 to £12 million in 2014) and a decrease for Prudential Capital of £52 million (from £69 million in 2013 to £17 million in 2014). These decreases were partially offset by an increase in profit before shareholder tax for M&G of £60 million from £394 million in 2013 to £454 million in 2014 and an increase in profit before shareholder tax for Eastspring Investments of £16 million from £74 million to £90 million.

The £60 million increase in the profit before shareholder tax of M&G in 2014 primarily reflected an increase of £51 million in operating profit based on longer-term investment returns to £446 million. The £52 million decrease in the profit before shareholder tax of Prudential Capital in 2014 primarily reflected an adverse change in short-term fluctuations in investment returns of £48 million.

The £16 million increase in profit before tax attributable to shareholders for Eastspring Investments in 2014 included a negative exchange translation impact of £6 million. Excluding the currency volatility, the increase in £22 million, or 32 per cent, reflected the benefit of higher average funds under management. The decrease in US broker-dealer and asset management operations of £47 million followed a provision related primarily to the potential refund of certain fees by Curian.

The effective shareholder tax rate on profits from asset management operations for 2014 of 20 per cent compared with the effective tax rate of 22 per cent in 2013, principally due to a reduction in the main rate of UK corporate tax.

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Unallocated corporate result

The following table shows the movement in the unallocated corporate result for the years indicated.

	Year Ended 31 December £m		
	2015	**2014**	**2013**
Loss before shareholder tax	**(684)**	(757)	(648)
Shareholder tax	**126**	170	162
Loss after tax	**(558)**	(587)	(486)

Total net charges for unallocated corporate activity decreased by £29 million in 2015 from £587 million in 2014 to £558 million in 2015.

The loss before shareholder tax decreased by £73 million from £757 million in 2014 to £684 million in 2015. Net other expenditure (including restructuring and Solvency II implementation costs) increased by £14 million from £661 million in 2014 to £675 million in 2015. This was more than offset by a favourable change of £87 million in short-term fluctuations in investment returns from a loss of £96 million in 2014 to a loss of £9 million in 2015.

The effective tax credit on unallocated corporate result changed to 18 per cent at 2015 from 22 per cent at 2014, with 2014 benefiting from the release of provisions no longer required.

Total net charges for unallocated corporate activity increased by £101 million from £486 million in 2013 to £587 million in 2014.

The loss before shareholder tax increased by £109 million from £648 million in 2013 to £757 million in 2014. Net other expenditure (including restructuring and Solvency II implementation costs) increased by £62 million from £599 million in 2013 to £661 million in 2014. This was combined with an adverse change of £47 million in short-term fluctuations in investment returns from a loss of £49 million in 2013 to a loss of £96 million in 2014.

The effective tax credit on unallocated corporate result changed from 25 per cent at 2013 to 22 per cent at 2014, reflecting a release of provisions no longer required.

(c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group s results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Prudential determines and presents operating segments based on the information that is internally provided to the Group Executive Committee (GEC), which is Prudential s chief operating decision maker.

An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential s other components. An operating segment s operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments identified by Prudential reflect its organisational structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management).

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The Group s operating segments, determined in accordance with IFRS 8 Operating Segments , are as follows:

Insurance operations:	**Asset management operations:**
Asia	Eastspring Investments
US (Jackson)	US broker-dealer and asset management
UK	M&G
	Prudential Capital

The Group s operating segments are also its reportable segments for the purposes of internal management reporting. Prior to 2015, the Group incorporated Prudential Capital into the M&G operating segment for the purposes of segment reporting. To better reflect the economic characteristics of the two businesses, the Group has in 2015 made a change to present Prudential Capital as a separate reportable segment rather than aggregating this segment within M&G. The change to present Prudential Capital as a separate reportable segment is reflected in our consolidated financial statements and has been applied retrospectively.

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns, as described below. This measurement basis distinguishes operating profit based on long-term investment returns from other constituents of the total profit as follows:

- Short-term fluctuations in investment returns on shareholder-backed business*;
- Gain on the sale of the Group s stake in the PruHealth and PruProtect businesses in 2014;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015. See note D1 to the financial statements at item 18 for further details;
- The costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014; and
- Loss in 2013 attaching to the held for sale Japan life business. See note D1 to the financial statements at item 18 for further details.

Segment results that are reported to the Group Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asia Regional Head Office.

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

Determination of operating profit based on longer-term investment returns for investment and liability movements:

(a) General principles

(i) UK style with-profits business

The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii) Unit-linked business

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(iii) US variable annuity and fixed index annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other US GAAP derived principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

(iv) Business where policyholder liabilities are sensitive to market conditions

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the grandfathered measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities is broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the elements that relate to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (ie after allocated investment return and charge for policyholder benefits) the operating result reflects longer-term market returns.

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively.

(v) Other shareholder-financed business

The measurement of operating profit based on longer-term investment returns reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group s shareholder-financed operations.

Except in the case of assets backing liabilities which are directly matched (such as linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

Debt, equity-type securities and loans

Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

In principle, for debt securities and loans, the longer-term capital returns comprise two elements:

- Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and
- The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 31 December 2015, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £567 million (2014: £467 million; 2013: £461 million).

Equity-type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity are of significance for the US and Asia insurance operations. Different rates apply to different categories of equity-type securities.

Derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson, as discussed below in section (c).

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(b) ***Asia insurance operations***

(i) Business where policyholder liabilities are sensitive to market conditions
For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. For these products, the charge for policyholder benefits in the operating results should reflect the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (also applied for IFRS basis) was used.

For certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business
Debt securities

For this business the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £840 million as at 31 December 2015 (2014: £932 million; 2013: £571 million). The rates of return applied in the years 2015, 2014 and 2013 ranged from 2.73 per cent to 13.75 per cent with the rates applied varying by territory. These rates are determined after consideration by the Group s in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

(c) ***US Insurance operations***

(i) Separate account business
For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

(ii) US variable and fixed index annuity business

The following value movements for Jackson s variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns. See note B1.2 note (ii) to the consolidated financial statements in Item 18:

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for the not for life portion of Guaranteed Minimum Withdrawal Benefit and fixed index annuity business, and Guaranteed Minimum Income Benefit reinsurance (see below);
- Movements in the accounts carrying value of Guaranteed Minimum Death Benefit and the for life portion of Guaranteed Minimum Withdrawal Benefits and Guaranteed Minimum Income Benefit liabilities, for which, under the grandfathered US GAAP applied under IFRS for Jackson s insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements;
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

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Embedded derivatives for variable annuity guarantee minimum income benefit

The Guaranteed Minimum Income Benefit liability, which is essentially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 944-80 Financial Services Insurance Separate Accounts (formerly SOP 03-1) under IFRS using grandfathered US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39, Financial Instruments: Recognition and Measurement , and the asset is therefore recognised at fair value. As the Guaranteed Minimum Income Benefit is economically reinsured, the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

The principal example of non-equity based derivatives (for example, interest rate swaps and swaptions) whose value movements are excluded from operating profit, arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson s bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as grandfathered under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based embedded derivatives.

(iv) Other US shareholder-financed business

Debt securities

Jackson is the shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as BlackRock Solutions to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2 to the consolidated financial statements in Item 18.

Equity-type securities

As at 31 December 2015, the equity-type securities for US insurance non-separate account operations amounted to £1,004 million (2014: £1,094 million; 2013: £1,118 million). For these operations, the longer-term rates of return for income and capital applied in 2015 and 2014, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums are as follows:

	2015	**2014**	**2013**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.7% to 6.4%**	6.2% to 6.7%	5.7% to 6.8%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.7% to 8.4%**	8.2% to 8.7%	7.7% to 9.0%

(d) ***UK Insurance operations***

(i) Shareholder-backed annuity business

For this business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the operating results based on longer-term investment returns . Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund after adjustments to allocate the following elements of the movement to the category of short-term fluctuations in investment returns :

The impact on credit risk provisioning of actual upgrades and downgrades during the period;

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Credit experience compared to assumptions; and

Short-term value movements on assets backing the capital of the business.

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. Positive or negative experience compared to assumptions is included within short-term fluctuations in investment returns without further adjustment. The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(ii) Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

(e) ***Fund management and other non-insurance businesses***

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

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Reconciliation of total profit (loss) by business segment and geography to IFRS operating profit based on longer-term investment returns

Analysis of IFRS operating profit based on longer-term investment returns and IFRS total profit

A reconciliation of profit (loss) before tax (including tax attributable to policyholders returns) to profit (loss) before tax attributable to shareholders and profit for the year is shown below.

IFRS Profit

	2015 £m	AER 2014 £m	CER* 2014 £m	AER 2013 £m	CER** 2013 £m
Operating profit before tax					
Long-term business:					
Asia	**1,209**	1,050	1,040	1,001	905
US	**1,691**	1,431	1,543	1,243	1,181
UK***	**1,167**	729	729	695	695
Long-term business operating profit	**4,067**	3,210	3,312	2,939	2,781
UK general insurance commission(iii)	**28**	24	24	29	29
Asset management business:					
M&G	**442**	446	446	395	395
Prudential Capital	**19**	42	42	46	46
Eastspring Investments	**115**	90	91	74	68
US broker-dealer and asset management	**11**	12	13	59	56
	4,682	3,824	3,928	3,542	3,375
Other income and expenditure	**(617)**	(619)	(619)	(558)	(558)
Solvency II implementation costs	**(43)**	(28)	(28)	(29)	(29)
Restructuring costs	**(15)**	(14)	(14)	(12)	(12)
Result of the sold PruHealth and PruProtect businesses***	**-**	23	23	11	11
Total IFRS basis operating profit based on longer-term investment returns(i)	**4,007**	3,186	3,290	2,954	2,787
Short-term fluctuations in investment returns:					
Insurance operations	**(663)**	(461)	(537)	(1,083)	(1,036)
Other operations	**(74)**	(113)	(113)	(27)	(27)
Total short-term fluctuations in investment returns	**(737)**	(574)	(650)	(1,110)	(1,063)
Amortisation of acquisition accounting adjustments	**(76)**	(79)	(85)	(72)	(68)
Gain on sale of PruProtect and PruHealth	**-**	86	86	-	-
Cumulative exchange loss on sold the Japan life business recycled from other comprehensive income	**(46)**	-	-	-	-
Loss attaching to held for sale Japan life business	**-**	-	-	(102)	(89)
Cost of domestication of Hong kong branch	**-**	(5)	(5)	(35)	(35)
Profit before tax attributable to shareholders	**3,148**	2,614	2,636	1,635	1,532
Tax charge attributable to shareholders returns	**(569)**	(398)	(396)	(289)	(262)
Profit for the year attributable to equity holders of Prudential	2,579	2,216	2,240	1,346	1,270

* For 2014, the CER results were calculated using the 2015 average exchange rates.

** For 2013, the CER results were calculated using the 2014 average exchange rates.

*** In order to show the UK long-term business on a comparable basis, the 2014 and 2013 comparative results excluded the contribution from the sold PruHealth and PruProtect businesses

Notes

(i) The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential s segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in B1.3 to the consolidated financial statements in Item 18 and section (c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region above.

(ii) The results of the Group s long-term business operations are affected by changes to assumptions, estimates and bases of preparation. Where applicable, these are described in note B4 to the consolidated financial statements in Item 18.

(iii) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the commission received net of expenses for Prudential-branded general insurance products as part of this arrangement. Restructuring costs are incurred in the UK and represent one-off expenses incurred in securing expense savings.

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(iv) Short-term fluctuations in investment returns on shareholder-backed business comprise:

	2015 £m	2014 £m	2013 £m
Insurance operations:			
Asia	**(119)**	178	(204)
US	**(424)**	(1,103)	(625)
UK	**(120)**	464	(254)
Other operations	**(74)**	(113)	(27)
Total	**(737)**	(574)	(1,110)

Further details on the short-term fluctuations in investment returns are provided below under Charge for short-term fluctuations in investment returns and also in note B1.2 in the consolidated financial statements in Item 18.

Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit

The following tables reconcile Prudential s operating profit based on longer-term investment returns to Prudential s total profit after tax for the years indicated.

	2015 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations)	Group total
Operating profit (loss) based on longer-term investment returns	**1,209**	**1,691**	**1,195**	**442**	**19**	**11**	**115**	**4,682**	**(675)**	**4,007**
Short-term fluctuations in investment returns on shareholder-backed business	**(119)**	**(424)**	**(120)**	**(1)**	**(64)**	**-**	**-**	**(728)**	**(9)**	**(737)**
Amortisation of acquisition accounting adjustments	**(8)**	**(68)**	**-**	**-**	**-**	**-**	**-**	**(76)**	**-**	**(76)**
Cumulative exchange loss on the sold Japan life business	**(46)**	**-**	**-**	**-**	**-**	**-**	**-**	**(46)**	**-**	**(46)**
	1,036	**1,199**	**1,075**	**441**	**(45)**	**11**	**115**	**3,832**	**(684)**	**3,148**

Profit (loss) before tax attributable to shareholders										
Tax attributable to shareholders										**(569)**
Profit for the year										**2,579**

	2014 £m (AER)									
	Insurance operations			**Asset management**						
	Asia	**US**	**UK*** **	**M&G**	**Prudential Capital**	**US**	**Eastspring Investments**	**Total segment**	**Unallocated to a segment (central operations)**	**Group total**
Operating profit based on longer-term investment returns	1,050	1,431	776	446	42	12	90	3,847	(661)	3,186
Short-term fluctuations in investment returns on shareholder-backed business	178	(1,103)	464	8	(25)	-	-	(478)	(96)	(574)
Amortisation of acquisition accounting adjustments	(8)	(71)	-	-	-	-	-	(79)	-	(79)
Gain on sale of PruHealth and PruProtect	-	-	86	-	-	-	-	86	-	86
Costs of domestication of Hong Kong branch	-	-	(5)	-	-	-	-	(5)	-	(5)
Profit (loss) before tax attributable to shareholders	1,220	257	1,321	454	17	12	90	3,371	(757)	2,614
Tax attributable to shareholders										(398)
Profit for the year										2,216

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	2014 £m (CER)*									
	Insurance operations			Asset management						
	Asia	US	UK***	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallo-cated to a segment (central operations)	Group total
Operating profit (loss) based on longer-term investment returns	1,040	1,543	776	446	42	13	91	3,951	(661)	3,290
Short-term fluctuations in investment returns on shareholder-backed business	188	(1,189)	464	8	(25)	-	-	(554)	(96)	(650)
Amortisation of acquisition accounting adjustments	(9)	(76)	-	-	-	-	-	(85)	-	(85)
Loss attaching to held for sale Japan life business	-	-	86	-	-	-	-	86	-	86
Costs of domestication of Hong Kong branch	-	-	(5)	-	-	-	-	(5)	-	(5)
Profit (loss) before tax attributable to shareholders	1,219	278	1,321	454	17	13	91	3,393	(757)	2,636
Tax attributable to shareholders										(396)
Profit for the year										2,240

	2013 £m (AER)									
	Insurance operations			Asset management						
	Asia	US	UK***	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallo-cated to a segment (central operations)	Group total

Operating profit based on longer-term investment returns	1,001	1,243	735	395	46	59	74	3,553	(599)	2,954
Short-term fluctuations in investment returns on shareholder-backed business	(204)	(625)	(254)	(1)	23	-	-	(1,061)	(49)	(1,110)
Amortisation of acquisition accounting adjustments	(7)	(65)	-	-		-	-	(72)	-	(72)
Loss attaching to held for sale Japan life business	(102)	-	-	-		-	-	(102)	-	(102)
Costs of domestication of Hong Kong branch	-	-	(35)	-		-	-	(35)	-	(35)
Profit (loss) before tax attributable to shareholders	688	553	446	394	69	59	74	2,283	(648)	1,635
Tax attributable to shareholders										(289)
Profit for the year										1,346

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	2013 £m (CER)**									
	Insurance operations			Asset management						
	Asia	US	UK***	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallo-cated to a segment (central operations)	Group total
Operating profit based on longer-term investment returns	905	1,181	735	395	46	56	68	3,386	(599)	2,787
Short-term fluctuations in investment returns on shareholder-backed business	(189)	(593)	(254)	(1)	23	-	-	(1,014)	(49)	(1,063)
Amortisation of acquisition accounting adjustments	(7)	(61)	-	-		-	-	(68)	-	(68)
Loss attaching to held for sale Japan life business	(89)	-	-	-		-	-	(89)	-	(89)
Costs of domestication of Hong Kong branch	-	-	(35)	-		-	-	(35)	-	(35)
Profit (loss) before tax attributable to shareholders	620	527	446	394	69	56	68	2,180	(648)	1,532
Tax attributable to shareholders										(262)
Profit for the year										1,270

* For 2014, the CER results were calculated using the 2015 average exchange rates.
** For 2013, the CER results were calculated using the 2014 average exchange rates.
*** Includes the results of the sold PruHealth and PruProtect businesses (£23 million for 2014 and £11 million for 2013).

IFRS operating profit based on longer-term investment returns

2015 has been another year of progress, delivering a strong financial performance across our growth and cash metrics including IFRS operating profit based on longer-term investment returns. This performance was broad-based with strong contributions from our principal business operations. The Group s financial performance and its resilience increasingly benefits from on-going improvement in the quality of our income delivered through stronger growth in non-interest sensitive sources and from the balance of profit and cash across different geographies, currencies, products and distribution channel.

Consistent with the explanations made in the currency volatility section above comparison of the 2015 and 2014 performance is partially affected by the movements in average exchange rates used to translate into sterling the results of our overseas operations. Therefore, to facilitate explanations of changes in underlying performance, in the commentary on 2015 compared to 2014 discussions below, every time we comment on the performance of our businesses, we focus on their performance measured on the constant exchange rates basis unless otherwise stated. The 2014 compared to 2013 discussions provided below are on a constant exchange rate basis, and the 2013 CER numbers have been computed by applying 2014 average rates of exchange to the 2013 income and rates of exchange on 31 December 2014 to the balance sheet at 31 December 2013. These comparative discussions were on the basis as published in the 2014 20-F and reflected how management reviewed the results at that time.

Total IFRS operating profit based on longer-term investment returns increased by 22 per cent to £4,007 million in 2015 (26 per cent on an AER basis), driven by improved performance in our life operations in Asia, the US and the UK.

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Insurance Operations

2015 compared to 2014 (CER)

Taken together, IFRS operating profit based on longer-term investment returns from our insurance operations in Asia, the US and the UK increased 23 per cent(29) to £4,095 million (27 per cent on an AER basis). This increase reflects the growth in the scale of these operations, driven primarily by positive business inflows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it reflects, for example, our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential needs to be compensated.

IFRS operating profit based on longer-term investment returns from our portfolio of life insurance operations in Asia was up 16 per cent to £1,209 million (15 per cent on an AER basis), driven by a 14 per cent increase in the contribution from the in-force business, reflecting both its larger scale and our regular premium health and protection oriented product focus. Indonesia IFRS operating profit based on longer-term investment returns, our largest market on this measure, increased 21 per cent to £356 million (15 per cent on an AER basis), reflecting the addition of new savings and protection sales in the year to an already sizeable recurring premium in-force business. Hong Kong IFRS operating profit based on longer-term investment returns was 27 per cent higher at £150 million (38 per cent on an AER basis), mainly due to the increasing profit contribution from a growing customer base purchasing health and protection cover. Malaysia IFRS operating profit based on longer-term investment returns grew by 12 per cent to £120 million (2 per cent on an AER basis), reflecting a growing contribution from the in-force business. IFRS operating profit based on longer-term investment returns in Singapore declined 4 per cent to £204 million (5 per cent on an AER basis), the result of our deliberate decision to discontinue universal life sales as the returns of these products in the current interest rate environment are unattractive. We are also encouraged to see further progress among our fast-growing businesses in China, Thailand, the Philippines and Vietnam which collectively generated £220 million of Asia s IFRS operating profit based on longer-term investment returns, up 28 per cent compared to the prior year (33 per cent on an AER basis) and now account for 18 per cent of the total life result compared to just 7 per cent only 3 years ago.

In the US, IFRS operating profit based on longer-term investment returns increased by 10 per cent to £1,691 million (18 per cent on an AER basis), primarily as a result of an 11 per cent increase in fee income, which is now Jackson s main income source, and efficient management of costs. The uplift in fee income reflects the growth in average separate account assets from £78.1 billion in 2014 to £86.9 billion in 2015, equating to an increase of 11 per cent on a constant exchange rate basis (20 per cent on an AER basis), driven by sizeable variable annuity net premium inflows. Contribution from insurance margin also increased by 10 per cent. Lower yields impacted the spread income which decreased by 6 per cent on a constant exchange rate basis.

UK insurance operations IFRS operating profit based on longer-term investment returns was 60 per cent higher than 2014 at £1,195 million (2014: £753 million(29)) with general insurance commissions increasing to £28 million (2014 £24 million). New annuity business contributed £123 million (2014: £162 million) including £89 million (2014: £105 million) from the four bulk transactions completed in 2015. The balance of £1,044 million (2014: £567 million) reflects a robust level of profit from our core annuity in-force and with-profits business and includes a £339 million benefit from specific management actions taken in the second half of the year to position the balance sheet more efficiently under the new Solvency II regime. Of this amount, £170 million related to profit on longevity reinsurance transactions executed in the second half of the year, with a further £169 million reflecting the effect of repositioning the fixed income asset portfolio and other actions. The non-recurring nature of these actions and our reduced appetite for annuities post-Solvency II will mean that, going forward, IFRS earnings from our UK life business will be predominantly driven by the contribution from core annuity in-force and with-profits business.

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

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2014 (AER) VS 2013 (CER based on 2014 exchange rates)

Operating profit based on longer-term investment returns from our insurance operations in Asia, the US and the UK increased 15 per cent to £3,257 million (9 per cent on an AER basis). This increase reflected the growth in the scale of these operations, driven primarily by positive business inflows. We track the progress that we make in growing our life business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each year these liabilities increase as we collect premiums and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluating our profit potential, in that it reflects our ability to earn fees on the unit-linked element and it sizes the risk that we carry on the insurance element, for which Prudential needs to be rewarded.

IFRS operating profit from Asia life insurance was up 16 per cent (5 per cent on an AER basis) to £1,050 million, driven by the increasing scale of the in-force portfolio and our emphasis on growing the proportion of our income that was sourced from regular premium health and protection business. Indonesia IFRS operating profit, our largest market on this measure, was up by 27 per cent (6 per cent on an AER basis) to £309 million, reflecting growth in insurance and fee income following the high level of protection and savings product sales in recent years. We also saw further progress among our smaller, fast-growing businesses in South-east Asia, with Thailand, the Philippines and Vietnam now accounting for 15 per cent of Asia s life operating profit compared to just 5 per cent only 2 years ago.

In the US, life IFRS operating profit increased by 21 per cent (15 per cent on an AER basis) to £1,431 million, primarily as a result of a 26 per cent increase in fee income, which was Jackson s main source of income. The uplift in fee income reflected the growth in average separate account assets from £57.1 billion in 2013 to £72.5 billion in 2014, equating to an increase of 27 per cent on a constant exchange rate basis, driven by variable annuity net premium inflows and appreciation in US equity markets. The contribution from insurance margin also increased by 20 per cent, as we continued to realise the benefits of the REALIC acquisition. We remained focused on improving the balance of Jackson s profits and diversifying its sources of earnings and we were pleased with the growing contribution to sales of Elite Access, our variable annuity product without living benefits.

UK life IFRS operating profit was 7 per cent higher than 2013 at £752 million (2013: £706 million), principally due to a £105 million profit contribution from bulk annuity transactions (2013: £25 million), reflecting our selective approach of only writing this business on attractive returns. The UK market reforms announced in March 2014 had a dramatic effect on the overall individual annuity market. Our business was equally impacted, experiencing a sharp decline in profits from new retail annuity sales of £53 million (from £110 million in 2013 to £57 million in 2014). Operating profit included a contribution of £23 million which related to earnings from our 25 per cent equity stake in the PruHealth and PruProtect businesses.

Asset management business

2015 compared to 2014 (CER)

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

M&G delivered a broadly unchanged IFRS operating profit based on longer-term investment returns of £442 million (2014: £446 million), reflecting a 2 per cent rise in underlying profit to £406 million (2014: £400 million), lower performance-related fees of £22 million (2014: £33 million) and a similar level of earnings from associates of £14 million (2014: £13 million). While underlying revenues in the first half of 2015 benefited from higher levels of funds under management, the large net outflows from retail funds since May contributed to a 2 per cent decrease in underlying revenues for the year overall. Actions on costs mitigated the effect of lower overall revenues to deliver a modest increase in underlying profit compared to 2014. However, the lower level of assets under management at the end of 2015 will impact the revenue prospects for 2016 absent a meaningful recovery in M&G s overall third-party net flows or a significant uplift in the market value of assets.

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

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

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

2014 (AER) compared to 2013 (CER based on 2014 exchange rates)

Our asset management businesses in the UK and Asia collectively contributed IFRS operating profit of £578 million, up 14 per cent on 2013 (12 per cent on an AER basis). Similar to our life operations, growth in asset management operating profit primarily reflected the increased scale of this business, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations. Net flows from external parties into these funds, excluding Money Market Funds (MMF), were £12.5 billion in 2014 (2013: £11.1 billion on an actual exchange rate basis) and helped drive external retail and institutional funds under management (excluding MMF) to £162.4 billion at 31 December 2014 compared to £143.9 billion at 31 December 2013.

M&G s IFRS operating profit increased 13 per cent to £446 million (2013: £395 million), reflecting a 12 per cent rise in underlying profit to £400 million (2013: £358 million), contributions of £33 million from performance-related payments and £13 million from earnings from associates were also higher in 2014 (2013: £25 million and £12 million, respectively). The increase in underlying profit was principally driven by higher average levels of funds under management, following a year of strong net inflows and positive market movements. The increasing proportion of higher-margin external retail business improved M&G s average fee income to 38 basis points (2013: 37 basis points), with higher income helping to absorb the current phase of increased headcount and infrastructure investment. Reflecting this, the underlying cost income ratio, which excluded revenue from performance-related payments and earnings from associates, improved to 58 per cent (2013: 59 per cent).

Our Asia asset management business, Eastspring Investments, also saw the benefit of higher average funds under management, with IFRS operating profit of £90 million up 32 per cent (22 per cent on an AER basis). In the US, our asset management businesses, PPM America and Curian, and our broker-dealer network, National Planning Holdings, collectively generated an IFRS operating profit of £12 million (2013: profit of £56 million on a CER basis; profit of £59 million on an AER basis) after a £38 million charge related primarily to the refund of certain fees by Curian.

Unallocated corporate result

Operating loss based on longer-term investment returns for 2015 of £675 million (2014: £638 million; 2013: £588 million) comprises the following items:

	2015 £m	2014 £m	2013 £m
Investment return and other income	**14**	15	10
Interest payable on core structural borrowings	**(312)**	(341)	(305)
Corporate expenditure for Group Head Office and Asia Regional Head Office	**(319)**	(293)	(263)
Solvency II implementation costs	**(43)**	(28)	(29)
Restructuring costs	**(15)**	(14)	(12)
Results of the sold PruHealth and PruProtect businesses	**-**	23	11
Total	**(675)**	(638)	(588)

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

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

Spread income represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as **expected return on shareholder assets.**

Fee income represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

With-profits business represents the gross of tax shareholders transfer from the with-profits fund for the year.

Insurance margin primarily represents profits derived from the insurance risks of mortality and morbidity.

Margin on revenues primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.

Acquisition costs and administration expenses represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other sources of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).

DAC adjustments comprise DAC amortisation for the year, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

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

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

			2015 £m			
	Asia	US	UK	Total	Average	Total

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

See notes at the end of this section.

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

See notes at the end of this section.

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

* For 2014, the CER results were calculated using the 2015 average exchange rates.
See notes at the end of this section.

2013 AER £m

	Asia	**US**	**UK**	**Total**	**Average liability**	**Margin bps**
	note (v)				note (iv)	note (ii)
Spread income	115	730	228	1,073	64,312	167
Fee income	154	1,172	65	1,391	96,337	144
With-profits	47	-	251	298	97,393	31
Insurance margin	679	588	89	1,356		
Margin on revenues	1,562		187	1,749		
Expenses:						
Acquisition costs	(1,015)	(914)	(110)	(2,039)	4,423	(46)%
Administration expenses	(634)	(670)	(124)	(1,428)	169,158	(84)
DAC adjustments	35	313	(14)	334		
Expected return on shareholder assets	58	24	134	216		
Long-term business operating profit	1,001	1,243	706	2,950		

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	2013 CER** £m					
	note (iii)				Average	Total
	Asia note (v)	US	UK	Total	Liability note (iv)	bps note (ii)
Spread income	107	694	228	1,029	62,909	164
Fee income	140	1,113	65	1,318	93,339	141
With-profits	44	-	251	295	97,374	30
Insurance margin	616	559	89	1,264		
Margin on revenues	1,413	-	187	1,600		
Expenses:						
Acquisition costs note (i)	(921)	(868)	(110)	(1,899)	4,165	(46)
Administration expenses	(578)	(636)	(124)	(1,338)	164,362	(81)
DAC adjustments note (vi)	32	297	(14)	315		
Expected return on shareholder assets	52	22	134	208		
Long-term business operating profit	905	1,181	706	2,792		

** For 2013, the CER results were calculated using the 2014 average exchange rates.
See notes at the end of this section.

Margin analysis of long-term insurance business Asia

	Asia								
	2015			2014 AER			2014 CER* note (iii)		
	Profit	Average Liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)
Long-term business	£m	£m	bps	£m	£m	bps	£m	£m	bps
Spread income	**153**	**11,039**	**139**	125	9,183	136	126	9,333	135
Fee income	**162**	**16,088**	**101**	155	14,987	103	154	14,967	103
With-profits	**45**	**17,446**	**26**	43	14,823	29	44	15,186	29
Insurance margin	**783**			675			669		
Margin on revenues	**1,732**			1,545			1,532		
Expenses:									
Acquisition costs note (i)	**(1,161)**	**2,853**	**(41)%**	(1,031)	2,237	(46)%	(1,025)	2,267	(45)%
Administration expenses	**(701)**	**27,127**	**(258)**	(618)	24,170	(256)	(615)	24,300	(253)

DAC adjustments note (vi)	**124**	92	92
Expected return on shareholder assets	**72**	64	63
Operating profit	**1,209**	1,050	1,040

* For 2014, the CER results were calculated using the 2015 average exchange rates.

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	Asia					
	2013 AER					
		note (ii)		2013 CER**		
	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)
Long-term business	£m	£m	bps	£m	£m	bps
Spread income	115	7,446	154	107	7,419	144
Fee income	154	13,714	112	140	13,317	105
With-profits	47	13,263	35	44	13,244	33
Insurance margin	679			616		
Margin on revenues	1,562			1,413		
Expenses:						
Acquisition costs note (i)	(1,015)	2,125	(48)%	(921)	1,946	(47)%
Administration expenses	(634)	21,160	(300)	(578)	20,736	(279)
DAC adjustments note (vi)	35			32		
Expected return on shareholder assets	58			52		
Gain on China Life (Taiwan) shares	-			-		
Operating profit	1,001			905		

** For 2013, the CER results were calculated using the 2014 average exchange rates.
See notes at the end of this section.

Analysis of Asia operating profit drivers: 2015 Compared to 2014 (CER unless otherwise stated)

Spread income increased by 21 per cent at constant exchange rates to £153 million in 2015, predominantly reflecting the growth of the Asia non-linked policyholder liabilities (22 per cent on AER basis).
Fee income increased by 5 per cent at constant exchange rates from £154 million in 2014 to £162 million in 2015, broadly in line with the increase in movement in average unit-linked liabilities (5 per cent on AER basis).
Insurance margin increased by 17 per cent at constant exchange rates to £783 million in 2015 (16 per cent on AER basis), predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products.
Margin on revenues increased by £200 million at constant exchange rates to £1,732 million in 2015, primarily reflecting higher premium income recognised in the year (£187 million on AER basis).
Acquisition costs increased by 13 per cent at constant exchange rates (AER 13 per cent) to £1,161 million in 2015, compared to the 26 per cent increase in APE sales (AER 28 per cent increase), resulting in a decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE sales. If with-profits APE sales were excluded from the denominator the acquisition cost ratio would become 68 per cent (2014: 66 per cent at CER), the small increase being the result of changes to product and country mix.
Administration expenses increased by 14 per cent at constant exchange rates to £701 million in 2015 as the business continues to expand (13 per cent on AER basis). At constant exchange rates, the administration expense ratio has increased from 253 basis points in 2014 (and from 256 basis points on AER basis) to 258 basis points in 2015, the result of changes to product and country mix.

2014 (AER) compared to 2013 (CER based on 2014 exchange rates, unless otherwise stated)

Spread income increased by 17 per cent at constant exchange rate (AER 9 per cent) to £125 million in 2014, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
Fee income increased by 11 per cent at constant exchange rates (AER 1 per cent) from £140 million in 2013 to £155 million in 2014, broadly in line with the increase in movement in average unit-linked liabilities.
Insurance margin increased by £59 million at constant exchange rates to £675 million in 2014 (and decreased by £4 million on AER basis) predominantly reflecting the continued growth of the in-force book, which contained a relatively high proportion of risk-based products. 2014 insurance margin included non-recurring items of £27 million (2013: £52 million at AER; £48 million on CER).
Excluding the adverse impact of currency fluctuations, margin on revenues increased by £132 million from £1,413 million in 2013 to £1,545 million in 2014 primarily reflecting higher premium income recognised in the year.

Acquisition costs increased by 12 per cent at constant exchange rates (AER 2 per cent) to £1,031 million in 2014, compared to the 15 per cent increase in sales (AER 5 per cent increase), resulting in a modest decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 66 per cent (2013: 65 per cent at CER), broadly consistent with the prior year.

Administration expenses increased by 7 per cent at constant exchange rates (AER 3 per cent decrease) to £618 million in 2014 as the business continues to expand. On constant exchange rates, the administration expense ratio reduced from 279 basis points in 2013 (and from 300 basis points on AER basis) to 256 basis points in 2014.

Expected return on shareholder assets increased from £52 million in 2013 (and by £58 million on AER basis) to £64 million in 2014 primarily due to higher income from increased shareholder assets.

Margin analysis of long-term insurance business US

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

* For 2014, the CER results were calculated using the 2015 average exchange rates.

	US					
	2013 AER			**2013 CER****		
	Profit	**Average liability** note (ii)	**Margin**	**Profit**	**Average liability** note (ii)	**Margin**
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	730	29,648	246	694	28,272	246
Fee income	1,172	59,699	196	1,113	57,098	195
Insurance margin	588			559		

Expenses						
Acquisition costs note (i)	(914)	1,573	(58)%	(868)	1,494	(58)%
Administration expenses	(670)	97,856	(68)	(636)	93,484	(68)
DAC adjustments	313			297		
Expected return on shareholder assets	24			22		
Operating profit	1,243			1,181		

** For 2013, the CER results were calculated using the 2014 average exchange rates.

See notes at the end of this section.

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Analysis of US operating profit drivers:

2015 Compared to 2014 (CER unless otherwise stated)

Spread income declined by 6 per cent at constant exchange rates (AER increased by 2 per cent) to £746 million in 2015. The reported spread margin decreased to 241 basis points from 256 basis points in 2014 (2014 AER: 256 basis points) primarily due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 166 basis points (2014 CER: 182 basis points and AER: 183 basis points).

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

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin increased to £796 million in 2015 compared to £722 million in the previous year at constant exchange rates(AER £670 million) primarily due to higher fee income from variable annuity guarantees following positive net flows in recent periods into variable annuity business with guarantees. REALIC contributed £215 million to this total (2014: £233 million at constant exchange rates).

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

Administration expenses increased to £828 million in 2015 compared to £747 million for 2014 at constant exchange rates (AER £693 million), primarily as a result of higher asset-based commissions paid on the larger 2015 separate account balance subject to these trail commissions. These are paid on policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be unchanged at 36 basis points (2014: CER 36 basis points and AER 36 basis points).

2014 (AER) compared to 2013 (CER based on 2014 exchange rates, unless otherwise stated)

Spread income increased by 6 per cent at constant exchange rates (AER increased by 1 per cent) to £734 million during 2014. The reported spread margin increased to 256 basis points from 246 basis points in 2013 (2013 AER: 246 basis points). 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 182 basis points (2013 CER: 183 basis points)

Fee income increased by 26 per cent at constant exchange rates (AER 20 per cent) to £1,402 million during 2014, primarily due to higher average separate account balances resulting from positive net cash flows from variable annuity business and overall market appreciation. Fee income margin remained broadly consistent with the prior year at 193 basis points (2013 CER: 195 basis points and AER: 196 basis points), with the decrease primarily attributable to a change in the mix of business.

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows from variable annuity business with life contingent and other guarantee fees, coupled with a benefit from repricing actions and an increased contribution from REALIC, increased the insurance margin by 20 per cent at constant exchange rates (AER 14 per cent) to £670 million during 2014.

Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, decreased slightly in absolute terms and as a percentage of APE compared to 2013. As a percentage of APE, acquisition costs remained relatively flat in comparison to 2013.

Administration expenses increased to £693 million during 2014 compared to £636 million for 2013 at a constant exchange rate (AER £670 million), primarily as a result of higher asset-based commissions paid on the larger 2014 separate account balance subject to these trail commissions. These are paid upon policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would be lower at 36 basis points (2013: CER 44 basis points and AER 44 basis points), reflecting the benefits of operational leverage.

DAC adjustments decreased to £191 million during 2014 compared to £297 million at a constant exchange rate (AER £313 million) during 2013, with 2013 benefiting from a £78 million (AER £82 million) deceleration in DAC amortisation due to strong equity market returns in that year. This was not repeated in 2014, which experienced an accelerated DAC amortisation charge of £13 million.

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

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

* For 2014, the CER results were calculated using the 2015 average exchange rates.

	2013 AER £m				2013 CER** £m			
		Acquisition costs				Acquisition costs		
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	1,844			1,844	1,752			1,752
Less new business strain		(914)	716	(198)		(868)	680	(188)
Other DAC adjustments - amortisation of previously deferred acquisition costs:								
Normal			(485)	(485)			(461)	(461)
(Accelerated)/Decelerated (acceleration)			82	82			78	78
Total	1,844	(914)	313	1,243	1,752	(868)	297	1,181

** For 2013, the CER results were calculated using the 2014 average exchange rates.

Margin analysis of long-term insurance business UK

UK

	2015			**2014**			**2013**		
					note (v)				
	Profit	**Average liability** note (iv)	**Margin** note (ii)	**Profit**	**Average liability** note (iv)	**Margin** note (ii)	**Profit**	**Average liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**258**	**31,545**	**82**	272	29,419	92	228	27,218	84
Fee income	**62**	**22,371**	**28**	61	23,476	26	65	22,924	28
With-profits	**269**	**89,303**	**30**	255	86,467	29	251	84,130	30
Insurance margin	**180**			73			89		
Margin on revenues	**179**			176			187		
Expenses:									
Acquisition costs[note (i)]	**(86)**	**1,025**	**(8)%**	(96)	834	(12)%	(110)	725	(15)%
Administration expenses	**(159)**	**53,916**	**(29)**	(143)	52,895	(27)	(124)	50,142	(25)
DAC adjustments	**(2)**			(6)			(14)		
Expected return on shareholder s assets	127			137			134		
	828			729			706		
Impact of specific management actions in second half of 2015 ahead of Solvency II	**339**			-			-		
Operating profit	**1,167**			729			706		

See notes at the end of this section.

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Analysis of UK operating profit drivers: 2015 compared to 2014

Spread income reduced from £272 million in 2014 to £258 million in 2015, mainly due to lower annuity new business profit post the reforms brought about by pension freedoms.

Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arises within our UK asset management business. Excluding these schemes, the fee margin on the remaining balances was 43 bps (2014: 41 bps).

With-profits transfers increased from £255 million in 2014 to £269 million in 2015, due to an increase in terminal bonus rates.

Insurance margin increased to £180 million in 2015, reflecting the higher contribution from longevity reinsurance transactions undertaken during the first half of the year, positive experience in the year and the modest net effect of the annual review of assumptions.

Margin on revenues represents premium charges for expenses and other sundry net income received by the UK. The 2015 margin remained stable at £179 million compared to the previous year.

Acquisition costs incurred declined to £86 million, equivalent to 8 per cent of total APE sales in 2015 (2014: 12 per cent). The decline reflects a shift in business mix towards with-profits business where acquisition costs are funded by the estate. The acquisition cost ratio is also distorted by the high contribution to APE of bulk annuity sales in the year, where acquisition costs are comparatively lower. Acquisition costs expressed as a percentage of shareholder-backed APE sales (excluding the bulk annuity transactions) were 36 per cent (2014: 36 per cent).

Administration expenses increased by £16 million to £159 million in 2015 largely due to increased spend associated with UK pension reforms.

The contribution from specific management actions undertaken in the second half of 2015 to position the balance sheet more effectively under the new Solvency II regime was £339 million. Further explanation and analysis is provided in Contribution to the UK life IFRS metrics from specific management actions undertaken to position the balance sheet more effectively under the new Solvency II regime section below.

2014 compared to 2013

Spread income increased from £228 million in 2013 to £272 million in 2014 following an increase in bulk annuity sales which contributed £105 million (2013: £25 million) in the year partially offset by lower individual annuity sales.

Fee income reduced from £65 million in 2013 to £61 million in 2014 due to a change in product mix towards those with lower asset management charges, partly offset by an increase in funds under management.

Insurance margin increased from £89 million for 2013 to £96 million for 2014 primarily due to improved profits from protection business.

Margin on revenues represents premiums charges for expenses and other sundry net income received by the UK. 2014 income was £176 million, £11 million lower than in 2013.

Acquisition costs as a percentage of new business sales for 2014 decreased to 11 per cent from 2013 at 15 per cent, principally driven by the effect on this percentage ratio of business mix. The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales, excluding the bulk annuity transactions, were 36 per cent in 2014 (2013: 35 per cent).

Administration expenses increased from £124 million in 2013 to £143 million in 2014 largely due to increased investment spend to realign our business following the pension reforms announced in the UK Budget.

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Contribution to UK Life IFRS metrics from specific management actions undertaken to position the balance sheet more effectively under the new Solvency II regime

In the second half of 2015 and ahead of securing Solvency II internal model approval, a number of specific actions were taken by Prudential s UK life business to position the balance sheet more efficiently under the new regime. These actions included extending the reinsurance of longevity risk to cover £8.7 billion of annuity liabilities (on a Pillar 1 basis) by the end of 2015 (end 2014: programme covered £2.3 billion of liabilities). It also included the repositioning of the fixed income asset portfolio, increasing from around 90 per cent to 95 per cent the proportion that would benefit from the matching adjustment under Solvency II. The effect of these actions on the UK s long term IFRS operating profit is shown in the tables below.

	IFRS operating profit of UK long-term business			
	First half 2015	**Second half 2015**	**Full year 2015**	**Full year 2014**
Shareholder annuity new business	66	57	123	162
In-force business:				
Longevity reinsurance transactions	61	170	231	30
Impact of specific management actions ahead of Solvency II	-	169	169	-
	61	339	400	30
With-profits and other in-force	309	335	644	537
Total Life IFRS operating profit	436	731	1,167	729

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. APE is defined under the section EEV Basis, New Business Results and Free Surplus Generation in Item 3 of this annual report.

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

(iii) The 2014 comparative information has been presented at AER and CER so as to eliminate the impact of exchange translation. The 2014 CER results as shown above are calculated by translating the 2014 results using the current year foreign exchange rates except where stated otherwise. The 2013 CER results as shown above were as published in the 2014 20-F and were calculated by translating the 2013 results using 2014 foreign exchange rates.

(iv) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for Jackson is derived from month end balances throughout the year as opposed to opening and closing balances only. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administrative expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.

(v) The 2015, 2014 and 2013 analyses exclude the results of the held for sale life insurance business of Japan in both the individual profit and average liability amounts shown in the table above.

(vi) The DAC adjustments contain a charge of £3 million in respect of joint ventures in 2015 (2014: AER credit of £11 million; 2013: AER credit of £1 million).

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Asia operations analysis of operating profit by territory

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

	2015 £m	AER 2014 £m	CER** 2014 £m	2014 AER vs 2015	2014 CER vs 2015	AER 2013 £m	CER*** 2013 £m
Hong Kong	**150**	109	118	38%	27%	101	96
Indonesia	**356**	309	295	15%	21%	291	244
Malaysia	**120**	118	107	2%	12%	137	125
Philippines	**32**	28	29	14%	10%	18	16
Singapore	**204**	214	213	(5)%	(4)%	219	205
Thailand	**70**	53	54	32%	30%	53	48
Vietnam	**86**	72	75	19%	15%	54	51
SE Asia Operations inc. Hong Kong	**1,018**	903	891	13%	14%	873	785
China	**32**	13	14	146%	129%	10	10
India	**42**	49	49	(14)%	(14)%	51	47
Korea	**38**	32	32	19%	19%	17	17
Taiwan	**25**	15	15	67%	67%	12	11
Other	**(4)**	(9)	(9)	56%	56%	(4)	(4)
Non-recurrent items[note (ii)]	**62**	49	50	27%	24%	44	41
Total insurance operations[note (i)]	**1,213**	1,052	1,042	15%	16%	1,003	907
Development expenses	**(4)**	(2)	(2)	100%	100%	(2)	(2)
Total long-term business operating profit	**1,209**	1,050	1,040	15%	16%	1,001	905
Eastspring Investments	**115**	90	91	28%	26%	74	68
Total Asia operations	**1,324**	1,140	1,131	16%	17%	1,075	973

Notes

(i) *Analysis of operating profit between new and in-force business*

The result for insurance operations comprises amounts in respect of new business and business in force as follows:

	2015 £m	2014 £m AER	2014 £m CER**	2013 £m AER	2013 £m CER***
New business strain*	**(4)**	(18)	(23)	(15)	(18)
Business in force	**1,155**	1,021	1,015	974	884
Non-recurrent items[note (ii)]	**62**	49	50	44	41
Total	**1,213**	1,052	1,042	1,003	907

* The IFRS new business strain corresponds to approximately 0.1 per cent of new business APE premiums for 2015 (2014: approximately 0.8 per cent of new business APE).

** For 2014, the CER rates were calculated using the 2015 average exchange rates.

*** For 2013, the CER results were calculated using the 2014 average exchange rate.

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

(ii) Other non-recurrent items of £62 million in 2015 (2014: £49 million; 2013: £44 million) represent a number of items none of which are individually significant and that are not anticipated to reoccur in subsequent years.

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Analysis of asset management operating profit based on longer-term investment returns

	2015 £m				
	M&G	Eastspring Investments	Prudential Capital	US	Total
	note (ii)	note (ii)			
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 expensenote (i)	**(533)**	**(176)**	**(99)**	**(310)**	**(1,118)**
Share of associate s results	**14**	**-**	**-**		**14**
Group s share of tax on joint ventures operating profit	**-**	**(16)**	**-**		**(16)**
Operating profit based on longer-term investment returns	**442**	**115**	**19**	**11**	**587**
Average funds under management	**£252.5bn**	**£85.1bn**			
Margin based on operating income*	**37bps**	**36bps**			
Cost / income ratio**	**57%**	**58%**			

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

	2013 £m				
	M&G	Eastspring Investments	Prudential Capital	US	Total
	note (ii)	note (ii)			

Operating income before performance-related fees	863	215	121	362	1,561
Performance-related fees	25	1	-	-	26
Operating income (net of commision)note (i)	888	216	121	362	1,587
Operating expense	(505)	(134)	(75)	(303)	(1,017)
Share of associate s results	12	-	-	-	12
Group s share of tax on joint ventures operating profit	-	(8)	-	-	(8)
Operating profit based on longer-term investment returns	395	74	46	59	574
Average funds under management*	£233.8 bn	£61.9 bn			
Margin based on operating income*	37 bps	35 bps			
Cost / income ratio**	59%	62%			

Notes

(i) Operating income and expense includes the Group s Share of contributions from Joint Ventures (but excludes any contribution from associates. In the incomes statement as showing in note B2 to the Prudential s consolidated financial statements in Item 18.

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

M&G
Operating income before performance related fees

	Retail £m	Margin of FUM* bps	Institutional £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
2015	**582**	**87**	**357**	**19**	**939**	**37**
2014	593	84	361	20	954	38
2013	550	89	313	18	863	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
2015	**188**	**61**	**116**	**21**	**304**	**36**
2014	139	60	101	22	240	35
2013	127	60	88	22	215	35

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

** Cost/income ratio represents cost as a percentage of operating income before performance-related fees. Institutional includes internal funds.

Charge for short-term fluctuations in investment returns

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In 2015 the total short-term fluctuations in investment returns relating to the life operations were negative £663 million, comprising negative £119 million for Asia, negative £424 million in the US and negative £120 million in the UK.

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

Short-term fluctuations in the US mainly reflect the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and therefore accepts variability in the accounting results. The negative short-term fluctuations of £424 million in 2015 were primarily attributable to the net value movement in the year of the hedge instruments held to manage market exposures.

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

In 2014 the total short-term investment fluctuations relating to the life operations were negative £461 million, comprising positive £178 million for Asia, negative £1,103 million in the US and positive £464 million in the UK.

In Asia, the positive short-term fluctuations of £178 million in 2014 primarily reflected net unrealised gains on fixed income securities following falls in bond yields across the region during the year.

Negative short-term fluctuations of £1,103 million in the US in 2014 mainly reflected the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the guarantee liabilities, which are not fair valued in all cases. The rise in equity markets in 2014 generated negative value movements on the equity derivatives that are held to mitigate against the downside risk of a decline in equity markets. Due to the IFRS accounting practice, the corresponding offset in the valuation of obligations to customers is not fully recognised leading to a negative movement overall within IFRS profits. Declining interest

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rates and unfavourable movements in implied volatility also led to net negative value movements, due to similar accounting asymmetries. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and therefore accepts a degree of accounting volatility. Viewed through the regulatory surplus lens, the hedge programme was essentially breakeven on this basis, as movements in hedge assets and guarantee reserves broadly offset. Jackson s regulatory risk-based capital ratio was broadly unchanged at 456 per cent at the end of 2014 (31 December 2013: 456 per cent).

The positive short-term fluctuations of £464 million in the UK in 2014 included net unrealised gains on fixed income assets supporting the capital of the shareholder-backed annuity business.

Amortisation of acquisition accounting adjustments

This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012.

Gain on sale of PruProtect and PruHealth

In November 2014, PAC sold its 25 per cent equity stake in the PruHealth and PruProtect business to Discovery Group Europe Limited for £155 million, giving rise to a gain on disposal of £86 million in 2014.

Costs associated with the domestication of the Hong Kong branch

On 1 January 2014, following consultation with policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The costs of enabling the domestication in 2013 were £35 million. Within the Group s supplementary analysis of profit, these costs have been presented as a separate category of items excluded from operating profit based on longer-term investment returns.

IFRS effective tax rates

In 2015, the effective tax rate on IFRS operating profit based on longer-term investment returns was 20 per cent (2014: 23 per cent; 2013: 22 per cent). The reduction is due to lower corporate tax rates in certain jurisdictions and a higher benefit from non-recurring tax credits specifically in Jackson.

The 2015 effective tax rate on the total IFRS profit was 18 per cent (2014: 15 per cent; 2013: 18 per cent) reflecting a larger overall contribution to the total profit from Jackson which attracts a higher rate of tax.

Total tax contribution

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

	2015 £m		**2014 £m**	
		Total		**Total**

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

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

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Earnings per share

	Actual Exchange Rate			Constant Exchange Rate		Actual Exchange Rate
	2015 pence	2014 pence	Change%	2014 pence	Change%	2013 pence
Basic earnings per share based on operating profit after tax	**125.8**	96.6	30	99.5	26	90.9
Basic earnings per share based on total profit after tax	**101.0**	86.9	16	87.9	15	52.8

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Explanation of Movements in Profits before Shareholder Tax by Nature of Revenue and Charges

The following table shows Prudential s consolidated total revenue and consolidated total charges for the years presented:

	Actual Exchange Rate		
	2015 £m	**2014 £m**	**2013 £m**
Gross premiums earned[(a)]	**36,663**	32,832	30,502
Outward reinsurance premiums	**(1,157)**	(799)	(658)
Earned premiums, net of reinsurance	**35,506**	32,033	29,844
Investment return[(b)]	**3,304**	25,787	20,347
Other income	**2,495**	2,306	2,184
Total revenue, net of reinsurance	**41,305**	60,126	52,375
Benefits and claims	**(30,547)**	(50,736)	(42,227)
Outward reinsurers share of benefit and claims	**1,389**	631	622
Movement in unallocated surplus of with-profits funds	**(498)**	(64)	(1,549)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance[(c)]	**(29,656)**	(50,169)	(43,154)
Acquisition costs and other expenditure[(d)]	**(8,208)**	(6,752)	(6,861)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(312)**	(341)	(305)
Disposal of Japan life business:			
Cumulative exchange loss recycled from other comprehensive income	**(46)**	-	-
Remeasurement adjustments	**-**	(13)	(120)
Total charges, net of reinsurance	**(38,222)**	(57,275)	(50,440)
Share of profits from joint ventures and associates, net of related tax	**238**	303	147
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**3,321**	3,154	2,082
Less tax charge attributable to policyholders returns	**(173)**	(540)	(447)
Profit before tax attributable to shareholders	**3,148**	2,614	1,635
Total tax charge attributable to policyholders and shareholders	**(742)**	(938)	(736)
Adjustment to remove tax charge attributable to policyholders returns	**173**	540	447
Tax charge attributable to shareholders returns	**(569)**	(398)	(289)
Profit for the year attributable to equity holders of the Company	**2,579**	2,216	1,346

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure (which is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders) is not representative of pre-tax profits attributable to shareholders.

(a) Gross earned premiums

	Year ended 31 December £m		
	2015	**2014**	**2013**
Asian operations*	**10,814**	9,820	9,061
US operations	**16,887**	15,654	15,661
UK operations*	**8,962**	7,358	5,780
Total	**36,663**	32,832	30,502

* The Asia and UK premiums exclude intra-group transactions.

Gross earned premiums for insurance operations totalled £36,663 million in 2015, up 12 per cent from £32,832 million in 2014. The increase of £3,831 million was driven by growth of £1,604 million in the UK operations; £1,233 million in the US operations; and £994 million in the Asia operations.

Gross earned premiums for insurance operations totalled £32,832 million in 2014, up 8 per cent from £30,502 million in 2013. The increase of £2,330 million was driven by growth of £1,578 million in the UK operations; £759 million in the Asia operations offset by a reduction of £7 million in the US operations.

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Asia

Gross earned premiums increased by 10 per cent from £9,820 million in 2014 to £10,814 million in 2015 and by 8 per cent from £9,061 million in 2013 to £9,820 million in 2014 on an actual exchange rate basis. The premiums reflect the aggregate of single and recurrent premiums of new business sold in the year and premiums on annual business sold in previous years. The growth in earned premiums reflects increases for both factors.

Excluding the impact of exchange translation, gross earned premiums in Asia increased by 8 per cent from 2014 to 2015, from £10,004 million on a constant exchange rate in 2014 to £10,814 million in 2015. Our sales performance in Asia continues to benefit from our broad-based multi-channel distribution platform, new product launches and continued actions to improve both distribution scale and productivity. Single premium sales, which are more susceptible to softer economic conditions, reduced by 8 per cent in 2015.

Excluding the impact of exchange translation, gross earned premiums in Asia increased 17 per cent from 2013 to 2014, from £8,380 million on a constant exchange rate in 2013 (based on the average exchange rates in 2014) to £9,820 million in 2014, driven by our businesses in Indonesia, Singapore, Hong Kong, Malaysia, Philippines, Vietnam and Thailand. Our strategy is to be strongly diversified in terms of geography, products and distribution in a world economy that is increasingly hard to predict. That diversification is at the heart of our ability to continue to perform well across a broad range of metrics as the breadth of our portfolio provides considerable resilience against the impacts of short-term market disturbances in individual countries, such as the elections and natural disasters experienced during 2014. We also continued to innovate with new benefits and features, with a significant proportion of sales in 2014 coming from products that were launched in the past two years.

United States

Gross premiums increased by 8 per cent from £15,654 million in 2014 to £16,887 million in 2015 on an actual exchange rate basis. Excluding the impact of exchange translation, gross premiums in the US remained broadly flat from 2014 to 2015 from £16,876 million on a constant exchange rate in 2014 to £16,887 million in 2015. Total variable annuity sales remained flat compared to 2014, reflecting Jackson s continued focus on proactively managing sales of products with living benefits to maintain an appropriate balance of revenue streams and match its annual risk appetite. The proportion of variable annuity sales without living benefits remains significant and broadly in line with last year with Elite Access continuing to be the leader in the investment-only variable annuity market.

Gross premiums in 2014 of £15,654 million were in line with the 2013 amount of £15,661 million on an actual exchange rate basis. Excluding the impact of exchange translation, gross premiums in the US increased by 5 per cent from 2013 to 2014, from £14,872 million on a constant exchange rate in 2013 (based on the exchange rates in 2014) to £15,654 million in 2014. The increase from 2013 to 2014 was due to increase in total variable annuity sales driven by a continuing increase in sales of Elite Access. Fixed annuity sales remained relatively flat in 2014 compared to 2013, while fixed index annuity sales decreased significantly, primarily as a result of product changes implemented in late 2013 to ensure appropriate returns on shareholder capital.

Jackson s strategy is unchanged, serving the 75 million US baby boomers as they enter retirement. Jackson continues to price new business on a conservative basis, targeting value over volume.

United Kingdom

Gross premiums for UK operations increased from £7,358 million in 2014 to £8,962 million in 2015, mainly due to the sales growth in our retail business, which has been driven by a growing demand for our savings and retirement products and specifically the distinctive PruFund range, with momentum increasing through the year as additional products and services came online including PruFund ISA, flexible income drawdown and our simplified non-advised drawdown pension choices plan.

Gross premiums for UK operations increased from £5,780 million in 2013 to £7,358 million in 2014, mainly due to seven new bulk annuity deals in 2014 (2013: three) with premiums of £1,710 million (2013: £276 million) and increased sales of onshore bonds and other retail products, partially offset by the decline in the sales of individual annuities.

The UK market continues to be heavily influenced by a high level of regulatory and legislative change. The decline in the sale of individual annuities reflected the market contraction since the 2014 UK Budget announcement. Our

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approach to bulk transactions in the UK will continue to be one of selective participation, where we can bring both significant value to our customers and meet our shareholder return requirements.

(b) Investment return

	Year ended 31 December £m		
	2015	**2014**	**2013**
Asia operations	**(296)**	3,891	894
US operations	**(789)**	5,436	10,014
UK operations	**4,417**	16,551	9,515
Unallocated corporate and intra-group elimination	**(28)**	(91)	(76)
Total	**3,304**	25,787	20,347

Investment return principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit and loss and realised gains and losses, including impairment losses, on securities designated as amortised cost and available-for-sale. Movements in unrealised appreciation/depreciation of Jackson s debt securities designated as available-for-sale are not reflected in investment return but are recorded in other comprehensive income.

Allocation of investment return between policyholders and shareholders

Investment return is attributable to policyholders and shareholders. A key feature of the accounting policies under IFRS is that the investment return included in the income statement relates to all investment assets of the Group, irrespective of whether the return is attributable to shareholders, or to policyholders or the unallocated surplus of with-profits funds, the latter two of which have no direct impact on shareholders profit. The table below provides a breakdown of the investment return for each regional operation attributable to each type of business.

	2015 £m	**2014 £m**	**2013 £m**
Asia operations			
Policyholder returns			
Assets backing unit-linked liabilities	**(626)**	1,069	542
With-profits business	**(75)**	1,915	82
	(701)	2,984	624
Shareholder returns	**405**	907	270
Total	**(296)**	3,891	894
US operations			
Policyholder returns - Assets held to back separate account (unit-linked) liabilities	**(2,033)**	3,793	10,254
Shareholder returns	**1,244**	1,643	(240)
Total	**(789)**	5,436	10,014
UK operations			
Policyholder returns			
Scottish Amicable Insurance Fund (SAIF)	**212**	608	585
Assets held to back unit-linked liabilities	**699**	1,848	2,604

With-profits fund (excluding SAIF)	**3,131**	8,958	5,761
	4,042	11,414	8,950
Shareholder returns			
Prudential Retirement Income Limited (PRIL)	**213**	3,657	380
Other business	**162**	1,480	185
	375	5,137	565
Total	**4,417**	16,551	9,515
Unallocated corporate			
Shareholder returns	**(28)**	(91)	(76)
Group Total			
Policyholder returns	**1,308**	18,191	19,828
Shareholder returns	**1,996**	7,596	519
Total	**3,304**	25,787	20,347

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Policyholder returns

The returns as shown in the table above are delineated between those returns allocated to policyholders and those allocated to shareholders. In making this distinction, returns allocated to policyholders are those from investments in which shareholders have no direct economic interest, namely:

- Unit-linked business in the UK and Asia, and Scottish Amicable Insurance Fund (SAIF) in the UK, for which the investment returns are wholly attributable to policyholders;
- Separate account business of US operations, the investment returns of which are also wholly attributable to policyholders; and
- With-profits business (excluding SAIF) in the UK and Asia (in which the shareholders economic interest, and the basis of recognising IFRS basis profits, is restricted to a share of the actuarially determined surplus for distribution (in the UK 10 per cent)). Except for this surplus the investment returns of the with-profits funds are attributable to policyholders (through the asset-share liabilities) or the unallocated surplus, which is accounted for as a liability under IFRS 4.

The investment returns related to the types of business mentioned above do not impact shareholders profits directly. However, there is an indirect impact, for example, investment-related fees or the effect of investment returns on the shareholders share of the cost of bonuses of with-profits funds.

Investment returns for unit-linked and similar products have a reciprocal impact on benefits and claims, with an increase/decrease in market returns on the attached pool of assets affecting policyholder benefits on these products. Similarly for with-profits funds there is a close correlation between increases or decreases in investment returns and the level of combined charge for policyholder benefits and movement on unallocated surplus that arises from such returns.

Shareholder returns

For shareholder-backed non-participating business in the UK (comprising PRIL and other non-linked non-participating business) and of the Asia operations, the investment returns are not directly attributable to policyholders and therefore, impact shareholders profit directly. However, for UK shareholder-backed annuity business, principally PRIL, where the durations of asset and liability cash flows are closely matched, the discount rate applied to measure liabilities to policyholders (under grandfathered UK GAAP and under IFRS 4) reflects movements in asset yields (after allowances for the future defaults) of the backing portfolios. Therefore, the net impact on the shareholders profits of the investment returns of the assets backing liabilities of the UK shareholder-backed annuity business is determined after taking into account the consequential effect on the movement in policyholder liabilities.

Changes in shareholders investment returns for US operations reflect primarily movements in the investment income, and realised gains and losses together with movements in the value of the derivative instruments held to manage interest rate exposures and durations within the general account (including variable annuity and fixed index annuity guarantees), GMIB reinsurance and equity derivatives held to manage the equity risk exposure of guarantee liabilities. Separately, reflecting Jackson s types of business, an allocation is made to policyholders through the application of crediting rates.

The majority of the investments held to back the US general account business are debt securities for which the available-for-sale designation is applied for IFRS basis reporting. Under this designation the return included in the income statement reflects the aggregate of investment income and realised gains and losses (including impairment losses). However, movements in unrealised appreciation or depreciation are recognised in other comprehensive income. The return on these assets is attributable to shareholders.

Reasons for year-on-year changes in investment returns

With two exceptions, all Prudential investments are carried at fair value in the statement of financial position with fair value movements, which are volatile from year to year, recorded in the income statement. The exceptions are for:

(i) debt securities in the general account of US operations, the return on which is attributable to shareholders and which are accounted for on an IAS 39 available-for-sale basis. In this respect realised gains and losses

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(including impairment losses) are recorded in the income statement, while movements in unrealised appreciation (depreciation) are booked as other comprehensive income. As a result, the changes in unrealised fair value of these debt securities are not reflected in Prudential s investment returns in the income statement. The unrealised gains and losses in the income statement of US operations primarily arise on the assets of the US separate account business; and

(ii) loans and receivables, which are carried at amortised cost.

Subject to the effect of these two exceptions, the year-on-year changes in investment returns primarily reflect the generality of overall market movements for equities, debt securities and, in the UK, for investment property mainly held by with-profits funds. In addition for Asia and US separate account business, foreign exchange rates affect the sterling value of the translated income. Consistent with the treatment applied for other items of income and expenditure, investment returns for overseas operations are translated at average exchange rates.

Asia

The table below provides an analysis of investment return attributable to Asia operations for the years presented:

	Year ended 31 December £m		
	2015	**2014**	**2013**
Interest/dividend income (including foreign exchange gains and losses)	**1,028**	1,030	772
Investment (depreciation) appreciation	**(1,324)**	2,861	122
Total	**(296)**	3,891	894

In Prudential s Asia operations, debt securities accounted for 57 per cent, 52 per cent and 53 per cent of the total investment portfolio as at 31 December 2015, 2014 and 2013, respectively, with equities comprising 38 per cent, 43 per cent and 41 per cent, respectively. The remaining 5 per cent, 5 per cent and 6 per cent of the total investment portfolio, respectively, primarily comprised loans and deposits with credit institutions. Investment return decreased from £3,891 million in 2014 to £(296)million in 2015. This decrease was due primarily to a decrease of £4,185 million in investment (depreciation) appreciation from £2,861 million of appreciation in 2014 to a depreciation of £1,324 million in 2015. The charge of £4,185 million was driven primarily by adverse movements on debt securities values following movements in bond yields across the region during the year and less favourable equity market movements compared to 2014.

Investment return increased from £894 million in 2013 to £3,891 million in 2014. This increase was due to an increase of £258 million in interest and dividend income (including foreign exchange gains and losses) and an increase of £2,739 million in investment appreciation. The increase of £2,739 million in investment appreciation was driven primarily by favourable movements on debt securities values following falls in bond yields across the region during the year and more favourable equity market movements compared to 2013.

United States

The table below provides an analysis of investment return attributable to US operations for the years presented:

Year ended 31 December £m

	2015	**2014**	**2013**
Investment return of investments backing US separate account liabilities	**(2,033)**	3,793	10,254
Other investment return	**1,244**	1,643	(240)
Total	**(789)**	5,436	10,014

In the US, investment return decreased from £5,436 million in 2014 to £(789) million in 2015. This £6,225 million adverse change arose from a decrease of £5,826 million in the investment return on investments backing variable separate account liabilities from a gain of £3,793 million in 2014 to a loss of £(2,033) million in 2015 and an decrease in other investment return from £1,643 million to £1,244 million. The primary driver for the £5,826 million decrease in investment return on investments backing variable annuity separate account liabilities as compared to 2014 was the adverse movements in the US equity markets in 2015 on a larger separate account asset balance. The decrease in other investment return reflects the value movements in derivatives held to manage interest rate and equity risk exposures as discussed in note B1.2 to the consolidated financial statements in Item 18.

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Investment return decreased from £10,014 million in 2013 to £5,436 million in 2014. This £4,578 million adverse change arose from a decrease of £6,461 million in the investment return on investments backing variable separate account liabilities from £10,254 million in 2013 to £3,793 million in 2014 and an increase in other investment return from negative £(240) million to positive £1,643 million. The primary driver for the decrease in investment return on investments backing variable annuity separate account liabilities as compared to 2013 was relatively less favourable movements in the US equity markets in 2014 on a larger separate account asset balance. The increase of £1,883 million in other investment return reflected the value movements in derivatives held to manage interest rate and equity risk exposures as discussed in note B1.2 to the consolidated financial statements in Item 18.

United Kingdom

The table below provides an analysis of investment return attributable to UK operations for the years presented:

	Year ended 31 December £m		
	2015	**2014***	**2013***
Interest/dividend income	**6,430**	6,056	6,385
Investment (depreciation) appreciation and other investment return	**(2,013)**	10,495	3,130
Total	**4,417**	16,551	9,515

In Prudential s UK operations, equities accounted for 28 per cent, 26 per cent and 25 per cent of the total investment portfolio as at 31 December 2015, 2014 and 2013, respectively. Debt securities comprised 51 per cent, 53 per cent and 54 per cent, respectively, with investment properties accounting for 8 per cent, 8 per cent and 7 per cent of the total investment portfolio in each respective year. The remaining 13 per cent, 13 per cent and 14 per cent of the total investment portfolio as at 31 December 2015 , 2014 and 2013, respectively, related to loans, deposits with credit institutions, investments in partnerships in investment pools and derivative assets. Within debt securities of £85 billion (2014: £89 billion; 2013: £84 billion) as at 31 December 2015, 68 per cent (2014: 70 per cent; 2013: 71 per cent) was comprised of corporate debt securities.

Interest and dividend income increased by £374 million from £6,056 in 2014 to £6,430 million in 2015, and decreased by £329 million from £6,385 million in 2013 to £6,056 in 2014.

The charge in investment depreciation and other investment return of £12,508 million from a gain £10,495 million in 2014 to a loss of £2,013 million in 2015 principally reflects negative valuation movement in debt securities due to rising bond yields and unfavourable equity market movements.

The increase in investment appreciation and other investment return of £7,365 million from £3,130 million in 2013 to £10,495 million in 2014 principally reflected value movement on debt securities due to falling bond yields partially offset by less favourable equity market movements.

Unallocated corporate and intragroup elimination

Investment return for unallocated corporate and intragroup elimination was negative £28 million in 2015 compared to the negative £91 million in 2014 and negative £76 million in 2013.

(c) Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance

	Year ended 31 December £m		
	2015	**2014**	**2013**
Asia operations*	**(6,555)**	(9,794)	(6,930)
US operations	**(13,029)**	(19,761)	(23,706)
UK operations*	**(10,072)**	(20,614)	(12,518)
Total	**(29,656)**	(50,169)	(43,154)

* The Asia and UK benefits and claims exclude intra-group transactions.

Benefits and claims represent payments, including final bonuses, to policyholders in respect of maturities, surrenders and deaths plus changes in technical provisions (which primarily represent the movement in amounts owed to policyholders). Benefits and claims are amounts attributable to policyholders. The movement in unallocated surplus of with-profits funds represents the transfer to (from) the unallocated surplus each year through a charge (credit) to the income statement of the annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders.

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The underlying reasons for the year-on-year changes in benefits and claims and movement in unallocated surplus in each of Prudential s regional operations are changes in the incidence of claims incurred, increases or decreases in policyholders liabilities, and movements in unallocated surplus of with-profits funds.

Total benefit and claims and movements in unallocated surplus of with-profits funds decreased by £20,513 million in 2015 to a charge of £29,656 million compared to a charge of £50,169 million in 2014 and a charge of £43,154 million in 2013. The amounts of this year-on-year charge attributable to each of the underlying reasons as stated above are shown below.

Benefits and claims and movements in unallocated surplus of with-profits funds net of reinsurance can be further analysed as follows.

	Year ended 31 December £m		
	2015	**2014**	**2013**
Claims incurred	**(23,763)**	(22,331)	(21,881)
Increase in policyholder liabilities	**(5,395)**	(27,774)	(19,724)
Movement in unallocated surplus of with-profits funds	**(498)**	(64)	(1,549)
Benefits and claims and movement in unallocated surplus	**(29,656)**	(50,169)	(43,154)

The charge for benefits and claims and movements in unallocated surplus, net of reinsurance of £29,656 million (2014: £50,169 million; 2013: £43,154 million) shown in the table above includes the effect of accounting for investment contracts without discretionary participation features (as defined by IFRS 4) in accordance with IAS 39 to reflect the deposit nature of the arrangement.

Additionally the movement in policyholder liabilities and unallocated surplus of with-profits funds represents the amount recognised in the income statement and therefore excludes the effect of foreign exchange translation differences on the policyholder liabilities of foreign subsidiaries and the movement in liabilities arising on acquisition and disposals of subsidiaries in the year.

The principal driver for variations in amounts allocated to policyholders is changes to investment return reflected in the statement of financial position measurement of liabilities for Prudential s with-profits, SAIF and unit-linked policies (including US separate account business). In addition, for those liabilities under IFRS, in particular, liabilities relating to the UK annuity business (principally PRIL), where the measurement reflects the yields on assets backing the liabilities, the year-on-year changes in investment yields also contribute significantly to variations in the measurement of policyholder liabilities. The principal driver for variations in the change in unallocated surplus of with-profits funds is the value movements on the investment assets of the with-profits funds to the extent not reflected in policyholder liabilities.

The principal variations are for the increases or decreases in policyholder liabilities and movements in unallocated surplus of with-profits funds for each regional operation are discussed below.

Asia

In 2015, benefits and claims and movements in unallocated surplus of with-profits funds totalled £6,555 million, representing a decrease of £3,239 million compared to the charge of £9,794 million in 2014. In 2014, benefits and claims and movements in unallocated surplus of with-profits funds totalled £9,794 million, representing an increase of £2,864 million compared to the charge of £6,930 million in 2013.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year ended 31 December £m		
	2015	**2014**	**2013**
Claims incurred	**(4,151)**	(4,351)	(3,976)
Increase in policyholder liabilities	**(2,074)**	(5,463)	(2,699)
Movement in unallocated surplus of with-profits funds	**(330)**	20	(255)
Benefits and claims and movement in unallocated surplus	**(6,555)**	(9,794)	(6,930)

The growth in the policyholder liabilities in Asia over the three-year period partially reflected the strong growth in new business in the region. The variations in the increases or decreases in policyholder liabilities in individual

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years were, however, primarily due to movement in investment returns. This was as a result of asset value movements that are reflected in the unit value of the unit-linked policies, which represent a significant proportion of the Asia operations business. In addition, the policyholder liabilities of the Asia operations with-profits policies also fluctuated with the investment performance of the funds.

United States

Except for institutional products and certain term annuities which are classified as investment products under IAS 39 for the purpose of IFRS reporting, deposits into the US operations products are recorded as premiums, withdrawals and surrenders and are included in benefits and claims, and the resulting net movement is recorded under other reserve movements within benefits and claims. Benefits and claims also include interest credited to policyholders in respect of deposit products less fees charged on these policies.

In 2015, the accounting charge for benefits and claims decreased by £6,732 million to £13,029 million compared to £19,761 million in 2014. In 2014, the accounting charge for benefits and claims decreased by £3,945 million to £19,761 million compared to £23,706 million in 2013.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year ended 31 December £m		
	2015	**2014**	**2013**
Claims incurred	**(9,688)**	(8,506)	(7,560)
Increase in policyholder liabilities	**(3,341)**	(11,255)	(16,146)
Benefits and claims	**(13,029)**	(19,761)	(23,706)

The movements year-on-year in the claims incurred for the US operations as shown in the table above also included the effects of translating the US dollar results into pounds sterling at the average exchange rates for the relevant years.

The charges in each year comprise amounts in respect of variable annuity and other business. For variable annuity business, there are two principal factors that contribute to the variations in the charge, and for which the fluctuations in the years presented broadly offset each other. First, the investment return on the assets backing the variable annuity separate account liabilities changed to a £2,033 million debit in 2015 from a £3,793 million credit in 2014 and a £10,254 million credit in 2013 as shown in the section Investment return (b) United States above. The second principal effect is the growth of the variable annuity business in force. This can be illustrated by the net cash flows of the US insurance operations variable annuity separate account liabilities in note C4.1(c) Reconciliation of movement in policyholder liabilities to the consolidated financial statements in Item 18 of this annual report. The net flows of the variable annuity separate account liabilities shown in that note for 2015 were £7,887 million as compared with £7,974 million for 2014 and £7,986 million for 2013.

United Kingdom

Overall, benefits and claims and the movement in unallocated surplus recorded in the income statement was a charge of £10,072 million in 2015 compared to a £20,614 million charge in 2014 and a £12,518 million charge in 2013. The year-on-year changes attributable to each of the underlying reasons are shown below, together with a further analysis of the amounts included in respect of the movements in policyholder liabilities by type of business:

	Year ended 31 December £m		
	2015	**2014**	**2013**
Claims incurred	**(9,924)**	(9,474)	(10,346)
Decrease/(increase) in policyholder liabilities			
SAIF	**752**	366	780
PRIL	**301**	(2,157)	155
Unit-linked and other non-participating business	**171**	(3,536)	(1,616)
With-profits (excluding SAIF)	**(1,204)**	(5,729)	(197)
	20	(11,056)	(878)
Movement in unallocated surplus of with-profits funds	**(168)**	(84)	(1,294)
Benefits and claims and movement in unallocated surplus	**(10,072)**	(20,614)	(12,518)

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Claims incurred in the UK operations in 2015 were £9,924 million, compared to £9,474 million in 2014 and £10,346 million in 2013.

As has been explained above, the principal driver for variations in amounts allocated to the policyholders is changes to investment returns.

In aggregate, as a result of the lower market returns in 2015 compared to 2014 there has been a corresponding impact on benefits and claims and movements in unallocated surplus of with-profits funds in the year, moving from a net charge of £20,614 million in 2014 to a net charge of £10,072 million in 2015. Conversely, the market returns in 2014 were more positive compared to 2013, resulting in a movement from a net charge of £12,518 million in 2013 to a net charge of £20,614 million in 2014.

SAIF is a ring-fenced fund with no new business written. The decrease in policyholder liabilities in SAIF reflects the underlying decreasing policyholder liabilities as the liabilities run off. The variations from year to year are, however, affected by the market valuation movement of the investments held by SAIF, which are wholly attributable to policyholders.

For PRIL, the decreases/(increases) in policyholder liabilities reflect the effect of altered investment yield reflected in the discount rate applied in the measurement of the liabilities, together with other factors such as changes in premium income for new business and altered assumptions.

For unit-linked business, the primary driver of the variations in the decreases/(increases) in the policyholder liabilities were due to the movement in the market value of the unit-linked assets as reflected in the unit value of the unit-linked policies.

The part of Prudential where variations in amounts attributed to policyholder liabilities and unallocated surplus are most significant is the UK with-profits business (excluding SAIF). As explained in note C4.2 to the consolidated financial statements in Item18, the liabilities for UK with-profits policyholders are determined on an asset-share basis that incorporates the accumulation of investment returns and all other items of income and outgoings that are relevant to each policy type. Accordingly, the movement in policyholder liabilities in the income statement will fluctuate with the investment return of the fund. Separately, the excess of assets over liabilities of the fund represents the unallocated surplus. This surplus will also fluctuate on a similar basis to the market value movement on the investment assets of the fund with the movement reflected in the income statement. In addition, other items of income and expenditure affect the level of movement in policyholder liabilities (to the extent reflected in assets shares) and unallocated surplus.

The correlation between total net income (loss) before benefits and claims and movement in unallocated surplus, on the one hand, and the (charge) credit for benefits and claims and movement in unallocated surplus, on the other, for the UK component of the PAC with-profits fund (excluding SAIF) is illustrated numerically by the following table each of the years presented. In summary, the correlation principally arises due to the following factors:

(a) Investment return is included in full in the income statement and is attributable either to contracts or unallocated surplus.

(b)

Investment return, to the extent attributable to contracts, directly affects asset share liabilities, which are reflected in the income statement through changes in policyholder liabilities.

(c) Investment return, to the extent attributable to unallocated surplus, forms the majority part of the movement in such surplus in the income statement.

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	Year ended 31 December £m		
	2015	**2014**	**2013**
Earned premiums, net of reinsurance(i)	**6,507**	3,007	3,801
Investment return	**3,130**	8,958	5,757
Other income	**210**	72	52
Acquisition costs and other expenditure	**(1,318)**	(961)	(1,025)
Share of profit from joint ventures	**53**	129	88
Tax charge	**(148)**	(440)	(308)
Total net income before benefit and claims and movement in unallocated surplus, net of reinsurance	**8,434**	10,765	8,365
Charges of:			
Claims incurred	**(6,745)**	(6,115)	(6,681)
(Increase)/decrease in policyholder liabilities(i)	**(1,307)**	(4,366)	(197)
Movement in unallocated surplus of with-profits funds	**(168)**	(84)	(1,294)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	**(8,220)**	(10,565)	(8,172)
Shareholders profit after tax	**214**	200	193

Note

(i) For the purposes of presentation in Prudential s consolidated financial information, references to the UK with-profits fund also include, for convenience, the amounts attaching to Prudential s UK Defined Charge Participating Sub-fund which includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 31 December 2007. Profits to shareholders emerge on a charges less expenses basis and policyholders are entitled to 100 per cent of the investment earnings.

Separately, the cost of current year bonuses which is attributable to policyholders is booked within the movement in policyholder liabilities. One-ninth of the declared cost of policyholders bonus is attributable to shareholders and represents the shareholders profit. Both of these amounts, by comparison with the investment return, movement in other constituent elements of the change in policyholder liabilities and the change in unallocated surplus, are relatively stable from year to year.

In 2015, the income statement of the UK component of the PAC with-profits funds was charged with a transfer of £168 million to the unallocated surplus. This transfer, together with a corresponding transfer in the unallocated surplus of the Asia with-profits funds and the effect of exchange rate movements, resulted in an increase in Prudential s unallocated surplus from £12.5 billion in 2014 to £13.1 billion in 2015. This movement reflected the net effect of changes in the value of assets, liabilities (incorporating policyholder bonuses and other elements of asset shares attributable to policyholders), and the shareholders share of the cost of bonuses for 2015.

The surplus for distribution in future years will reflect the aggregate of policyholder bonuses and the cost of bonuses attributable to shareholders, which is currently set at 10 per cent. The policyholder bonuses comprise the aggregate of regular and final bonuses. When determining policy payouts, including final bonuses, Prudential considers asset shares of specimen policies.

Prudential does not take into account the surplus assets of the long-term fund, or the investment return, in calculating asset shares. Asset-shares are used in the determination of final bonuses, together with treating customers fairly, the need to smooth claim values and payments from year to year and competitive considerations.

In the unlikely circumstance that the depletion of excess assets within the long-term fund was such that Prudential s ability to treat its customers fairly was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders funds to the long-term funds to provide financial support.

The factors that the PAC Board considers in setting bonus rates are described in more detail in the section headed With-profits products in Item 4, in the section headed United Kingdom Basis of profits Bonus Rates and are summarised in note C4.1(d)(ii) to the consolidated financial statements in Item 18.

(d) Acquisition costs and other expenditure

	Year ended 31 December £m		
	2015	**2014**	**2013**
Asia operations	**(2,929)**	(2,616)	(2,208)
US operations	**(2,376)**	(1,589)	(1,919)
UK operations	**(2,917)**	(2,580)	(2,790)
Unallocated corporate and intra-group elimination	**14**	33	56
Total	**(8,208)**	(6,752)	(6,861)

Total acquisition costs and other expenditure of £8,208 million in 2015 were 22 per cent higher than the £6,752 million incurred in 2014. Total acquisition costs and other expenditure of £6,752 million in 2014 were 2 per cent lower than the £6,861 million incurred in 2013.

Asia

Total acquisition costs and other expenditure for Asia in 2015 were £2,929 million compared to £2,616 million in 2014 and £2,208 million in 2013. The increase of £313 million from 2014 to 2015 and £408 million from 2013 to 2014 were due to increased acquisition costs, net of change in deferred acquisition costs, and increases in other operating expenses as the business continues to expand. The increase from 2014 to 2015 in these expenses was partially offset by a decrease in the charge for investment gains attributable to external unit-holders relating to investment funds managed on behalf of third parties which are consolidated but have no recourse to Prudential.

United States

Total acquisition costs and other expenditure for the US of £2,376 million in 2015 represented an increase of £787 million over the amount of £1,589 million in 2014. The £1,589 million in 2014 in turn represented a decrease of £330 million from the £1,919 million in 2013.

The increase of £787 million from 2014 to 2015 includes an exchange translation impact of £124 million. Excluding the currency volatility, total acquisition costs and other expenditure increased by £663 million from 2014 to 2015.

The year-on-year movements primarily reflected increases in the charge for acquisition costs in the income statement, net of change in deferred acquisition costs, of which an element is due to the amortisation attaching to the varying level of short-term fluctuations in investment returns in each year. In addition, operating expenses in 2015 have also increased primarily as a result of higher asset based commissions paid on the larger separate account balance.

United Kingdom

Total acquisition costs and other expenditure for the UK increased by 13 per cent from £2,580 million in 2014 to £2,917 million in 2015. In turn, total acquisition costs and other expenditure for the UK decreased by 8 per cent from £2,790 million in 2013 to £2,580 million in 2014.

The year-on-year movements were primarily affected by the changes in the charge for investment gains relating to funds managed on behalf of third parties which are consolidated but have no recourse to the Group, which increased by £361 million from £408 million in 2014 to £769 million in 2015 and conversely decreased by £331 million from 2013 to 2014.

Unallocated corporate and intra-group elimination

Other net expenditure represented a credit of £14 million in 2015, a credit of £33 million in 2014 and a credit of £56 million in 2013.

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IFRS Shareholders Funds and Policyholder Liabilities

Movement on Shareholders Funds

The following table sets forth a summary of the movement in Prudential s IFRS shareholders funds for 2015 and 2014:

Shareholders Funds	2015 £m	2014 £m
Profit after tax for the year	**2,579**	2,216
Exchange movements, net of related tax	**118**	220
Unrealised gains and losses on Jackson fixed income securities classified as available for sale, net of related changes to deferred acquisition costs and tax*	**(629)**	565
Dividends	**(974)**	(895)
Other	**50**	55
Net increase in shareholders funds	**1,144**	2,161
Shareholders funds at beginning of the year	**11,811**	9,650
Shareholders funds at end of the year	**12,955**	11,811
Shareholders value per share	**504p**	460p
Return on Shareholders funds**	**27%**	26%

* Net of related changes to deferred acquisition costs and tax.

** Operating profit after tax and non-controlling interests as percentage of opening shareholders funds.

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

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

Shareholder-backed policyholder liabilities and net liability flows*

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

* Includes Group s proportionate share of the liabilities and associated flows of the insurance joint ventures in Asia.

** Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

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

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Other Results Based Information

Funds under Management

(a) Summarynote (i)

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

Notes

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

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

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

(b) Investment products external funds under management

	2015 £m			2014 £m		
	Eastspring Investments note	M&G	Group total	Eastspring Investments note	M&G	Group total
1 January	**30,133**	**137,047**	**167,180**	22,222	125,989	148,211
Market gross inflows	**110,396**	**33,626**	**144,022**	82,440	38,017	120,457
Redemptions	**(103,360)**	**(40,634)**	**(143,994)**	(77,001)	(30,930)	(107,931)

Market exchange translation and other movements	**(882)**	**(3,634)**	**(4,516)**	2,472	3,971	6,443
31 December	**36,287**	**126,405**	**162,692**	30,133	137,047	167,180

Note

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

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

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

Note

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

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Foreign currency source of IFRS key metrics

The tables below show the Group s key IFRS analysis by contribution by currency group:

IFRS 2015 results

	Pre-tax operating profit % notes (2),(3),(4)	Shareholders funds % notes (2),(3),(4)
US$ linked(1)	**16**	**14**
Other Asia currencies	**17**	**19**
Total Asia	**33**	**33**
UK sterling(3),(4)	**25**	**46**
US$ (4)	**42**	**21**
Total	**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.

Liquidity and Capital Resources

Prudential Capital operates a central treasury function for Prudential, which has overall responsibility for managing Prudential s capital funding program as well as its central cash and liquidity positions. Prudential arranges the financing of each of its subsidiaries primarily by raising external finance either at the parent company level (including through finance subsidiaries whose obligations the parent company guarantees) or at the operating company level.

After making sufficient enquiries the directors of Prudential have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that the financial statements are approved.

Overview

Prudential s balance sheet remains conservatively positioned, our Group solvency under the Insurance Groups Directive (IGD) is robust and our Solvency II outcome, following approval by the Prudential Regulation Authority of our internal model in December 2015, underscores the strength and resilience of the Group s capital position.

We continue to operate with a strong solvency position, while maintaining high levels of liquidity and capital generation, which we accomplish through our capital discipline, the effectiveness of our hedging activities, our low direct Eurozone exposure, the minimal level of credit impairments and the natural offsets in our portfolio of businesses. The estimated Group Solvency II capital surplus[30],[31] at 31 December 2015 is £9.7 billion, which is equivalent to a Group solvency ratio of 193 per cent.

Further information on the Group s capital position is provided in the Capital Management section of Item 4.

Group and holding company cash flow

Prudential s consolidated cash flow includes the movement in cash included within both policyholders and shareholders funds, such as cash in the with-profits fund. Prudential therefore believes that it is more relevant to consider individual components of the movement in holding company cash flow which relate solely to the shareholders.

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

Operating holding company cash flow for 2015 before the shareholder dividend was £1,271 million, £142 million higher than 2014. After deducting the shareholder dividend the operating holding company cash flow was £297 million (2014: £234 million).

Cash remittances to the Group from business units

Cash remitted by the business units to the corporate centre in 2015 increased by 10 per cent to £1,625 million with significant contributions from each of our four major business operations. Asia s remittances increased to £467 million from £453 million and included the proceeds from the sale of the Japan Life business of £42 million. The higher remittances from the US of £470 million in 2015 (2014: £415 million) reflect Jackson s disciplined approach to growing this business and its effective risk management. The remittances from the UK are in line with 2014 and we continue to invest in upgrading our UK pre and postretirement customers propositions. M&G s remittances of £302 million and Prudential Capital s remittances of £55 million reflected the level of post-tax earnings delivered in the year.

(30) The methodology and assumptions used in calculating the Solvency II capital results are set out in the Solvency II capital position at 31 December 2015 section within Item 4_Capital Management. The Group Solvency II capital ratio is based on output from the Group s Solvency II internal model, approved by Prudential Regulation Authority in December 2015.

(31) Before allowing for second interim ordinary and special dividends.

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Net central outflows and other movements

Net central outflows stayed constant at £354 million in 2015 (2014: £353 million), with similar corporate costs and lower net interest payments offset by lower tax received.

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

Dividend payments

The total cost of dividends settled by Prudential was £974 million and £895 million for the years ended 31 December 2015 and 2014, respectively.

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

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

Debt service costs

Debt service costs charged to profit in respect of core borrowings paid by Prudential in 2015 were £312 million compared with £341 million in 2014. Of total consolidated borrowings of £5,011 million as at 31 December 2015, the parent company had core borrowings of £4,567 million outstanding, all of which have contractual maturity dates of more than five years.

Liquidity sources

The parent company including the central finance subsidiaries held cash and short-term investments of £2,173 million, £1,480 million and £2,230 million as at 31 December 2015, 2014 and 2013, respectively. The sources of cash in 2015 included dividends, loans and interest received from operating subsidiaries. Prudential received £1,726 million in cash remittances from business units in 2015, compared to £1,595 million received in 2014 and £1,451 million received in 2013. These remittances primarily comprise dividends from business units and the shareholders statutory transfer from the PAC long-term with-profits fund (UK Life Fund) relating to earlier bonus declarations. Offset against these cash remittances were £101 million, £113 million and £110 million of capital invested in 2015, 2014 and 2013, respectively. Overall net remittances from business units had increased from £1,482 million in 2014 to £1,625 million in 2015.

Shareholders statutory transfer

In 2015, PAC declared a total surplus of £2,208 million from PAC s primary with-profits sub-fund, of which £1,994 million was added to with-profits policies and £214 million was distributed to shareholders. In 2014, PAC declared a total surplus of £2,012 million from PAC s primary with-profits sub-fund, of which £1,812 million was added to with-profits policies and £200 million was distributed to shareholders. In 2013, PAC declared a total surplus of £2,134 million from PAC s primary with-profits sub-fund, of which £1,922 million was added to with-profits policies and £212 million was distributed to shareholders.

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Dividends, loans and interest received from subsidiaries

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. In PAC, Prudential s largest operating subsidiary, distributable reserves arise from the emergence of profits from the company s long-term business. For the company s with-profits business the profits reflect the profit transfer to shareholders that occurs upon the declaration of bonuses to policyholders of with-profit products. See Shareholders statutory transfer above. Prudential s insurance and fund management subsidiaries ability to pay dividends and loans to the parent company is restricted by various laws and regulations. Jackson is subject to state laws that limit the dividends payable to its parent company. Dividends in excess of these limitations generally require approval of the state insurance commissioner. The table below shows the dividends, loans and other amounts received by Prudential from the principal operating subsidiaries for 2015 and 2014:

	Dividends, loan and interest received in:	
	2015 £m	**2014 £m**
Asia operations	**568**	513
US operations	**470**	415
UK Insurance operations (mainly PAC)	**331**	325
M&G and Prudential Capital	**357**	342
Total	**1,726**	1,595

Each of Prudential s main operations generates sufficient profits to pay dividends to the parent. The amount of dividends paid by the operations is determined after considering the development, growth and investment requirements of the operating businesses. Prudential does not believe that the legal and regulatory restrictions on the ability of any one of its businesses to pay dividends to the parent, constitutes a material limitation on the ability of Prudential plc to meet its cash obligations.

Corporate transactions

Entrance into Uganda life insurance market

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

Shareholders net core structural borrowings

	31 December	
	2015 £m	**2014 £m**
Shareholders borrowings in holding company	**4,567**	3,869
Prudential Capital	**275**	275
Jackson surplus notes	**169**	160
Total	**5,011**	4,304
Less: Holding company cash and short-term investments	**(2,173)**	(1,480)
Net core structural borrowings of shareholder-financed operations	**2,838**	2,824

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

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

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 31 December 2015, we had issued commercial paper under this programme, totalling £138 million and US$1,428 million, to finance non-core borrowings.

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Prudential s holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities, provided by 19 major international banks, expiring in 2020. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2015. The medium-term note programme, the SEC registered US shelf programme, the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential s holding company and are intended to maintain a strong and flexible funding capacity.

Prudential manages the Group s core debt within a target level consistent with its current debt ratings. At 31 December 2015, the gearing ratio (debt, net of cash and short-term investments, as a proportion of IFRS shareholders funds plus net debt) was 18 per cent, compared to 19 per cent at 31 December 2014. Prudential plc has strong debt ratings from Standard & Poor s, Moody s and Fitch. Prudential plc s long-term senior debt is rated A+, A2 and A from Standard & Poor s, Moody s and Fitch, while short-term ratings are A-1, P-1 and F1 respectively. The Prudential Assurance Company Limited was downgraded by Moody s in September 2015 from Aa2 to Aa3. All ratings on Prudential and its subsidiaries are on stable outlook.

The financial strength of The Prudential Assurance Company Limited is rated AA by Standard & Poor s, Aa3 by Moody s and AA by Fitch.

Jackson National Life Insurance Company s financial strength is rated AA by Standard & Poor s, A1 by Moody s and AA by Fitch.

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

Liquidity resources and requirements by operating business

UK life insurance

The liquidity sources for Prudential s UK life insurance businesses comprise premiums, deposits and charges on policies, investment income, proceeds from the sale and maturity of investments, external borrowings and capital contributions from the parent company. The liquidity requirements comprise benefits and claims, operating expenses, interest on debt, purchases of investments and dividends to the parent company.

The liquidity requirements of Prudential s UK life insurance businesses are regularly monitored to match anticipated cash inflows with cash requirements. Cash needs are forecast and projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying these projections are reviewed periodically. Adjustments are made periodically to the investment policies with respect to, among other things, the maturity and risk characteristics of the investment assets to reflect changes in the business cash needs and also to reflect the changing competitive and economic environment.

The liquidity of Prudential s UK insurance operations is affected by the payment of guaranteed benefits and terminal bonuses on maturing and surrendering policies by the UK insurance operations. In addition, the non-cash bonus declaration to policyholders results in a cash transfer to shareholders funds. A large proportion of Prudential s liabilities contains discretionary surrender values or surrender charges. In addition, pension annuity policies cannot be surrendered by the policyholder.

Under Solvency I basis, as at 31 December 2015, 2014 and 2013, PAC s long-term fund assets in excess of its minimum capital requirements were £20,074 million, £21,564 million and £20,956 million, respectively. The with-profits insurance capital component of the enhanced capital requirement, as at 31 December 2015, 2014 and 2013 amounted to £8,933 million, £10,998 million and £9,674 million respectively. Under Solvency II basis, PAC has an estimated Solvency II surplus of £3.3 billion in respect of its shareholder business, equivalent to a ratio of 146 per cent. Separately the UK with-profits funds had an estate value of £7.6 billion(32), covering its Solvency II capital requirements approximately 1.75 times.

(32) Representing Solvency II own funds of the UK with-profits funds.

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M&G

The principal liquidity source for M&G is fee income for managing retail, institutional and the internal investment funds of Prudential s UK operations. The principal liquidity requirements are for operating expenses and to meet CASS requirements. Amounts are distributed to the parent company after considering capital requirements. Capital requirements are driven by fixed operating expenses. As at 31 December 2015, M&G met the relevant regulatory requirements.

US life insurance

The liquidity sources for Jackson are its cash, short-term investments and publicly traded bonds, premium income deposits received on certain annuity and institutional products, investment income, repurchase agreements, utilisation of a short-term borrowing facility with the Federal Home Loan Bank of Indianapolis and capital contributions from the parent company.

Liquidity requirements are principally for purchases of new investments and businesses, repayment of principal and interest on debt, payments of interest on surplus notes, funding of insurance product liabilities including payments for policy benefits, surrenders, maturities and new policy loans, and funding of expenses including payment of commissions operating expenses and taxes. As at 31 December 2015, Jackson s outstanding notes and bank debt included:

- US$98 million of bank loans collaterised by mortgage-related securities and mortgage loans from the Federal Home Loan Bank of Indianapolis,
- US$249 million of surplus notes maturing in 2027.

Significant increases in interest rates and disintermediation can create sudden increases in surrender and withdrawal requests by policyholders and contract holders. Other factors that are not directly related to interest rates can also give rise to disintermediation risk, including but not limited to changes in ratings from rating agencies, general policyholder concerns relating to the life insurance industry (eg the unexpected default of a large, unrelated life insurer) and competition from other products, including non-insurance products such as mutual funds, certificates of deposit and newly developed investment products. Most of the life insurance, annuity and institutional products Jackson offers permit the policyholder or contract holder to withdraw or borrow funds or surrender cash values. At 31 December 2015, a majority of Jackson s fixed annuity reserves include policy restrictions such as surrender charges and market value adjustments to discourage early withdrawal of policy and contract funds.

Jackson uses a variety of asset-liability management techniques to provide for the orderly provision of cash flow from investments and other sources as policies and contracts mature in accordance with their normal terms. Jackson s principal sources of liquidity to meet unexpected cash outflows associated with sudden and severe increases in surrenders and withdrawals are its portfolio of liquid assets and its net operating cash flows. As at 31 December 2015, the portfolio of cash, short-term investments and publicly traded bonds and equities amounted to US$45.8 billion. Operating net cash inflows for Jackson in 2015 were US$3.3 billion.

As at 31 December 2015, the statutory capital and surplus of Jackson was US$4.7 billion, which was in excess of the requirements set out under Michigan insurance law. Jackson is also subject to risk-based capital guidelines that provide a method to measure the adjusted capital that a life insurance company should have for regulatory purposes, taking into account the risk characteristics of Jackson s investments and products. As at 31 December 2015, Jackson s total risk based capital ratio under the National Association of Insurance Commissioners definition exceeded the Michigan standards.

Asia life insurance

The liquidity sources for Prudential s Asia life insurance businesses comprise premiums, deposits and charges on policies, investment income, proceeds from the sale and maturity of investments, external borrowings and capital contributions from the parent company. The liquidity requirements comprise benefits and claims, operating expenses, interest on debt, purchases of investments and dividends to the parent company.

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The liquidity requirements of Prudential s Asia life insurance businesses are regularly monitored to match anticipated cash inflows with cash requirements. Cash needs are forecast and projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying these projections are reviewed periodically. Adjustments are made periodically to the investment policies with respect to, among other things, the maturity and risk characteristics of the investment assets to reflect changes in the business cash needs and also to reflect the changing competitive and economic environment.

Derivative financial instruments and commitments

Derivatives

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of some Asia transactions, are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

The derivative assets are included in other investments in the statement of financial position and are used for efficient portfolio management to obtain cost effective and efficient management of exposure to various markets in accordance with the Group s investment strategies and to manage exposure to interest rate, currency, credit and other business risks. The Group also uses interest rate derivatives to reduce exposure to interest rate volatility. In particular:

- UK with-profits funds use derivatives for efficient portfolio management or reduction in investment risks. For UK annuity business derivatives are used to assist with asset and liability cash flow matching.
- US operations and some of the UK operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. These businesses have purchased some swaptions to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets; and
- Some products, especially in the US, have guarantee features linked to equity indices. A mismatch between guaranteed product liabilities and the performance of the underlying assets exposes the Group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to better match asset performance with liabilities under equity-indexed products.

The principal types of derivatives used by Jackson and their purpose are as follows:

Derivative	**Purpose**
Interest rate swaps	These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used for hedging purposes.
Swaption contracts	These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson both purchases and writes swaptions in order to hedge against significant movements

	in interest rates.
Equity index futures contracts and equity index options	These derivatives (including various call and put options and interest rate contingent options) are used to hedge Jackson s obligations associated with its issuance of certain VA guarantees. Some of these annuities and guarantees contain embedded options which are fair valued for financial reporting purposes.
Cross-currency swaps	Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson s foreign currency denominated funding agreements supporting trust instrument obligations.
Credit default swaps	These swaps, represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement. Jackson does not write default protection using credit derivatives.

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Commitments

The Group has provided, from time to time, certain guarantees and commitments to third-parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment properties at 31 December 2015 were £409 million.

At 31 December 2015, Jackson has unfunded commitments of £299 million related to its investments in limited partnerships and £64 million related to commercial mortgage loans. These commitments were entered into in the normal course of business and the Company does not expect a material adverse impact on the operations to arise from them.

Contractual obligations

Contractual obligations with specified payment dates as at 31 December 2015 were as follows:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			£m		
Policyholder liabilities(i)	512,875	30,014	58,547	56,047	368,267
Long-term debt(ii)	5,011	-	275	-	4,736
Other borrowings(ii)	3,292	1,430	992	68	802
Capital lease obligations	78	4	7	7	60
Operating lease obligations	445	98	150	81	116
Purchase obligations(iii)	772	655	117	-	-
Obligations under funding, securities lending and sale and repurchase agreements	3,765	3,765	-	-	-
Other long-term liabilities(iv)	8,581	8,200	195	66	141
Total	534,819	44,166	60,283	56,269	374,122

	£m	£m
Reconciliation to consolidated statement of financial position:		
Total contractual obligations per above		534,819
Difference between policyholder liabilities per above (based on undiscounted cash flows) and total policyholder liabilities and unallocated surplus of with-profits funds per balance sheet:		
Total policyholder liabilities and unallocated surplus of with-profits funds per the consolidated statement of financial position	335,614	
Policyholder liabilities (undiscounted) per above	(512,875)	(177,261)
Other short-term/non-contractual obligations:		
Current tax liabilities	325	
Deferred tax liabilities	4,010	
Accruals and deferred income	952	
Other creditors (excluding capital and operating lease obligations and purchase obligations)	3,581	

Derivative liabilities	3,119	
Other liabilities	4,588	16,575
Other items		(104)
Total liabilities per consolidated statement of financial position		374,029

Notes

(i) Amounts shown in respect of policyholder liabilities represent estimated undiscounted cash flows for Prudential s life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of policyholder benefit payments reflect either surrender, death, or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing policyholder liabilities. The projected cash flows exclude the unallocated surplus of with-profits funds. As at 31 December 2015, on the IFRS basis of reporting, the unallocated surplus was £13,096 million. The unallocated surplus represents the excess of assets over liabilities, including policyholder asset share liabilities, which reflect the amount payable under the realistic Peak 2 reporting regime of the PRA. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated surplus.

(ii) The amounts represent the contractual maturity of amounts of borrowings included in the consolidated statement of financial position (i.e. excludes future interest payments) as shown in note C6.2 to Prudential s consolidated financial statements in Item 18. Long-term debt comprises the core structural borrowings of shareholder-financed operations and

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the £100 million 8.5 per cent undated subordinated guaranteed bonds of Scottish Amicable Finance plc. Other borrowings comprise operational borrowings attributable to shareholder-financed operations and borrowings attributable to with-profits operations but excluding the £100 million 8.5 per cent undated subordinated guaranteed bonds of Scottish Amicable Finance plc.

(iii) Comprising unfunded commitments for investments in limited partnerships of £299 million (2014: £332 million) and unfunded commitments related to mortgage loans of £64 million (2014: £73 million) and commitments to purchase or develop investment properties of £409 million (2014: £232 million).

(iv) Amounts due in less than one year include amounts attributable to unit holders of consolidated unit trusts and similar funds of £7,873 million.

Group consolidated cash flows

The discussion that follows is based on the consolidated statement of cash flows prepared under IFRS and presented in Item 18 of this Form 20-F.

Net cash inflows in 2015 were £1,390 million. This amount comprised inflows of £2,533 million from operating activities less outflows of £469 million from investing activities less outflows of £674 million from financing activities.

Net cash outflows in 2014 were £383 million. This amount comprised inflows of £1,828 million from operating activities less outflows of £545 million from investing activities less outflows of £1,666 million from financing activities.

Net cash inflows in 2013 were £789 million. This amount comprised inflows of £1,324 million from operating activities less outflows of £584 million from investing activities plus inflows of £49 million from financing activities.

The Group held cash and cash equivalents of £7,782 million at 31 December 2015 compared with £6,409 million and £6,785 million at 31 December 2014 and 2013, respectively.

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Item 6. Directors, Senior Management and Employees

The Prudential Board consists of 17 directors as at 7 April 2016.

Set forth below are the names, ages, positions, business experience and principal business activities performed by the current Directors, as well as the dates of their initial appointment to the Prudential Board. This includes those Directors who joined the Board up to the date of filing. Ages are given as at 7 April 2016.

Board of Directors

Paul Manduca, 64

Chairman

Appointment: October 2010

Chairman**:** July 2012

Committees: Nomination

(Chair)

Paul is the Chairman of the Board. He initially joined the Board as the Senior Independent Director and member of the Audit and Remuneration Committees, and latterly, the Nomination Committee.

Relevant skills and experience

Paul retired as Chairman of JPM European Smaller Companies Investment Trust Plc in December 2012 and was the Chairman of Aon UK Limited until September 2012. He was also a non-executive director and Chairman of the Audit Committee of KazMunaiGas Exploration & Production until the end of September 2012. From September 2005 until March 2011, Paul was a non-executive director of Wm Morrison Supermarkets Plc. During his tenure, he was the Senior Independent Director, the first Audit Committee Chairman and Chair of the Remuneration Committee. Paul was the Senior Independent Director and Chairman of the Audit Committee of Development Securities plc until March 2010, Chairman of Bridgewell Group plc until 2007 and a director of Henderson Smaller Companies Investment Trust plc until 2006. Prior to that, he was European CEO of Deutsche Asset Management from 2002 to 2005, global CEO of Rothschild Asset Management from 1999 to 2002 and founding CEO of Threadneedle Asset Management Limited from 1994 to 1999 when he was also a director of Eagle Star and Allied Dunbar. Paul has also served as Chairman of the Association of Investment Companies from 1991 to 1993 and is a former member of the Takeover Panel.

Other appointments

Paul is a member of the Securities Institute and Chairman of Henderson Diversified Income Limited. In 2015, Paul became Chairman of TheCityUK s Advisory Council and Chairman of the Templeton Emerging Markets Investment Trust (TEMIT).

Michael Wells, 55	Mike is Group Chief Executive, a position he has held since June 2015.
Group Chief Executive	
	Relevant skills and experience
Appointment: January 2011	
Group Chief Executive: June 2015	Mike joined Jackson National Life Insurance Company (Jackson), the North American unit of Prudential, in 1995, and became Chief Operating Officer and Vice-Chairman in 2003. In 2011 he was appointed President and Chief Executive Officer of Jackson, and joined the Board of Prudential.
	Mike began his career at the brokerage house Dean Witter going on to become a managing director at Smith Barney Shearson. At Jackson, Mike was responsible for the establishment of the broker-dealer network National Planning Holdings and the development of Jackson s market-leading range of variable annuities. He was also part of the Jackson teams that purchased and successfully integrated a savings institute, three broker dealers and two life companies.

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Executive Directors

Nicolaos Nicandrou ACA, 50

Chief Financial Officer

Appointment: October 2009

Nic is Chief Financial Officer, a position he has held since October 2009.

Relevant skills and experience

Before joining Prudential, Nic worked at Aviva, where he held a number of senior finance roles, including Norwich Union Life Finance Director and Board Member, Aviva Group Financial Control Director, Aviva Group Financial Management and Reporting Director and CGNU Group Financial Reporting Director. Nic started his career at PricewaterhouseCoopers where he worked in both London and Paris. In December 2014 Nic was appointed Chairman of the European Insurance CFO Forum.

Penelope James ACA, 46

Group Chief Risk Officer

Appointment: September 2015

Penny is the Group Chief Risk Officer, a position she has held since September 2015.

Relevant skills and experience

Penny joined Prudential in 2011 as the Director of Group Finance, a position she held until her appointment to the Board. Before joining Prudential, Penny was Group Chief Financial Officer of Omega Insurance Holdings, a company formerly listed on the Main Market of the London Stock Exchange. She previously held a number of senior finance positions during her 12 years with Zurich Financial Services, most recently serving as Chief Financial Officer of the UK General Insurance Division. Penny qualified as a chartered accountant with Coopers & Lybrand Deloitte (now part of PwC) prior to joining Zurich.

Other appointments

In January 2015, Penny was appointed as a non-executive director of Admiral Group plc and is a member of Admiral s audit committee.

John Foley, 59

Executive Director

John is Chief Executive of Prudential UK & Europe, a position he has held since January 2016.

Appointment: January 2016

Relevant skills and experience

John joined Prudential as Deputy Group Treasurer in 2000, before being appointed Managing Director, Prudential Capital, and Group Treasurer in 2001. He was appointed Chief Executive, Prudential Capital, and to the Group Executive Committee in 2007. John was appointed Group Chief Risk Officer and joined the Prudential plc Board in 2011. In 2013, he was appointed to the new role of Group Investment Director, leaving the Board but remaining a member of the Group Executive Committee. He was appointed as Interim Chief Executive of Prudential UK & Europe in October 2015. Before joining Prudential, he spent three years with National Australia Bank as General Manager, Global Capital Markets. John began his career at Hill Samuel & Co. Limited where, over a 20-year period, he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury of the combined TSB and Hill Samuel Bank.

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Michael McLintock, 55 Executive Director Appointment: September 2000	Michael is the Chief Executive of M&G, a position he held at the time of M&G s acquisition by Prudential in 1999. **Relevant skills and experience** Michael joined M&G in 1992. He also served on the Board of Close Brothers as a non-executive director from 2001 to 2008. **Other appointments** Michael has been a Trustee of the Grosvenor Estate since October 2008 and was appointed as a non-executive director of Grosvenor Group Limited in March 2012. He has been a member of the Finance Committee of the MCC since October 2005. Michael was appointed to The Takeover Appeal Board on 1 March 2016.
Barry Stowe, 58 Executive Director Appointment: November 2006	Barry is Chairman and Chief Executive Officer of the North American Business Unit, a position he has held since June 2015. The North American Business Unit comprises Jackson, Curian Capital, Jackson National Asset Management, PPM America and National Planning Holdings. **Relevant skills and experience** Barry was the Chief Executive of Prudential Corporation Asia from October 2006 to June 2015. Before joining Prudential, Barry was President, Accident & Health Worldwide for AIG Life Companies. He joined AIG in 1995 after having held senior positions at Pan-American Life and Willis in the United States. **Other appointments** Barry is a member of the Board of Directors of the International Insurance Society.
Tony Wilkey, 56	

Executive Director

Appointment: June 2015

Tony is Chief Executive of Prudential Corporation Asia, a position he has held since June 2015.

Relevant skills and experience

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

Non-Executive Directors

The Hon. Philip Remnant CBE FCA, 61

Senior Independent Director

Appointment: January 2013

Committees: Audit, Nomination and Remuneration

Relevant skills and experience

Philip was a senior adviser at Credit Suisse until December 2013. Philip was previously a Vice Chairman of Credit Suisse First Boston (CSFB) Europe and Head of the UK Investment Banking Department. Philip was seconded to the role of Director General of the Takeover Panel from 2001 to 2003, and again in 2010. He served on the Board of Northern Rock plc from 2008 to 2010, and from 2007 to 2012 was Chairman of the Shareholder Executive.

Other appointments

Philip is a Deputy Chairman of the Takeover Panel, a non-executive director of Severn Trent plc (since March 2014) and Senior Independent Director of UK Financial Investments Limited. Philip is also Chairman of City of London Investment Trust plc (since 2011). Philip is Chairman of M&G Group Limited, a subsidiary of the Company.

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Sir Howard Davies, 65 Non-executive Director Appointment: October 2010 Committees: Risk (Chair), Audit and Nomination	**Relevant skills and experience** Sir Howard has a wealth of experience in the financial services industry, across civil service, consultancy, asset management, regulatory and academia. Sir Howard was previously Chairman of the Phoenix Group and an independent director of Morgan Stanley Inc.
	Other appointments Sir Howard is Chairman of the Royal Bank of Scotland and a Professor at Institut d Études Politiques (Sciences Po). He is Chairman of the International Advisory Board of the China Securities Regulatory Commission and a member of the International Advisory Board of the China Banking Regulatory Commission.
Ann Godbehere FCPA FCGA, 60 Non-executive Director Appointment: August 2007 Committees: Audit (Chair), Nomination and Risk	**Relevant skills and experience** Ann began her career in 1976 with Sun Life of Canada, joining Mercantile & General Reinsurance Group in 1981, where she held a number of management roles rising to Senior Vice President and Controller for life and health and property/casualty businesses in North America in 1995. Between 1996 and 2003 Ann held a number of CFO and CEO posts in different businesses within Swiss Re and from 2003 until February 2007, Ann was Chief Financial Officer of the Swiss Re Group. From its nationalisation in 2008 until January 2009, Ann was Interim Chief Financial Officer and Executive Director of Northern Rock. She was also a director of Atrium Underwriting Group Limited and Atrium Underwriters Limited (until March 2014), as well as Arden Holdings Limited (until November 2014).
	Other appointments Ann is a non-executive director of British American Tobacco p.l.c., Rio Tinto plc, Rio Tinto Limited, UBS Group AG and UBS AG.
Alexander (Alistair) Johnston CMG FCA, 63 Non-executive Director	Alistair will retire from the Board with effect from the close of the Company s 2016 Annual General Meeting on 19 May 2016.

	Relevant skills and experience
Appointment: January 2012	
Committees: Audit	Alistair was a partner of KPMG from 1986 to 2010. He joined KPMG (then Peat Marwick Mitchell) in 1973 and held a number of senior leadership positions. These included Vice Chairman of UK Financial Services and Head of UK Insurance Practice, International Managing Partner Global Markets and UK Vice Chairman. Latterly he served as a Global Vice Chairman of KPMG from 2007 to 2010. Alistair acted as a non-executive director of the Foreign & Commonwealth Office from 2005 to 2010 and chaired the audit committee until 2009.
	Other Appointments
	Alistair is a Visiting Professor at Cass Business School, a Trustee of the Design Museum in London and a Trustee of The Royal Academy of Arts.

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David Law ACA, 55 Non-executive Director Appointment: September 2015 Committees: Audit	**Relevant skills and experience** David began his career at PwC, where he worked in a variety of roles in the United Kingdom, Switzerland and Hong Kong. He was the Global Leader of PwC s insurance practice, a Partner in PwC s UK firm and worked as the Lead Audit Partner for multinational insurance companies until his retirement on 30 June 2015. David has also been responsible for PwC s insurance and investment management assurance practice in London and the firm s Scottish assurance division. **Other appointments** David is a Director of L&F Holdings Limited and Chief Executive of L&F Indemnity Limited, the professional indemnity captive insurance group that serves the PricewaterhouseCoopers network and its member firms.
Kaikhushru Nargolwala **FCA,** 65 Non-executive Director Appointment: January 2012 Committees: Remuneration and Risk	**Relevant skills and experience** Kai was a non-executive director of Singapore Telecommunications Limited until July 2015. He was also non-executive Chairman of Credit Suisse Asia Pacific until December 2011, having joined Credit Suisse in 2008 as a member of the Executive Board and CEO of the Asia Pacific region. From 1998 to 2007, Kai worked for Standard Chartered PLC where he was a Group Executive Director responsible for Asia Governance and Risk. Prior to that, he spent 19 years at Bank of America and from 1990 was based in Asia as Group Executive Vice President and Head of the Asia Wholesale Banking Group. From 2004 to 2007, he was a non-executive director at Tate & Lyle plc and at Visa International, where he served on the Asia Pacific Board. **Other appointments** Kai is a member of the Board of the Casino Regulatory Authority of Singapore, a non-executive director of PSA International Pte. Limited and a director and Chairman of Clifford Capital Pte. Limited. Kai was appointed as a director of Credit Suisse Group AG in April 2013 and became a member of the Singapore Capital Markets Committee of the Monetary Authority of Singapore in January 2014. Kai is

also Chairman of Prudential Corporation Asia Limited, a subsidiary of the Company.

Anthony Nightingale CMG SBS JP, 68

Non-executive Director

Appointment: June 2013

Committees: Remuneration (Chair) and Nomination

Relevant skills and experience

Anthony was Managing Director of the Jardine Matheson Group from 2006 to 2012. He joined that Group in 1969 and held a number of senior positions before joining the Board of Jardine Matheson Holdings in 1994.

Other appointments

Anthony is now a non-executive director of Jardine Matheson Holdings and of other Jardine Matheson group companies. These include Dairy Farm, Hongkong Land, Jardine Cycle & Carriage, Jardine Strategic and Mandarin Oriental. Anthony is also a commissioner of Astra International and a non-executive director of Schindler Holding Limited, Vitasoy International Holdings Limited and Shui On Land Limited. He is a Hong Kong representative to the APEC Business Advisory Council and Chairman of The Hong Kong-APEC Trade Policy Study Group. He is also a member of the Securities and Futures Commission Committee on Real Estate Investment Trusts, a council member of the Employers Federation of Hong Kong, a member of the UK-ASEAN Business Council Advisory Panel and a non-official member of the Commission on Strategic Development in Hong Kong.

Alice Schroeder, 59

Non-executive Director

Appointment: June 2013

Committees: Audit

Relevant skills and experience

Alice began her career as a qualified accountant at Ernst & Young in 1980 where she worked for 11 years before leaving to join the Financial Accounting Standards Board as a manager. From September 1993 she worked at various investment banks leading teams of analysts specialising in property-casualty insurance before joining Morgan Stanley, where she became a Managing Director in 2001 heading the Global Insurance Equity Research team. In May 2003 Alice became a senior adviser at Morgan Stanley leaving in November 2009. Alice was an independent board member of the Cetera Financial Group until April 2014. She is author of the official biography of Warren Buffett.

Other appointments

Alice is a non-executive director of Bank of America Merrill Lynch International, CEO and Chairman of WebTuner Corp. and a member of WomenCorporateDirectors.

Lord Turner, 60

Non-executive Director

Appointment: September 2015

Committees: Risk

Relevant skills and experience

Lord Turner began his career with McKinsey & Co, where he advised companies across a range of industries. He has served as Director-General of the Confederation of British Industry, Vice-Chairman of Merrill Lynch Europe, Chairman of the Pensions Commission and as a non-executive director of Standard Chartered Bank. Lord Turner was Chairman of the UK s Financial Services Authority (FSA), a member of the international Financial Stability Board and a non-executive director of the Bank of England between 2008 and 2013.

Other appointments

Lord Turner has been a crossbench member of the House of Lords since 2005. He is also a non-executive director of OakNorth Bank, Chairman of the Institute for New Economic Thinking, a Visiting Professor at both the London School of Economics and the Cass Business School, and a Visiting Fellow at Nuffield College, Oxford University.

Other Executive Officers

The heads of Prudential s business units, Prudential UK & Europe, M&G, Jackson National Life Insurance Company and Prudential Corporation Asia, are also directors of Prudential as set forth above. For information relating to the compensation paid or accrued to all Prudential directors see Item 6, Compensation .

Compensation

Summary of Directors remuneration policy

The Company s Directors remuneration policy was approved by shareholders at the 2014 AGM. This policy came into effect following the AGM on 15 May 2014 and will apply for a period of three years unless shareholders approve a revised policy within that time.

The pages that follow present a summary of the Directors remuneration policy.

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Remuneration for Executive Directors

	Element	Operation	Opportunity
Fixed Pay	Salary	The Committee reviews salaries annually, considering factors such as: Salary increases for all employees; The performance and experience of the executive; Group or business unit financial performance; Internal relativities; and Economic factors such as inflation Market data is also reviewed so that salaries remain a competitive range relative to each Executive Director s local market.	Annual salary increases for Executive Directors will normally be in line with the increases for other employees across our business units. However, there is no prescribed maximum annual increase.
	Benefits	Executive Directors are offered benefits which reflect their individual circumstances and are competitive within their local market, including: Health and wellness benefits; Protection and security benefits; Transport benefits; Family and education benefits; All employee share plans and savings plans; and Relocation and expatriate benefits.	The maximum paid will be the cost to the Company of providing benefits. The cost of benefits may vary from year to year but the Committee is mindful of achieving the best value from providers.
	Provision for an income in retirement	Current executives have the option to: Receive payments into a defined contribution scheme, and/ or Take a cash supplement in lieu of contributions. Jackson s Defined Contribution Retirement Plan has a guaranteed element (6 per cent of pensionable salary) and additional contributions (up to a further 6 per cent of pensionable salary) based on the profitability of JNL.	Executive Directors are entitled to receive pension contributions or a cash supplement (or combination of the two) up to a total of 25 per cent of base salary. In addition, the Chief Executive, PCA receives statutory contributions into the Mandatory Provident

			Fund.
Variable pay	Annual bonus	Currently all Executive Directors participate in the Annual Incentive Plan (AIP). AIP awards for all Executive Directors are subject to the achievement of financial and personal objectives. Business unit chief executives either have measures of their business unit s financial performance in the AIP or they may participate in a business unit specific bonus plan. For example, the President and CEO, JNL currently participates in the Jackson Senior Management Bonus Pool as well as in the AIP. The financial measures used for the annual bonus will typically include profit, cash and capital adequacy. Jackson s profitability and other key financial measures determine the value of the Jackson Senior Management Bonus Pool. In specific circumstances, the Committee also has the power to recover all (or part of) bonuses for a period after they are awarded to executives. These clawback powers apply to the cash and deferred elements of 2015 and subsequent bonuses made in respect of performance in 2015 and subsequent years.	The Chief Executive, M&G has a bonus opportunity of the lower of six times salary or 0.75 per cent of M&G s IFRS profit. For other Executive Directors the maximum AIP opportunity is up to 200 per cent of salary. Annual awards are disclosed in the relevant annual report on remuneration. In addition to the AIP, the President & CEO, JNL receives a ten per cent share of the Jackson Senior Management Bonus Pool.
	Deferred bonus shares	Executive Directors are required to defer a percentage (currently 40 per cent) of their total annual bonus into Prudential shares for three years. The release of awards is not subject to any further performance conditions. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding deferred award in specific circumstances. From 2015 and future awards, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).	The maximum vesting under this arrangement is 100 per cent of the original deferral plus accrued dividend shares.

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	Element	Operation	Opportunity
	Prudential Long Term Incentive Plan	Currently all Executive Directors participate in the Prudential Long Term Incentive Plan (PLTIP). The PLTIP has a three-year performance period. Vesting of outstanding awards is dependent on: Relative TSR (50 per cent of award); and Group IFRS profit (50 per cent of award); or Business unit IFRS profit (50 per cent of award). The performance measures attached to each award are dependent on the role of the executive and will be disclosed in the relevant annual report on remuneration. The Chief Executive, M&G s PLTIP awards are subject only to the TSR performance condition as the IFRS profit of M&G is a performance condition under the M&G Executive LTIP. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and future awards, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).	The value of shares awarded under the PLTIP (in any given financial year) may not exceed 550 per cent of the executive s annual basic salary. Awards made in a particular year are usually significantly below this limit and are disclosed in the relevant annual report on remuneration. The Committee would consult with major shareholders before increasing award levels during the life of this policy. The maximum vesting under the PLTIP is 100 per cent of the original share award plus accrued dividend shares.
	M&G Executive LTIP	The Chief Executive, M&G currently receives awards under this plan. He receives an annual award of phantom shares each with a notional starting share price of £1. The phantom share price at vesting is currently determined by M&G s profitability, with profit and investment performance adjustments, over the three year performance period. Awards are settled in cash. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and future awards, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).	The Chief Executive, M&G receives an award with an initial value of 300 per cent of salary under this plan. Maximum vesting is 100 per cent of the number of phantom shares originally awarded.
Share ownership guidelines	The guidelines for share ownership are as follows: 350 per cent of salary for the Group Chief Executive; and 200 per cent of salary for other Executive Directors.		

Executives have five years from the implementation of these increased guidelines (or from the date of their appointment, if later) to build this level of ownership.

The full policy sets out the Committee s powers in respect of Executive Directors joining or leaving the Board, where a change in performance conditions is appropriate or in the case of corporate transactions (such as a takeover, merger or Rights Issue). The policy also describes legacy long-term incentive plans under which some Executive Directors continue to hold awards.

Remuneration for Non-Executive Directors and the Chairman

	Fees	**Benefits**	**Share ownership guidelines**
Non-executive Directors	All Non-executive Directors receive a basic fee for their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of committees or acting as the Senior Independent Director. Fees are paid to non-executives in cash. Fees are reviewed annually by the Board with any changes effective from 1 July. If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.	Travel and expenses for Non-executive Directors are incurred in the normal course of business, for example in relation to attendance at Board and Committee meetings. The costs associated with these are all met by the Company.	It is expected that Non-executive Directors will hold shares with a value equivalent to one times the annual basic fee (excluding additional fees for chairmanship and membership of any committees). Non-executive Directors are expected to attain this level of share ownership within three years of their appointment.

	Fees	Benefits	Share ownership guidelines
Non-executive Chairman	The Chairman receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of time. Fees will otherwise be reviewed annually with any changes effective from 1 July. The Chairman is not eligible to participate in annual bonus plans or long-term incentive plans.	The Chairman may be offered benefits including: Health and wellness benefits Protection and security benefits Transport benefits; and Relocation and expatriate benefits (where appropriate) The Chairman is not eligible to receive a pension allowance or to participate in the Group s employee pension schemes.	The Chairman has a share ownership guideline of one times his annual fee and is expected to attain this level of share ownership within five years of the date of his appointment.

In setting the Directors remuneration policy, the Committee considers a range of factors including:

Conditions elsewhere in the Company

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit s salary increase budget is set with reference to local market conditions. The Remuneration Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

Prudential does not consult with employees when setting the Directors remuneration policy; Prudential is a global organisation with employees, and agents in multiple business units and geographies. As such, there are practical challenges associated with consulting with employees directly on this matter. As many employees are also shareholders, they are able to participate in binding votes on the Directors remuneration policy and annual votes on the annual report on remuneration.

Shareholder views

The Remuneration Committee and the Company undertake regular consultation with key institutional investors on the Directors remuneration policy and its implementation. This engagement is led by the Remuneration Committee Chairman and is an integral part of the Company s investor relations programme. The Committee is grateful to shareholders for their feedback and takes this into account when determining executive remuneration.

Remuneration in respect of performance in 2015

Base salary

Executive Directors salaries were reviewed in 2014 with changes effective from 1 January 2015. When the Committee took these decisions it considered:

- The salary increases awarded to other employees;
- The performance and experience of each executive;
- The relative size of each Director s role; and
- The performance of the Group.

Salary increases for the wider workforce vary across our business units, reflecting local market conditions; in 2015 salary budgets increased between 2.5 per cent and 5 per cent for the wider workforce.

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To provide context for this review, information was also drawn from the following market reference points:

Executive	Role	Benchmark(s) used to assess remuneration
Pierre-Olivier Bouée	Group Chief Risk Officer	- FTSE 40
		- FTSE 40
Jackie Hunt	Chief Executive, UK & Europe	
		- International Insurance Companies
		- McLagan UK Investment Management Survey
Michael McLintock	Chief Executive, M&G	
		- International Insurance Companies
		- FTSE 40
Nic Nicandrou	Chief Financial Officer	
		- International Insurance Companies
Barry Stowe	Chief Executive, PCA	- Towers Watson Asian Insurance Survey
		- FTSE 40
Tidjane Thiam	Group Chief Executive	
		- International Insurance Companies
		- Towers Watson US Financial Services Survey
Mike Wells	President & CEO, JNL	
		- LOMA US Insurance Survey

As reported in last year s report, after careful consideration the Committee decided to increase salaries by 3 per cent for all Executive Directors, other than the Chief Executive, Prudential Corporation Asia, whose salary was increased by 5 per cent to reflect the inflationary environment in Asia.

The Committee also approved changes to 2015 incentive opportunities for two Executive Directors: the Chief Executive, Prudential Corporation Asia s maximum AIP and LTIP awards were increased to 180 per cent and 250 per cent of salary, respectively. This reflects the importance of Prudential Corporation Asia s strategic initiatives which are crucial to the achievement of Group wide objectives. The Chief Executive, Prudential UK & Europe s maximum AIP and LTIP awards were increased to 175 per cent and 250 per cent of salary, respectively. This reflects the fact that the scope of the incumbent s role had increased due to the Group s expansion into Africa. Additionally, this reflects the ambition of the UK & Europe business as it relates to the Group s growth and cash ambitions.

Executive	2014 salary	2015 salary
Pierre-Olivier Bouée	£630,000	£649,000
Jackie Hunt	£644,000	£664,000
Michael McLintock	£382,000	£394,000
Nic Nicandrou	£682,000	£703,000
Barry Stowe[1]	HK$8,490,000	HK$8,920,000
Tidjane Thiam	£1,061,000	£1,093,000
Mike Wells[2]	US$1,114,000	US$1,148,000

Notes

1 Barry Stowe was appointed Chairman & CEO, NABU on 1 June 2015. The annualised 2015 salary above was paid in respect of his service as Chief Executive, PCA.

2 Mike Wells was appointed Group Chief Executive on 1 June 2015. The annualised 2015 salary above was paid in respect of his service as President & CEO, JNL.

Penny James was appointed to the Board as Group Chief Risk Officer on 1 September 2015 with a salary of £600,000 and Tony Wilkey was appointed to the Board as Chief Executive, PCA on 1 June 2015 with a salary of HK$8,800,000. On his promotion to Group Chief Executive on 1 June 2015, Mike Wells s salary was £1,070,000 and on appointment as Chairman & CEO, NABU, on 1 June 2015, Barry Stowe s salary was US$1,100,000.

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Annual bonus

2015 annual bonus opportunities

Executive Directors bonus opportunities, the weighting of performance measures for 2015 and the proportion of annual bonuses deferred are set out below:

			Weighting of measures		
			Financial measures		
Executive	Maximum AIP opportunity (% of salary)	Deferral requirement	Group	Business Unit	Personal objectives
Pierre-Olivier Bouée[1]	160%	40% of total bonus	50%	-	50%
Jackie Hunt[2]	175%	40% of total bonus	20%	60%	20%
Penny James[3]	160%	40% of total bonus	50%	-	50%
Michael McLintock[4]	600%	40% of total bonus	20%	60%	20%
Nic Nicandrou	175%	40% of total bonus	80%	-	20%
Barry Stowe[5]	160%	40% of total bonus	80%	-	20%
Tidjane Thiam[6]	200%	40% of total bonus	80%	-	20%
Mike Wells[7]	200%	40% of total bonus	80%	-	20%
Tony Wilkey[8]	180%	40% of total bonus	20%	60%	20%

Notes

1 Pierre-Olivier Bouée stepped down from the Board on 31 May 2015. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director but no bonus was paid.

2 Jackie Hunt stepped down from the Board on 3 November 2015. The maximum bonus opportunity shown represents her annual opportunity as an Executive Director.

3 Penny James was appointed to the Board on 1 September 2015. The maximum bonus opportunity shown represents her annual opportunity as an Executive Director this was pro-rated for the portion of the year for which she was an executive director.

4 Michael McLintock s annual bonus opportunity in 2015 was the lower of 0.75 per cent of M&G s IFRS profit and six times annual salary. M&G s IFRS profit in 2015 was £473.2 million.

5 Barry Stowe was Chief Executive, PCA until 31 May 2015 and was appointed Chairman & CEO, NABU on 1 June 2015. The maximum opportunity shown represents his annual opportunity in his current role this was pro-rated for the portion of the year he was in this role and he also receives a pro-rated AIP in respect of the portion of the year he was Chief Executive, PCA. In addition to the AIP, he receives 10 per cent share of the Jackson Senior Management Bonus Pool pro-rated for the period he was in his current role. This is determined by the financial performance of Jackson.

6 Tidjane Thiam stepped down from the Board on 31 May 2015. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director this was pro-rated for the portion of the year for which he was an Executive Director.

7 Mike Wells was President & CEO, Jackson until 31 May 2015 and was appointed Group Chief Executive on 1 June 2015. The maximum opportunity shown represents his annual opportunity in his current role this was pro-rated for the portion of the year he was in this role and he also receives a pro-rated AIP in respect of the portion of the year

he was President & CEO, Jackson. In addition to the AIP, he received 10 per cent share of the Jackson Senior Management Bonus Pool pro-rated for the period he was in that role. This is determined by the financial performance of Jackson.

8 Tony Wilkey was appointed to the Board on 1 June 2015. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director this was pro-rated for the portion of the year for which he was an Executive Director.

2015 AIP performance measures and achievement

Financial performance

The financial performance measures set for 2015 are shown below. Prior to the start of the year, the Committee set stretching performance ranges for each of these measures in line with the Group s business plan targets. The Committee reviewed performance against these ranges at its meeting in February 2016; in all of our bonus performance metrics, other than the new measure of ECap surplus, the Group s 2015 results exceeded its stretch plan targets.

The Committee also considered a report from the Group Chief Risk Officer which confirmed that these results were achieved within the Group s and business units risk appetite and framework. The Group Chief Risk Officer also considered the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The Group Chief Risk Officer s recommendations were taken into account by the Committee when determining AIP outcomes for Executive Directors.

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The performance measures, their weightings and the achievement compared to the performance range, is illustrated below. The performance range (the levels of performance required for threshold and maximum bonuses to be paid) for the 2015 Group financial measures will be disclosed in the 2016 report.

Personal performance

As set out in the Directors remuneration policy, a proportion of the annual bonus for each Executive Director is based on the achievement of personal objectives. These objectives include the Executive s contribution to Group strategy as a member of the Board and specific goals related to their functional and/or business unit role. Performance against these objectives was assessed by the Committee at its meeting in February 2016.

2015 Annual Incentive Plan payments

On the basis of the strong performance of the Group and its business units, and the Committee s assessment of each executive s personal performance, the Committee determined the following 2015 AIP payments:

Executive	**Role**	**2015 salary***	**Maximum 2015 AIP**	**2015 AIP payment (% of maximum)**	**2015 AIP payment**
Pierre-Olivier Bouée[1]	Group Chief Risk Officer	£649,000	160%	0%	£nil
Jackie Hunt[2]	Chief Executive, UK & Europe	£664,000	175%	89.4%	£1,039,160
Penny James	Group Chief Risk Officer	£600,000	160%	99.3%	£317,740
Michael McLintock	Chief Executive, M&G	£394,000	600%	90.0%	£2,127,600
Nic Nicandrou	Chief Financial Officer	£703,000	175%	99.5%	£1,223,782
Barry Stowe	Chairman & CEO, NABU	US$1,100,000	160%	99.5%	US$1,021,277
	Chief Executive, PCA	HK$8,920,000	180%	95.9%	HK$6,413,852
Tidjane Thiam[3]	Group Chief Executive	£1,093,000	200%	77.3%	£703,857
Mike Wells	Group Chief Executive	£1,070,000	200%	99.7%	£1,244,214
	President & CEO, JNL	US$1,148,000	160%	99.7%	US$762,846
Tony Wilkey	Chief Executive, PCA	HK$8,800,000	180%	95.9%	HK$8,858,593

* (at 31 December 2015 or stepping down from the Board if earlier)

Notes

1 Pierre-Olivier Bouée stepped down from the Board on 31 May 2015 and no bonus was paid.
2 Jackie Hunt stepped down from the Board on 3 November 2015. The bonus shown above was paid in respect of her service as an Executive Director. Please see the Payments to past Directors section for details.
3 Tidjane Thiam stepped down from the Board on 31 May 2015. The bonus shown above was paid in respect of his service as an Executive Director. Please see the Payments to past Directors section for details.
4 Where individuals joined the Board during the year, or their roles changed during the year, the bonus paid reflected the time they spent as Executive Directors in their respective roles.

2015 Jackson bonus pool

In 2015 the Jackson bonus pool was determined by Jackson s profitability, capital adequacy, remittances to Group, in-force experience, ECap solvency ratio and credit rating. Across all of these measures Jackson delivered strong performance and exceeded prior year performance. As a result of this performance the Committee determined that Mike Wells s share of the bonus pool would be US$2,261,250 and Barry Stowe s share of the bonus pool would be US$3,165,750.

Disclosure of targets and achievement for the 2014 Annual Incentive Plan

The Group s financial performance range and the results achieved in respect of the 2014 Annual Incentive Plan are disclosed below. The Board believe that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

Remuneration in respect of performance in 2015

Long-term incentive plans with performance periods ending on 31 December 2015

Our long-term incentive plans have stretching performance conditions which are aligned to the strategic priorities of the Group. In deciding the portion of the awards to be released, the Committee considered actual financial results against these performance targets. The Committee also reviewed underlying Company performance to ensure vesting levels were appropriate. The Directors remuneration policy contains further details of the design of Prudential s long-term incentive plans.

Further details may also be found in note B3.2 to the consolidated financial statements in Item 18.

Prudential Long-Term Incentive Plan (PLTIP) and Group Performance Share Plan (GPSP)

In 2013, all Executive Directors were made awards under the PLTIP or GPSP. The awards were subject to challenging targets. The weightings of these measures are detailed in the table below.

	Weighting of measures	
Executive	Group TSR[1]	IFRS profit (Group or business unit)[2]
Michael McLintock	100%	-
Jackie Hunt	50%	50% (business unit target)
Barry Stowe	50%	50% (business unit target)
Mike Wells	50%	50% (business unit target)
All other Executive Directors		50% (Group)

Notes

1 Group TSR is measured on a ranked basis over three years relative to peers.
2 IFRS profit is measured on a cumulative basis over three years.

Under the Group TSR measure, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. The peer group for the awards is:

Aegon	Aflac	AIA	AIG
Allianz	Aviva	AXA	Generali
Legal & General	Manulife	MetLife	Munich Re
Old Mutual	Prudential Financial	Standard Life	Sun Life Financial

Swiss Re	Zurich Insurance Group

Prudential s TSR performance during the performance period (1 January 2013 to 31 December 2015) was in the upper quartile of the peer group above (ranked 5). The portion of the awards related to TSR therefore vested in full.

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Under the IFRS measure, 25 per cent of the award vests for meeting the threshold IFRS profit set at the start of the performance period increasing to full vesting for performance at or above the stretch level. The table below illustrates the cumulative performance achieved over 2013 to 2015 compared to the Group targets set in 2013:

Group	**Cumulative target (2013-15)**	**Cumulative achievement (2013-15)**	**Overall vesting**
IFRS Operating Profit	£8,329m	£10,147m	100%

The Committee determined that the cumulative IFRS operating profit target established for the PLTIP should be expressed using exchange rates consistent with our reported disclosures. All the individual business units exceeded their stretch performance target and achieved 100% vesting, other than Asia which exceeded plan performance, but not stretch performance, and therefore vested at 95%. The individual business unit IFRS targets have not been disclosed as the Committee considers that these are commercially sensitive and disclosure of targets at such a granular level would put the Company at a disadvantage compared to its competitors. The Committee will keep this disclosure policy under review based on whether, in its view, disclosure would compromise the Company s competitive position.

M&G Executive Long-Term Incentive Plan

The phantom share price at vesting for the 2013 M&G Executive Long-Term Incentive Plan award is determined by the increase or decrease in M&G s profitability over the three-year performance period with adjustments for the investment performance of its funds. M&G performance and the resulting phantom share price for Michael McLintock are shown below:

Award	3-year profit growth of M&G	3-year investment performance	2015 Phantom share price	Value of awards vesting
2013 M&G Executive LTIP	36%	2nd quartile	£ 1.79	£ 1,991,196

Prudential Corporation Asia Long-Term Incentive Plan

Tony Wilkey received awards under the Prudential Corporation Asia Long-Term Incentive Plan before he was appointed to the Board, which vested during 2015. The Prudential Corporation Asia Long-Term Incentive Plan does not have performance conditions.

2015 LTIP vesting

On the basis of the performance of the Group and its business units, and the Committee s assessment that the awards should vest, the vesting of each executive s LTIP awards are set out below.

Executive	Maximum value of award at full vesting[1]	Percentage of the LTIP award vesting	Number of shares vesting[5]	Value of shares vesting[1]
Pierre-Olivier Bouée[2]	£ 500,638	69.4%	22,993	£ 347,654
Jackie Hunt[2]	£ 1,922,024	100%	127,118	£ 1,922,024

Penny James	£	409,994	100%	27,116	£	409,994
Michael McLintock[3]	£	760,158	100%	50,275	£	760,158
Nic Nicandrou	£	1,995,522	100%	131,979	£	1,995,522
Barry Stowe	£	2,124,954	97.5%	68,952	£	2,071,801
Tidjane Thiam[2]	£	5,552,986	66.7%	244,840	£	3,701,981
Mike Wells	£	4,426,975	100%	147,335	£	4,426,975
Tony Wilkey[4]	£	1,750,647	97.5%/100%	118,132	£	1,740,350

Notes

1 Other than for Tony Wilkey s award which vested on 14 September 2015, the share price used to calculate the value of the LTIP awards which vest in 2016 was the average share price/ADR price for the three months up to 31 December 2015, being £15.12/£30.05.

2 Pierre-Olivier Bouée, Jackie Hunt and Tidjane Thiam left the Board during 2015. For details of arrangements in respect of their long-term incentive awards, please see the Payments to Past Directors section.

3 This does not include the vesting of Michael McLintock s M&G Executive Long-Term Incentive Plan award.

4 Tony Wilkey s awards include an award which vested on 14 September 2015 (the share price on that date was £13.85) in addition to the awards which vest in 2016.

5 The number of shares vesting include accrued dividend shares.

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Malus and clawback policy

During the year the Committee adopted a clawback policy that applies to Executive Directors and members of the GEC. A summary of both this policy and the malus policy is set out below.

	Circumstances when the Committee may exercise its discretion to apply malus or clawback to an award
Malus (applies in respect of any annual bonus or long-term incentive award) Allows unvested shares awarded under deferred bonus and LTIP plans to be forfeited in certain circumstances.	Where a business decision taken during the performance period by the participant s business unit at the time of the decision has resulted in a material breach of any law, regulation, code of practice or other instrument which applies to companies or individuals within the business unit. There is a materially adverse restatement of the accounts for any year during the performance period of (i) the business unit in which the participant worked at any time in that year; and/or (ii) any member of the Group which is attributable to incorrect information about the affairs of that business unit. Any matter arises which the Committee believes affects or may affect the reputation of the Company or any member of the Group.
Clawback (applies in respect of any annual bonuses paid in respect of performance in 2015 and subsequent years, and the deferred portions of these bonuses. Also applies to long-term incentive awards made on or after 1 January 2015) Allows cash and share awards to be recovered before or after release in certain circumstances.	Where at any time before the fifth anniversary of the start of the performance period, either (i) there is a materially adverse restatement of the Company s published accounts in respect of any financial year which (in whole or part) comprised part of the performance period; or (ii) it becomes apparent that a material breach of a law or regulation took place during the performance period which resulted in significant harm to the Company or its reputation. And the Committee considers it appropriate, taking account of the extent of the participants responsibility for the relevant restatement or breach, that clawback be applied to the relevant participant.

Pension entitlements

Pension provisions in 2015 were:

Executive	2015 pension arrangement	Life assurance provision
	As Chief Executive, PCA: pension supplement in lieu of pension of 25 per cent of salary and a HK$15,000 payment to the Hong Kong Mandatory Provident Fund.	As Chief Executive, PCA, four times salary
Barry Stowe	As Chairman & CEO, NABU: pension supplement of 25 per cent of salary, part of which is paid as a contribution to an approved US retirement plan.	As Chairman & CEO, NABU, two times salary
Tony Wilkey	Pension supplement in lieu of pension of 25 per cent of salary and a HK$10,500 payment to the Hong Kong Mandatory Provident Fund.	Four times salary

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Executive	2015 pension arrangement	Life assurance provision
	Mike Wells did not qualify for matching contributions when he was Chairman & Chief Executive, Jackson, as he was not in that role for the qualifying period during 2015.	
Mike Wells	As Group Chief Executive: pension supplement in lieu of pension of 25 per cent of salary.	As Group Chief Executive: four times salary plus a dependants pension
All other UK-based executives	Pension supplement in lieu of pension of 25 per cent of salary.	Up to four times salary plus a dependants pension

Michael McLintock previously participated in a contributory defined benefit scheme which was open at the time he joined the Company. The scheme provided a target pension of two thirds of final pensionable earnings on retirement for an employee with 30 years or more potential service who remained in service to Normal Retirement Date. He is now a deferred member of the scheme. Mr McLintock s Normal Retirement Date under the scheme is age 60, should he claim his deferred pension before this age it will be subject to an actuarial reduction. There are no additional benefits payable should Mr McLintock retire early.

At the end of 2015 the transfer value of this entitlement was £1,462,621. This equates to an annual pension of £59,686 which will increase broadly in line with inflation in the period before Mr McLintock s retirement.

Table of 2015 Executive Director total remuneration The Single Figure

£000 s	2015 salary	2015 taxable benefits*	2015 total bonus	*Of which:* *Amount paid in cash*	*Amount deferred into Prudential shares***	2015 LTIP releases	2015 pension benefits	**Total 2015 remuneration The Single Figure §**
Pierre-Olivier Bouee[1]	270	38	-	-	-	348	68	**724**
Jackie Hunt[2]	557	76	1,039	623	416	1,922	139	**3,733**
Penny James[3]	200	21	318	191	127	410	50	**999**
Michael McLintock	394	71	2,128	1,277	851	2,751	98	**5,442**
Nic Nicandrou[4]	703	377	1,224	734	490	1,996	176	**4,476**
Barry Stowe[5]	729	558	3,281	1,969	1,312	2,072	188	**6,828**
Tidjane Thiam[6]	455	44	704	422	282	3,702	114	**5,019**
Mike Wells[7]	942	1,283	3,223	1,934	1,289	4,427	156	**10,031**
Tony Wilkey[8]	433	402	748	449	299	1,740	109	**3,432**
Total	**4,683**	**2,870**	**12,665**	**7,599**	**5,066**	**19,368**	**1,098**	**40,684**

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

** The deferred part of the bonus is subject to malus and clawback in accordance with the Malus and Clawback policies.

In line with the regulations, the estimated value of LTIP releases in 2016 has been calculated based on the average share/ADR price over the last three months of 2015 (£15.12/£30.05). The actual value of LTIPs, based on the share price on the date awards are released, will be shown in the 2016 report.

2015 pension benefits include cash supplements for pension purposes and contributions into DC schemes as outlined on the previous page.

§ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act.

Notes

1 Pierre-Olivier Bouée stepped down from the Board on 31 May 2015. The remuneration above was paid in respect of his service as an Executive Director.

2 Jackie Hunt stepped down from the Board on 3 November 2015. The remuneration shown above was paid in respect of her service as an Executive Director.

3 Penny James was appointed to the Board on 1 September 2015. The remuneration above was paid in respect of her service as an Executive Director, other than the LTIP releases which related to her previous role.

4 Nic Nicandrou s 2015 benefits relate primarily to a legacy relocation clause in his contract agreed on his appointment and disclosed in the 2009 Annual Report. The figure includes costs of £243,750 to cover stamp duty.

5 Barry Stowe s 2015 benefits relate primarily to his expatriate status while he was located in Hong Kong in his previous role as Chief Executive, PCA, including costs of £139,405 for housing, £62,586 home leave and a £152,978 Executive Director Location Allowance. In addition, to facilitate his move back to the US, his benefits include relocation support including costs of £110,101 for relocation, shipping and tax return preparation. His bonus figure excludes a contribution of £10,404 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2015 pension benefits.

6 Tidjane Thiam stepped down from the Board on 31 May 2015. The remuneration shown above was paid in respect of his service as an Executive Director.

7 To facilitate his move to the UK, Mike Wells s benefits include relocation support including an allowance of £200,000 for relocation and shipping, £177,890 for temporary accommodation, £513,750 to cover stamp duty and £56,604 to cover mortgage interest.

8 Tony Wilkey was appointed to the Board on 1 June 2015. The remuneration above was paid in respect of his service as an Executive Director, other than the LTIP releases which related to his previous role. Tony Wilkey s 2015 benefits include costs of £140,134 for housing and a £214,169 Executive Director Location Allowance.

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Table of 2014 Executive Director total remuneration The Single Figure

£000 s	2014 salary	2014 taxable benefits*	2014 total bonus	Of which: *Amount paid in cash*	Of which: *Amount deferred into Prudential shares***	2014 LTIP releases	2014 pension benefits	Total 2014 remuneration The Single Figure §
Pierre-Olivier Bouee[1]	473	75	752	*451*	*301*	886	118	**2,304**
John Foley[2]	162	24	255	*153*	*102*	3,740	41	**4,222**
Jackie Hunt	644	163	1,016	*610*	*406*	1,687	161	**3,671**
Michael McLintock	382	94	2,292	*1,375*	*917*	2,865	96	**5,729**
Nic Nicandrou	682	96	1,186	*712*	*474*	3,488	171	**5,623**
Barry Stowe[3]	665	710	1,046	*628*	*418*	3,394	169	**5,984**
Tidjane Thiam	1,061	132	2,122	*1,273*	*849*	9,838	265	**13,418**
Mike Wells[4]	676	58	4,348	*2,609*	*1,739*	7,292	19	**12,393**
Total	**4,745**	**1,352**	**13,017**	**7,811**	**5,206**	**33,190**	**1,040**	**53,344**

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

** The deferred part of the bonus is subject to malus in accordance with the Malus and Clawback policies.

In line with the regulations, the value of the LTIP releases has been re-calculated based on the closing share/ADR price on the date awards were released, 30 March 2015 (£16.97/£33.09). The value also includes the cash payment relating to the final dividend declared in March 2015, approved at the AGM and paid after the vesting date.

2014 pension benefits include cash supplements for pension purposes and contributions into DC schemes.

§ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act.

Notes

1 Pierre-Olivier Bouée was appointed to the Board on 1 April 2014. The remuneration above was paid in respect of his service as an Executive Director.

2 John Foley stepped down from the Board on 1 April 2014. The remuneration above was paid in respect of his service as an Executive Director.

3 Barry Stowe s 2014 benefits relate primarily to his expatriate status, including costs of £217,393 for housing, £18,272 for children s education, £76,319 for home leave and a £340,473 Executive Director Location Allowance.

4 Mike Wells s bonus figure excludes a contribution of £9,469 from a profit sharing plan which has been made into a 401(k) retirement plan. This is included under 2014 pension benefits.

Performance graph and table

The chart below illustrates the TSR performance of Prudential, the FTSE 100 and the peer group of international insurers used to benchmark the Company s performance for the purposes of the PLTIP.

Note

The peer group average represents the average TSR performance of the peer group currently used for PLTIP awards (excluding companies not listed at the start of the period).

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The information in the table below shows the total remuneration for the Group Chief Executive over the same period:

£000	2009	2009	2010	2011	2012	2013	2014	2015	2015
Group Chief Executive	M Tucker	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	M Wells
Salary, pension and benefits	1,013	286	1,189	1,241	1,373	1,411	1,458	613	1,992
Annual bonus payment	841	354	1,570	1,570	2,000	2,056	2,122	704	1,244
(As% of maximum)	(92%)	(90%)	(97%)	(97%)	(100%)	(99.8%)	(100%)	(77.3%)	(99.7%)
LTIP vesting	1,575	-	2,534	2,528	6,160	5,235	9,838	3,702	4,427
(As% of maximum)	(100%)	-	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)
Other payments	308	-	-	-	-	-	-	-	-
Group Chief Executive Single Figure of total remuneration	3,737	640	5,293	5,339	9,533	8,702	13,418	5,019	7,663

Notes

1 Mark Tucker left the Company on 30 September 2009. Tidjane Thiam became Group Chief Executive on 1 October 2009. The figures shown for Tidjane Thiam s remuneration in 2009 relate only to his service as Group Chief Executive.

2 Tidjane Thiam left the Company on 31 May 2015. Mike Wells became Group Chief Executive on 1 June 2015. The figures shown for Mike Wells s remuneration in 2015 relate only to his service as Group Chief Executive.

Percentage change in remuneration

The table below sets out how the change in remuneration for the Group Chief Executive between 2014 and 2015 compared to a wider employee comparator group:

	Salary	**Benefits**	**Bonus**
Group Chief Executive	1.75%	824.6%	-8.2%
All UK employees	3.3%	17.1%	10%

The employee comparator group used for the purpose of this analysis is all UK employees. This includes employees in the UK Insurance Operations business, M&G and Group Head Office, and reflects the average change in pay for employees employed in both 2014 and 2015. The salary increase includes uplifts made through the annual salary review as well as any additional changes in the year, for example to reflect promotions or role changes. The UK workforce has been chosen as the most appropriate comparator group as it reflects the economic environment for the location in which the Group Chief Executive is employed.

The Group Chief Executive s salary, benefits and bonus percentage change has been calculated by taking the amounts received by both Tidjane Thiam and Mike Wells in this role in 2015 and calculating the percentage increase or decrease from the amount received by Tidjane Thiam in 2014. Mike Wells was required to relocate to London to assume the Group Chief Executive role and the increase in benefits received by the Group Chief Executive role reflects this relocation support.

Relative importance of spend on pay

The table below sets out the amounts payable in respect of 2014 and 2015 on all employee pay and dividends:

	2014	2015	Percentage change
All employee pay (£m)[note]	1,543	1,475	-4.4%
Dividends (£m)	945	1,253	32.6%

Note

All employee pay as taken from note B3.1 to the financial statements.

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Long-term incentives awarded in 2015

2015 share-based long-term incentive awards

The table below shows the awards made to executive directors in 2015 under share based long-term incentive plans and the performance conditions attached to these awards:

						Weighting of performance conditions				
							IFRS profit			
Executive	Role	Number of shares or ADRs subject to award*	Face value* of award*	Percentage of awards released for achieving threshold targets	End of performance period	Group TSR	Group	Asia	US	UK
Pierre-Olivier Bouée	Group Chief Risk Officer	96,119	£ 1,622,489	25%	31 Dec 17	50%	50%			
Penny James[1]	Group Chief Risk Officer	24,348	£ 410,994	25%	31 Dec 17	50%	50%			
Jackie Hunt	Chief Executive, UK & Europe	98,341	£ 1,659,996	25%	31 Dec 17	50%				50%
Michael McLintock[2]	Chief Executive, M&G	35,011	£ 590,986	25%	31 Dec 17	100%				
Nic Nicandrou	Chief Financial Officer	104,117	£ 1,757,495	25%	31 Dec 17	50%	50%			
Barry Stowe[3]	Chief Executive, PCA	56,970	£ 1,881,728	25%	31 Dec 17	50%		50%		
	Chairman & CEO, NABU	25,334	£ 833,637	25%	31 Dec 17	50%			50%	
Tony Wilkey[3,4]	Chief Executive, Insurance, Asia	21,091	£ 712,049	25%	31 Dec 17	50%		50%		
		42,183	£ 356,016	n/a	n/a					
	Chief Executive, PCA	29,008	£473,701	25%	31 Dec 17	50%		50%		
Mike Wells[3]	President & CEO, JNL	104,611	£ 3,455,319	25%	31 Dec 17	50%			50%	
	Group Chief Executive	15,066	£ 495,759	25%	31 Dec 17	50%	50%			

* Awards over shares were awarded to all Executive Directors other than Barry Stowe and Mike Wells whose awards were over ADRs.

** Awards for Executive Directors are calculated based on the average share price over the three dealing days prior to the grant date. Annual awards were granted on 31 March 2015 (using a share price of £16.88 and an ADR price of £33.03) and additional awards were granted on 1 June 2015 (using a share price of £16.33 and an ADR price of £32.91).

The percentage of award released for achieving maximum targets is 100 per cent.

Notes

1 Penny James award was made before she was appointed to the Board.
2 PLTIP awards made to the Chief Executive, M&G are subject only to the TSR performance condition. The IFRS profit of M&G is a performance condition under the M&G Executive LTIP.
3 Barry Stowe, Tony Wilkey and Mike Wells received additional awards following the changes to their roles. These awards were based on a pro-rated total 2015 award in line with their revised salaries using the average share price over the three dealing days prior to the grant date.
4 Tony Wilkey s first two 2015 awards were made before he was appointed to the Board. One award was made under the Prudential LTIP and the other under the PCA LTIP. The latter has no performance conditions. All future awards will be made under the Prudential LTIP.

Group total shareholder return (TSR) performance will be measured on a ranked basis. 25 per cent of the award will vest for TSR performance at the median of the peer group increasing to full vesting for performance at the upper quartile. The peer group for 2015 awards is the same for 2013 awards as detailed on page 200.

Performance ranges for IFRS operating profit measured on a cumulative basis over three years are set at the start of the performance period. Due to commercial sensitivities these are not published in advance but Group targets will be disclosed when awards vest.

2015 cash long-term incentive awards

In addition to his PLTIP award, Michael McLintock receives an annual cash-settled award under the M&G Executive LTIP. In 2015 he received the following award:

Executive	Role	Face value of award (% of salary)	Face value of award	Percentage of award released for achieving threshold target	End of performance period
Michael McLintock	Chief Executive, M&G	300%	£1,182,000	See note	31 Dec 17

Note

The value of the award on vesting will be based on the profitability and investment performance of M&G over the performance period as described in the Directors remuneration policy.

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Non-executive Director remuneration in 2015

Chairman s fees

As reported in last year s report, the annual fee paid to the Chairman, Paul Manduca, was increased from £600,000 to £700,000 with effect from 1 July 2015 to recognise the increased demands of the role. This fee will next be reviewed in 2016.

Non-executive Director fees

An increase of around 1.5 per cent was made to the basic Non-executive Director fee with effect from 1 July 2015. As the fees for membership of the Audit, Remuneration and Risk Committees had remained unchanged since 2011, an increase of ten per cent was made to the membership fee for these Committees. There have been no changes to the Committee Chair or Senior Independent Director fees. The revised fees are shown below:

Annual fees	**From 1 July 2014 (£)**	**From 1 July 2015 (£)**
Basic fee	92,500	94,000
Additional fees:		
Audit Committee Chairman	70,000	70,000
Audit Committee member	25,000	27,500
Remuneration Committee Chairman	60,000	60,000
Remuneration Committee member	25,000	27,500
Risk Committee Chairman	65,000	65,000
Risk Committee member	25,000	27,500
Nomination Committee member	10,000	10,000
Senior Independent Director	50,000	50,000

Note

If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.

The resulting fees paid to Non-executive Directors are:

£000s	**2015 fees**	*2014 fees*	**2015 taxable benefits***	*2014 taxable benefits**	**Total 2015 remuneration: The Single Figure**	*Total 2014 remuneration: The Single Figure*
Chairman						
Paul Manduca	**650**	600	**78**	114	**728**	714

Non-executive Directors						
Howard Davies	**195**	191	**-**	-	**195**	191
Ann Godbehere	**200**	196	**-**	-	**200**	196
Alistair Johnston	**120**	116	**-**	-	**120**	116
David Law[1]	**36**	-	**-**	-	**36**	-
Kai Nargolwala	**146**	141	**-**	-	**146**	141
Anthony Nightingale	**147**	116	**-**	-	**147**	116
Philip Remnant	**206**	201	**-**	-	**206**	201
Alice Schroeder	**120**	116	**-**	-	**120**	116
Lord Turnbull[2]	**70**	186	**-**	-	**70**	186
Lord Turner[3]	**36**	-	**-**	-	**36**	-
Total	**1,926**	1,863	**78**	114	**2,004**	1,977

* Benefits include the cost of providing the use of a car and driver, medical insurance and security arrangements. Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act. The Chairman and Non-executive Directors are not entitled to participate in annual bonus plans or long-term incentive plans.

Notes

1 David Law was appointed to the Board on 15 September 2015.
2 Lord Turnbull retired from the Board on 14 May 2015.
3 Lord Turner was appointed to the Board on 15 September 2015.

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Statement of Directors shareholdings

The interests of Directors in ordinary shares of the Company are set out below. Beneficial interest includes shares owned outright, shares acquired under the Share Incentive Plan and deferred annual incentive awards, detailed in the Supplementary information section. It is only these shares that count towards the share ownership guidelines.

	01/01/2015 (or on date of appointment)	During 2015		31/12/2015 (or on date of retirement)			01/04/2016		Share ownership guideline	
	Total beneficial interest (number of shares)	Number of shares acquired	Number of shares disposed	Total beneficial interest (number of shares)	Number of shares subject to performance conditions	Total interest in shares	Total beneficial interest (number of shares) ¥	Approximate percentage of ordinary shares	Share ownership guideline ° (% of salary/fee)	Beneficial interest as a percentage of basic salary/ basic fees§
Chairman										
Paul Manduca	42,500	-	-	42,500	-	42,500	42,500	0.0017	100%	93%
Executive directors										
Pierre-Olivier Bouée[1]	81,630	74,690	62,747	93,573	249,458	343,031	n/a	n/a	n/a	n/a
Jackie Hunt[2]	86,788	123,458	99,082	111,164	328,881	440,045	n/a	n/a	n/a	n/a
Penny James[3]	14,373	127	-	14,500	79,808	94,308	25,977	0.001	200%	37%
Michael McLintock	443,744	109,687	342,547	210,884	126,185	337,069	195,229	0.0076	200%	819%
Nic Nicandrou	289,809	232,623	257,213	265,219	359,046	624,265	283,268	0.011	200%	578%
Barry Stowe[4]	284,288	231,744	269,376	246,656	410,698	657,354	347,162	0.0135	200%	525%
Tidjane Thiam[5]	690,867	641,139	679,460	652,546	675,334	1,327,880	n/a	n/a	n/a	n/a
Mike Wells[6]	445,580	554,975	535,270	465,285	751,778	1,217,063	532,179	0.0207	350%	666%
Tony Wilkey[7]	152,471	37,121	-	189,592	358,024	547,616	153,386	0.006	200%	391%
Non executive directors										
Howard Davies	8,521	209	-	8,730	-	8,730	8,730	0.0003	100%	142%

Ann Godbehere	15,914	-	-	15,914	-	15,914	15,914	0.0006	100%	259%
Alistair Johnston	10,000	-	-	10,000	-	10,000	10,000	0.0004	100%	163%
David Law[8]	-	3,327	-	3,327	-	3,327	3,327	0.0001	100%	54%
Kaikhushru Nargolwala	50,000	-	-	50,000	-	50,000	70,000	0.0027	100%	814%
Anthony Nightingale	30,000	-	-	30,000	-	30,000	30,000	0.0012	100%	489%
Philip Remnant	5,816	-	-	5,816	-	5,816	6,916	0.0003	100%	95%
Alice Schroeder[9]	2,500	6,000	-	8,500	-	8,500	8,500	0.0003	100%	138%
Lord Turnbull [10]	16,624	-	`-	16,624	-	16,624	n/a	n/a	n/a	n/a
Lord Turner[11]	-	2,000	-	2,000	-	2,000	2,000	0.0001	100%	33%

Further information on share awards subject to performance conditions are detailed in the share-based long-term incentive awards section of the Supplementary information.

°Holding requirement of the Articles of Association (2,500 ordinary shares) must be obtained within one year of appointment to the Board. The increased guidelines for Executive Directors were introduced with effect from January 2013. Executive Directors have 5 years from this date (or date of joining or role change, if later) to reach the enhanced guideline. The guideline for Non-executive Directors was introduced on 1 July 2011. Non-executive Directors have 3 years from their date of joining to reach the guideline.

§ Based on the closing price on 31 December 2015 (£15.31). Where applicable, all Directors are in compliance with the share ownership guideline.

The Company and its directors, chief executives and shareholders have been granted a partial exemption from the disclosure requirements under part XV of the SFO. As a result of this exemption, Directors, chief executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of Directors and chief executives interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Hong Kong Stock Exchange any disclosure of interests notified to it in the United Kingdom.

¥John Foley was appointed to the Board on 19 January 2016. His beneficial ownership on 1 April 2016 was 264,414 ordinary shares, which equates to approximately 0.01 per cent of the Company s issued share capital.

Notes

1 Pierre-Olivier Bouée stepped down from the Board on 31 May 2015. Total interests in shares are shown as at this date.
2 Jackie Hunt stepped down from the Board on 3 November 2015. Total interests in shares are shown as at this date.
3 Penny James was appointed to the Board on 1 September 2015. Total interests in shares are shown from this date.
4 For the 1 January 2015 figure Barry Stowe s beneficial interest in shares is made up of 142,144 ADRs (representing 284,288 ordinary shares), (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 31 December 2015 figure the beneficial interest in shares is made up of 123,328 ADRs (representing 246,656 ordinary shares).
5 Tidjane Thiam stepped down from the Board on 31 May 2015. Total interests in shares are shown as at this date.

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6 For the 1 January 2015 figure Mike Wells s beneficial interest in shares is made up of 222,790 ADRs (representing 445,580 ordinary shares). For the 31 December 2015 figure his beneficial interest in shares is made up of 232,594 ADRs (representing 465,188 ordinary shares) and 97 ordinary shares.
7 Tony Wilkey was appointed to the Board on 1 June 2015. Total interests in shares are shown from this date.
8 David Law was appointed to the Board on 15 September 2015. Total interests in shares are shown from this date.
9 For the 1 January 2015 figure Alice Schroeder s beneficial interest in shares is made up of 1,250 ADRs (representing 2,500 ordinary shares). For the 31 December 2015 figure her beneficial interest in shares is made up of 4,250 ADRs (representing 8,500 ordinary shares).
10 Lord Turnbull stepped down from the Board on 14 May 2015. Total interests in shares are shown as at this date.
11 Lord Turner was appointed to the Board on 15 September 2015.

Outstanding share options

The following table sets out the share options held by the Directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period. No other Directors held shares in any other option scheme.

				Exercise period		Number of options						
	Date of grant	Exercise price (pence)	Market price at 31 Dec 2015 (pence)	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
Pierre-Olivier Bouée	23 Sep 14	1155	1531	01 Dec 17	31 May 18	1,558	-	-	-	-	1,558	-
Jackie Hunt	23 Sep 14	1155	1531	01 Dec 17	31 May 18	1,558	-	-	-	-	-	1,558
Penny James	21 Sep 12	629	1531	01 Dec 15	31 May 16	858	-	-	-	-	-	858
Penny James	22 Sep 15	1111	1531	01 Dec 18	31 May 19	-	1,620	-	-	-	-	1,620
Michael McLintock	23 Sep 14	1155	1531	01 Dec 19	31 May 20	2,622	-	-	-	-	-	2,622
Nic Nicandrou	16 Sep 11	466	1531	01 Dec 16	31 May 17	3,268	-	-	-	-	-	3,268
Nic Nicandrou	23 Sep 14	1155	1531	01 Dec 19	31 May 20	1,311	-	-	-	-	-	1,311
Tidjane Thiam	16 Sep 11	466	1531	01 Dec 14	29 May 15	965	-	965	-	-	-	-
Tidjane Thiam	20 Sep 13	901	1531	01 Dec 16	31 May 17	499	-	-	-	-	499	-
Tidjane Thiam	23 Sep 14	1155	1531	01 Dec 17	31 May 18	1,168	-	-	-	-	1,168	-
Mike Wells	22 Sep 15	1111	1531	01 Dec 18	31 May 19	-	1,620	-	-	-	-	1,620

Notes

1 A gain of £11,880.43 was made by Directors in 2015 on the exercise of SAYE options.

2 No price was paid for the award of any option.
3 The highest and lowest closing share prices during 2015 were 1752 pence and 1330.5 pence respectively.
4 All exercise prices are shown to the nearest pence.
5 Pierre-Olivier Bouée and Tidjane Thiam participated in the plan during their time as Executive Directors and their options lapsed following the cessation of their employment.
6 Jackie Hunt participated in the plan during her time as an Executive Director.

Directors terms of employment and external appointments

The Directors remuneration policy contains further details of the terms included in executive director service contracts. Details of the service contracts of each Executive Director are outlined in the table below.

Subject to the Group Chief Executive s or the Chairman s approval, Executive Directors are able to accept external appointments as Non-executive Directors of other organisations. Fees payable are retained by the executive directors.

	Service contracts			External appointment	
	Date of contract	Notice period to the Company	Notice period from the Company	External appointment during 2015	Fee received in the period the executive director was a Group director
Executive directors					
Pierre-Olivier Bouée[1]	6 August 2013	12 months	12 months	-	-
Jackie Hunt[2]	25 April 2013	12 months	12 months	Yes	£ 25,833
Penny James[3]	13 August 2015	12 months	12 months	Yes	£ 22,333
Michael McLintock	21 November 2001	6 months	12 months	Yes	£ 70,000
Nic Nicandrou	26 April 2009	12 months	12 months	-	-
Barry Stowe	18 October 2006	12 months	12 months	-	-
Tidjane Thiam[4]	20 September 2007	12 months	12 months	Yes	£ 71,700
Mike Wells	21 May 2015	12 months	12 months	-	-
Tony Wilkey[3]	1 June 2015	12 months	12 months	-	-

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Other Directors served on the boards of educational, charitable and cultural organisations without receiving a fee for these services.

Notes

1. Pierre-Olivier Bouée stepped down from the Board on 31 May 2015.
2. Jackie Hunt stepped down from the Board on 3 November 2015.
3. Penny James and Tony Wilkey were appointed to the Board on 1 September 2015 and 1 June 2015 respectively.
4. Tidjane Thiam stepped down from the Board on 31 May 2015.

Letters of appointment of the Chairman and non-executive directors

The Directors remuneration policy contains further details on Non-executive Directors letters of appointment. Details of their individual appointments are outlined below:

Chairman/Non-executive Director	Appointment by the Board	Initial election by shareholders at the AGM	Notice period	Expiration of the current term of appointment
Chairman				
Paul Manduca[1]	15 October 2010	AGM 2011	12 months	AGM 2018
Non-executive Directors				
Philip Remnant	1 January 2013	AGM 2013	6 months	AGM 2016
Howard Davies	15 October 2010	AGM 2011	6 months	AGM 2017
Ann Godbehere[2]	2 August 2007	AGM 2008	6 months	AGM 2016
Alistair Johnston[3]	1 January 2012	AGM 2012	6 months	AGM 2018
David Law	15 September 2015	AGM 2016	6 months	AGM 2019
Kai Nargolwala	1 January 2012	AGM 2012	6 months	AGM 2018
Anthony Nightingale	1 June 2013	AGM 2014	6 months	AGM 2017
Alice Schroeder	10 June 2013	AGM 2014	6 months	AGM 2017
Lord Turner	15 September 2015	AGM 2016	6 months	AGM 2019

Notes

1. Paul Manduca was appointed as Chairman on 2 July 2012.
2. Ann Godbehere was reappointed in 2015 for one year.
3. Alistair Johnston will retire from the Board at the Annual General Meeting on 19 May 2016.

Recruitment arrangements

In making decisions about the remuneration arrangements for those joining the Board, the Committee worked within the Directors remuneration policy approved by shareholders and was mindful of:

- The skills, knowledge and experience that each new Executive Director brought to the Board;
- The need to support the relocation of executives to enable them to assume their roles; and
- Its commitment to honour legacy arrangements.

Appointing high calibre executives to the Board and to different roles on the Board is necessary to ensure the Company is well positioned to develop and implement its strategy and deliver long-term value. As the Company operates in an international market place for talent, the best internal and external candidates are sometimes asked to move location to assume their new roles. Where this happens, the Company will offer relocation support. The support offered will depend on the circumstances of each move but may include shipping services, the provision of temporary accommodation and other housing benefits. Executives may receive support with the preparation of tax returns, but no current Executive Director is tax equalised.

Barry Stowe and Mike Wells changed Board roles during the year. As both these changes resulted in those Executive Directors relocating to enable them to assume their roles, relocation support in line with the approved Directors remuneration policy was provided. Details of this support are included in the notes to the 2015 Single Figure table.

During the year, a relocation payment was made to Nic Nicandrou in line with a commitment made to him when he joined the Company in 2009 (and disclosed in the 2009 annual report on remuneration). Details of this payment are included in the notes to the 2015 Single Figure table.

Penny James and Tony Wilkey were promoted to the Board during the year. Their outstanding share awards under deferred bonus plans and long-term incentives awarded before their appointment to the Board will continue to vest on the normal timescale and subject to the original conditions.

In addition, each of Barry Stowe, Mike Wells and Tony Wilkey received an additional LTIP award following the changes to their roles as detailed in the Long-term incentives awarded in 2015 table.

Payments to past Directors and payments for loss of office

During the year, the Committee considered the application of the Company s payments on loss of office policy. The objective was to ensure that the application of the policy was aligned to individual circumstances and ensure there was no reward for failure. The Committee s approach when exercising its discretion under the policy is to be mindful of the particular circumstance of the departure and the contribution the individual had made to the Group.

Pierre-Olivier Bouée

Pierre-Olivier Bouée stepped down from the Board on 31 May 2015. Pierre-Olivier did not receive a loss of office payment. His remuneration arrangements were in line with the approved Directors remuneration policy and disclosed in stock exchange announcements and the remuneration he received in respect of his services as an Executive Director is set out in the 2015 Single Figure table.

Following his retirement from the Board, Pierre-Olivier received £72,850 in respect of salary, benefits and pension for the period from the date he ceased to be a Director to his termination date on 30 June 2015 in accordance with his contract of employment. His deferred bonus awards will be released in accordance with the plan rules and remain subject to malus provisions. Pierre-Olivier did not receive a 2015 bonus. In line with market practice, the Group paid the professional legal fees incurred by him in respect of finalising his termination arrangements, which amounted to £7,551. In addition, in consideration of agreeing to a confidentiality clause, Pierre-Olivier received £1,000.

The Committee also exercised its discretion in accordance with the approved Directors remuneration policy and determined that Pierre-Olivier should be allowed to retain his unvested PLTIP awards granted in 2013 and 2014, but his PLTIP awards granted in 2015 should lapse. The 2013 and 2014 awards will vest in accordance with the original timetable, remain subject to malus provisions and were pro-rated for service.

Jackie Hunt

Jackie Hunt stepped down from the Board on 3 November 2015. Jackie did not receive a loss of office payment. Her remuneration arrangements were in line with the approved Directors remuneration policy and disclosed in stock exchange announcements and the remuneration she received in respect of her services as an executive director is set out in the 2015 Single Figure table.

Following her retirement from the Board, Jackie received £133,924 in respect of salary, benefits and pension for the period from the date she ceased to be a Director to the end of the year in accordance with her contract of employment. Her deferred bonus awards will be released in accordance with the plan rules and remain subject to malus provisions. In line with market practice, the Group paid the professional legal fees incurred by her in respect of finalising her termination arrangements, which amounted to £17,400.

In addition, recognising her contribution to the Company s success, the Committee determined that Jackie should be awarded a bonus in respect of the 2015 performance year which was calculated in the usual way. Sixty per cent of this bonus will be paid in 2016 and 40 per cent will be deferred in shares for three years, subject to malus and clawback provisions.

The Committee also exercised its discretion in accordance with the approved Directors Remuneration Policy and determined that Jackie should be allowed to retain her unvested GPSP and PLTIP awards granted in 2013 and 2014, but her PLTIP awards granted in 2015 should lapse. The 2013 and 2014 awards will vest in accordance with the original timetable, remain subject to malus and were pro-rated for service.

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Tidjane Thiam

Tidjane Thiam stepped down from the Board on 31 May 2015. Tidjane did not receive a loss of office payment. His remuneration arrangements were in line with the approved Directors remuneration policy and disclosed in stock exchange announcements and the remuneration he received in respect of his services as an Executive Director is set out in the 2015 Single Figure table.

Tidjane s deferred bonus awards will be released in accordance with the plan rules and remain subject to malus provisions. In line with market practice, the Group paid the professional legal fees incurred by him in respect of finalising his termination arrangements, which amounted to £14,121. In addition, in consideration of agreeing to a confidentiality clause, Tidjane received £1,000.

In addition, recognising his contribution to the Company s success, the Committee determined that Tidjane should be awarded a bonus in respect of the 2015 performance year which was calculated in the usual way and pro-rated for service to 31 May 2015. Sixty per cent of this bonus will be paid in 2016 and 40 per cent will be deferred in shares for three years, subject to malus and clawback provisions.

The Committee also exercised its discretion in accordance with the approved Directors remuneration policy and determined that Tidjane should be allowed to retain his unvested PLTIP awards granted in 2013 and 2014. The 2013 and 2014 awards will vest in accordance with the original timetable, remain subject to malus provisions and were pro-rated for service. Tidjane did not receive a 2015 long-term incentive award.

Rob Devey

Rob Devey s employment with the Group ended on 31 October 2013. The 2013 Directors remuneration report provided details of the remuneration arrangements that would apply to Rob after his resignation. As set out in the section Remuneration in respect of performance in 2015 the performance conditions attached to Rob s 2013 PLTIP awards were met in full and 100 per cent of these awards will be released in 2016. These awards were pro-rated for service (10 of 36 months) and the details of the release are set out below. This represents the last long-term incentive award which Rob had outstanding under the Company s remuneration plans.

Number of shares vesting[1]	Value of share vesting[2]
34,914	£527,900

Notes

1 The number of shares vesting include accrued dividend shares.
2 The share price used to calculate the value was the average share price for the three month up to 31 December 2015, being £15.12.

Other Directors

A number of former Directors receive retiree medical benefits for themselves and their partner (where applicable). This is consistent with other senior members of staff employed at the same time. A de minimis threshold of £10,000 has been set by the Committee; any payments or benefits provided to a past Director under this amount will not be reported.

Statement of implementation in 2016

Executive Directors

Executive Directors remuneration packages were reviewed in 2015 with changes effective from 1 January 2016. When the Committee took these decisions, it considered the salary increases awarded to other employees in 2015 and the expected increases in 2016. The external market reference points used to provide context to the Committee were identical to those used for 2015 salaries.

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All Executive Directors received a salary increase of one per cent. The 2016 salary increase budgets for other employees across our business units were between 3 per cent and 6.5 per cent. No changes have been made to executives maximum opportunities under either the annual incentive or the long-term incentive plans.

As part of the implementation of Solvency II, part of Executive Directors 2016 bonuses will be determined by the achievement of Solvency II surplus targets. This metric will replace the IGD capital surplus measure (part of the Solvency I framework). The Solvency II measure will operate alongside the economic capital targets introduced in 2015. Otherwise no changes are proposed to the performance measures for the 2016 annual incentive plan nor for the 2016 long-term incentive awards.

Also as part of the implementation of Solvency II, the weightings of Penny James s AIP performance targets (with effect from 2016) have been changed so that 50 per cent relate to financial targets, 30 per cent relate to functional targets and 20 per cent relate to personal targets.

John Foley was appointed Chief Executive of Prudential UK & Europe and Executive Director of Prudential plc with effect from 19 January 2016. His basic salary for 2016 will be £750,000. He will have a maximum AIP opportunity of 180 per cent of base salary, with 40 per cent of any bonus deferred into the Company s shares. Long-term incentive awards will be 250 per cent of base salary. John s service contract contains a notice provision under which either party may terminate upon 12 months notice.

Michael McLintock will retire as Chief Executive of M&G Investments and as an Executive Director of Prudential plc later this year. He will be succeeded by Anne Richards. Anne s basic salary will be £400,000. She will have a maximum AIP opportunity of the lower of 0.75 per cent of M&G s IFRS profit or 600 per cent of base salary. Forty per cent of any bonus will be deferred into the Company s shares. Long-term incentive awards will be 150 per cent of base salary under the PLTIP and 300 per cent of salary under the M&G Executive Long Term Incentive Plan. Any unvested share awards that Anne forfeits as a consequence of joining the Group will be replaced on a like-for-like basis, with replacement awards released in accordance with the original vesting timeframe attached to the forfeited awards. Anne s service contract contains a notice provision under which either party may terminate upon 12 months notice.

Non-executive Directors

Non-executive Directors fees were reviewed in 2015 with changes effective from 1 July 2015 as set out in the Non-executive fee section. The next review will be effective 1 July 2016.

As set out in the report of the Nomination Committee, the appointment of chairmen of the boards of M&G Limited and Prudential Corporation Asia Limited has been proposed. The Remuneration Committee has approved a fee of £250,000 per annum for each of these roles, fixed for a period of two years from the date of the appointment. The fee for the chair of Prudential Corporation Asia Limited will be payable in Hong Kong dollars using an exchange rate fixed on the date of appointment.

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SUPPLEMENTARY INFORMATION

Directors outstanding long-term incentive awards

Share-based long-term incentive awards

	Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2015	Conditional awards in 2015	Market price at date of award	Dividend equivalents on vested shares	Rights exercised in 2015	Rights lapsed in 2015	Conditional share awards outstanding at 31 Dec 2015	Date of end of performance period
			(Number of shares)	(Number of shares)	(pence)	(Number of shares released) (note 2)			(Number of shares)	
Penny James	GPSP	2012	37,925		678	3,351	37,925		-	31-Dec-14
	PLTIP	2013	25,181		1203				25,181	31-Dec-15
	PLTIP	2014	30,279		1317				30,279	31-Dec-16
	PLTIP	2015		24,348	1672				24,348	31-Dec-17
			93,385	**24,348**		**3,351**	**37,925**		**79,808**	
Michael McLintock	GPSP	2012	47,079		678	4,163	47,079		-	31-Dec-14
	PLTIP	2013	46,687		1203				46,687	31-Dec-15
	PLTIP	2014	44,487		1317				44,487	31-Dec-16
	PLTIP	2015		35,011	1672				35,011	31-Dec-17
			138,253	**35,011**		**4,163**	**47,079**		**126,185**	
Nic Nicandrou	GPSP	2012	185,374		678	16,399	185,374		-	31-Dec-14
	PLTIP	2013	122,554		1203				122,554	31-Dec-15
	PLTIP	2014	132,375		1317				132,375	31-Dec-16
	PLTIP	2015		104,117	1672				104,117	31-Dec-17
			440,303	**104,117**		**16,399**	**185,374**		**359,046**	
Barry Stowe[1]	GPSP	2012	95,642		678	8,516	95,642		-	31-Dec-14
	BUPP	2012	95,642		678	8,000	89,864	5,778	-	31-Dec-14
	PLTIP	2013	131,266		1203				131,266	31-Dec-15
	PLTIP	2014	114,824		1317				114,824	31-Dec-16
	PLTIP	2015		113,940	1672				113,940	31-Dec-17
	PLTIP	2015		50,668	1611.5				50,668	31-Dec-17
			437,374	**164,608**		**16,516**	**185,506**	**5,778**	**410,698**	
Mike Wells[1]	GPSP	2012	199,256		678	17,742	199,256		-	31-Dec-14

	BUPP	2012	199,256		678	17,742	199,256		-	31-Dec-14
	PLTIP	2013	273,470		1203				273,470	31-Dec-15
	PLTIP	2014	238,954		1317				238,954	31-Dec-16
	PLTIP	2015		209,222	1672				209,222	31-Dec-17
	PLTIP	2015		30,132	1611.5				30,132	31-Dec-17
			910,936	**239,354**		**35,484**	**398,512**		**751,778**	
Tony Wilkey[3]	GPSP	2012	33,272		663.5	2,940	33,272		-	31-Dec-14
	PCA LTIP	2012	66,008		663.5		66,008		-	31-Dec-14
	PCA LTIP	2012	35,926		854		35,926		-	31-Dec-14
	PLTIP	2013	25,244		1203				25,244	31-Dec-15
	PCA LTIP	2013	55,705		1203				55,705	31-Dec-15
	PCA LTIP	2013	47,182		1178				47,182	31-Dec-15
	PLTIP	2014	22,935		1317				22,935	31-Dec-16
	PCA LTIP	2014	45,870		1317				45,870	31-Dec-16
	PCA LTIP	2014	68,806		1317				68,806	31-Dec-17
	PLTIP	2015		21,091	1672				21,091	31-Dec-17
	PCA LTIP	2015		42,183	1672				42,183	31-Dec-17
	PLTIP	2015		29,008	1611.5				29,008	31-Dec-17
			400,948	**92,282**		**2,940**	**135,206**		**358,024**	

Notes

1 The awards for Barry Stowe and Mike Wells were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.
2 A DRIP dividend equivalent was accumulated on these awards.
3 The PCA LTIP is an arrangement for executives and senior management of PCA. Tony Wilkey was a participant of this plan until his appointment to the Board on 1 June 2015 and will no longer be eligible to new awards from this date.

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Business-specific cash-based long-term incentive plans

	Year of initial award	Face value of conditional share awards outstanding at 1 January 2015 £000	Conditionally awarded in 2015 £000	Payments made in 2015 £000	Face value of conditional share awards outstanding at 31 December 2015 £000	Date of end of performance period
Michael McLintock						
M&G Executive LTIP	2012	953		1,973	-	31-Dec-14
M&G Executive LTIP	2013	1,112			1,112	31-Dec-15
M&G Executive LTIP	2014	1,146			1,146	31-Dec-16
M&G Executive LTIP	2015		1,182		1,182	31-Dec-17
Total payments made in 2015				1,973		

Note

Under the M&G Executive LTIP, the value of each unit at award is £1. The value of units changes based on M&G s profit growth and investment performance over the performance period. For the 2012 award of 952,960 units, the unit price at the end of the performance period was £2.07, which resulted in a payment of £1,972,627 to Michael McLintock in 2015. For the 2013 award of 1,112,400 units, the unit price at the end of the performance period was £1.79, which will result in a payment of £1,991,196 to Michael McLintock in 2016.

Other share awards

The table below sets out Executive Directors deferred bonus share awards.