PRUDENTIAL PLC
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of March, 2016

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

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

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

Form 20-F X Form 40-F

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

Yes No X

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

European Embedded Value (EEV) Basis Results

POST-TAX OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS

Results analysis by business area

	Note	2015 £m	2014 £m note (iii)
Asia operations			
New business	3	1,490	1,162
Business in force	4	831	738
Long-term business		2,321	1,900
Eastspring Investments		101	78
Total		2,422	1,978
US operations			
New business	3	809	694
Business in force	4	999	834
Long-term business		1,808	1,528
Broker-dealer and asset management		7	6
Total		1,815	1,534
UK operations*			
New business	3	318	259
Business in force	4	545	476
Long-term business		863	735
General insurance commission		22	19
Total UK insurance operations		885	754
M&G		358	353
Prudential Capital		18	33
Total		1,261	1,140
Other income and expenditurenote (i)		(566)	(531)
Solvency II and restructuring costsnote (ii)		(51)	(36)
Results of the sold PruHealth and PruProtect businesses		-	11
Operating profit based on longer-term investment returns		4,881	4,096
Analysed as profit (loss) from:			
New business*	3	2,617	2,115
Business in force*	4	2,375	2,048
Long-term business*		4,992	4,163
Asset management		484	470
Other results		(595)	(537)
		4,881	4,096

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses which is shown separately.

Notes

(i) EEV basis other income and expenditure represents the post-tax IFRS basis result less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 13(a)(vii)) and an adjustment for the shareholders' share of the pension costs attributable to the with-profits business.

(ii)

Solvency II and restructuring costs comprise the net of tax charge recognised on an IFRS basis and the additional amount recognised on the EEV basis for the shareholders' share incurred by the PAC with-profits fund.

(iii) The comparative results have been prepared using previously reported average exchange rates for the year.

Basic earnings per share

	2015	2014
Based on post-tax operating profit including longer-term investment returns (in pence)	191.2p	160.7p
Based on post-tax profit attributable to equity holders of the Company (in pence)	154.8p	170.4p
Average number of shares (millions)	2,553	2,549

POST-TAX SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	2015 £m	2014 £m
Asia operations		2,422	1,978
US operations		1,815	1,534
UK operations*		1,261	1,140
Other income and expenditure		(566)	(531)
Solvency II and restructuring costs		(51)	(36)
Results of the sold PruHealth and PruProtect businesses		-	11
Operating profit based on longer-term investment returns		4,881	4,096
Short-term fluctuations in investment returns	5	(1,208)	763
Effect of changes in economic assumptions	6	57	(369)
Mark to market value movements on core borrowings		221	(187)
Gain on sale of PruHealth and PruProtect**		-	44
Costs of domestication of Hong Kong branch		-	(4)
Total non-operating (loss) profit		(930)	247
Profit for the year attributable to equity holders of the Company		3,951	4,343

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses which is shown separately.

** In November 2014, PAC completed the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited resulting in a gain of £44 million in 2014.

MOVEMENT IN SHAREHOLDERS' EQUITY

	Note	2015 £m	2014 £m
Profit for the year attributable to equity shareholders		3,951	4,343
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges		244	737
Dividends		(974)	(895)
New share capital subscribed		7	13
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		25	(11)
Reserve movements in respect of share-based payments		39	106
Treasury shares		(18)	(54)
Mark to market value movements on Jackson assets backing surplus and required capital		(76)	77
Net increase in shareholders' equity	9	3,198	4,316

	Note	2015	2014
Shareholders' equity at beginning of year:			
As previously reported	9	29,161	24,856
Effect of the domestication of Hong Kong branch on 1 January 2014*		-	(11)
		29,161	24,845
Shareholders' equity at end of year	9	32,359	29,161

* On 1 January 2014, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The overall EEV basis effect of £(11) million represents the cost of holding higher required capital levels in the stand-alone Hong Kong shareholder-backed long-term insurance business.

Comprising:	31 Dec 2015 £m			31 Dec 2014 £m		
	Long-term business operations note 9	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
Asia operations	13,876	306	14,182	12,545	274	12,819
US operations	9,487	182	9,669	8,379	157	8,536
UK insurance operations	9,647	22	9,669	8,433	19	8,452
M&G	-	1,774	1,774	-	1,572	1,572
Prudential Capital	-	70	70	-	74	74
Other operations	-	(3,005)	(3,005)	-	(2,292)	(2,292)
Shareholders' equity at end of year	33,010	(651)	32,359	29,357	(196)	29,161
Representing:						
Net assets excluding acquired goodwill and holding company net borrowings	32,777	866	33,643	29,124	1,542	30,666
Acquired goodwill	233	1,230	1,463	233	1,230	1,463
Holding company net borrowings at market valuenote 7	-	(2,747)	(2,747)	-	(2,968)	(2,968)
	33,010	(651)	32,359	29,357	(196)	29,161

SUMMARY STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2015 £m	31 Dec 2014 £m
Total assets less liabilities, before deduction for insurance funds		340,666	326,633
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(327,711)	(314,822)
Less shareholders' accrued interest in the long-term business		19,404	17,350
		(308,307)	(297,472)
Total net assets	9	32,359	29,161
Share capital		128	128
Share premium		1,915	1,908
IFRS basis shareholders' reserves		10,912	9,775
Total IFRS basis shareholders' equity	9	12,955	11,811

Additional EEV basis retained profit	9	19,404	17,350
Total EEV basis shareholders' equity (excluding non-controlling interests)	9	32,359	29,161

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

Net asset value per share

	31 Dec 2015	31 Dec 2014
Based on EEV basis shareholders' equity of £32,359 million (2014: £29,161 million) (in pence)	1,258p	1,136p
Number of issued shares at year end (millions)	2,572	2,568
Annualised return on embedded value*	17%	16%

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

NOTES ON THE EEV BASIS RESULTS

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in May 2004, subsequently supplemented by Additional Guidance on EEV Disclosure issued in October 2005. The impact of Solvency II is not reflected in these results in line with the guidance issued by the CFO Forum in October 2015 (see note 15 for further details). Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The auditors have reported on the 2015 EEV basis results supplement to the Company's statutory accounts for 2015. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Except for the change in presentation of the operating results for UK operations to show separately the contribution from the sold PruHealth and PruProtect businesses and the presentation of Prudential Capital as a separate segment, the 2014 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2014. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 13.

2 Results analysis by business area

The 2014 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2014 CER comparative results are translated at 2015 average exchange rates.

Annual premium and contribution equivalents (APE) note 16

		2015 £m	2014 £m		% change	
	Note		AER	CER	AER	CER
Asia operations		2,853	2,237	2,267	28%	26%
US operations		1,729	1,556	1,677	11%	3%
UK operations*		1,025	834	834	23%	23%

Total*	3	5,607	4,627	4,778	21%	17%

*In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Post-tax operating profit

		2015 £m	2014 £m		% change	
	Note		AER	CER	AER	CER
Asia operations						
New business	3	1,490	1,162	1,168	28%	28%
Business in force	4	831	738	735	13%	13%
Long-term business		2,321	1,900	1,903	22%	22%
Eastspring Investments		101	78	79	29%	28%
Total		2,422	1,978	1,982	22%	22%
US operations						
New business	3	809	694	748	17%	8%
Business in force	4	999	834	899	20%	11%
Long-term business		1,808	1,528	1,647	18%	10%
Broker-dealer and asset management		7	6	7	17%	-
Total		1,815	1,534	1,654	18%	10%
UK operations*						
New business	3	318	259	259	23%	23%
Business in force	4	545	476	476	14%	14%
Long-term business		863	735	735	17%	17%
General insurance commission		22	19	19	16%	16%
Total UK insurance operations		885	754	754	17%	17%
M&G		358	353	353	1%	1%
Prudential Capital		18	33	33	(45)%	(45)%
Total		1,261	1,140	1,140	11%	11%
Other income and expenditure		(566)	(531)	(531)	(7)%	(7)%
Solvency II and restructuring costs		(51)	(36)	(36)	(42)%	(42)%
Results of the sold PruHealth and PruProtect businesses		-	11	11	(100)%	(100)%
Operating profit based on longer-term investment returns		4,881	4,096	4,220	19%	16%
Analysed as profit (loss) from:						
New business*	3	2,617	2,115	2,175	24%	20%
Business in force*	4	2,375	2,048	2,110	16%	13%
Total long-term business*		4,992	4,163	4,285	20%	16%
Asset management		484	470	472	3%	3%
Other results		(595)	(537)	(537)	(11)%	(11)%
		4,881	4,096	4,220	19%	16%

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses, which is shown separately.

Post-tax profit

	Note	2015 £m	2014 £m AER	2014 £m CER	% change AER	% change CER
Operating profit based on longer-term investment returns		4,881	4,096	4,220	19%	16%
Short-term fluctuations in investment returns	5	(1,208)	763	771	(258)%	(257)%
Effect of changes in economic assumptions	6	57	(369)	(389)	115%	115%
Other non-operating profit (loss)		221	(147)	(147)	250%	250%
Total non-operating (loss) profit		(930)	247	235	(477)%	(496)%
Profit for the year attributable to shareholders		3,951	4,343	4,455	(9)%	(11)%

Basic earnings per share (in pence)

	2015	2014 AER	2014 CER	% change AER	% change CER
Based on post-tax operating profit including longer-term investment returns	191.2p	160.7p	165.6p	19%	15%
Based on post-tax profit	154.8p	170.4p	174.8p	(9)%	(11)%

3 Analysis of new business contribution

(i) Group summary

	2015				
	Annual premium and contribution equivalents (APE) £m note 16	Present value of new business premiums (PVNBP) £m note 16	New business contribution £m note	New business margin APE %	New business margin PVNBP %
Asia operationsnote (ii)	2,853	15,208	1,490	52	9.8
US operations	1,729	17,286	809	47	4.7
UK insurance operations	1,025	9,069	318	31	3.5
Total	5,607	41,563	2,617	47	6.3

	2014				
	Annual premium and contribution equivalents (APE) £m note 16	Present value of new business premiums (PVNBP) £m note 16	New business contribution £m note	New business margin APE %	New business margin PVNBP %
	2,237	12,331	1,162	52	9.4

Asia operationsnote (ii)					
US operations	1,556	15,555	694	45	4.5
UK insurance operations*	834	7,305	259	31	3.5
Total*	4,627	35,191	2,115	46	6.0

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Note

The increase in new business contribution of £502 million from £2,115 million for 2014 to £2,617 million for 2015 comprises an increase on a CER basis of £442 million and an increase of £60 million for foreign exchange effects. The increase of £442 million on the CER basis comprises a contribution of £377 million for higher sales volumes, a £21 million effect of higher long-term interest rates (generated by the active basis of setting economic assumptions) (analysed as Asia £(2) million, US £20 million and UK £3 million) and a £44 million impact of pricing, product and other actions.

(ii) Asia operations – new business contribution by territory

	2015 £m	2014 £m	
		AER	CER
China	30	27	29
Hong Kong	835	405	436
India	18	12	12
Indonesia	229	296	282
Korea	8	11	11
Taiwan	28	29	30
Other	342	382	368
Total Asia operations	1,490	1,162	1,168

4 Operating profit from business in force

(i) Group summary

	2015 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total note
Unwind of discount and other expected returns	749	472	488	1,709
Effect of changes in operating assumptions	12	115	55	182
Experience variances and other items	70	412	2	484
Total	831	999	545	2,375

	2014 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total note

Unwind of discount and other expected returns	648	382	410	1,440
Effect of changes in operating assumptions	52	86	-	138
Experience variances and other items	38	366	66	470
Total	738	834	476	2,048

Note
The movement in operating profit from business in force of £327 million from £2,048 million for 2014 to £2,375 million for 2015 comprises:

	2015 £m
Increase in unwind of discount and other expected returns:	
Effects of changes in:	
Interest rates	6
Foreign exchange	22
Growth in opening value and other items	241
	269
Year-on-year change in effects of operating assumptions, experience variances and other items	58
Net increase in operating profit from business in force	327

(ii) Asia operations

	2015 £m	2014 £m
Unwind of discount and other expected returnsnote (a)	749	648
Effect of changes in operating assumptions:		
Mortality and morbiditynote (b)	63	27
Persistency and withdrawalsnote (c)	(46)	(17)
Expense	(1)	(5)
Othernote (d)	(4)	47
	12	52
Experience variances and other items:		
Mortality and morbiditynote (e)	58	23
Persistency and withdrawalsnote (f)	20	44
Expensenote (g)	(32)	(27)
Other including development expenses	24	(2)
	70	38
Total Asia operations	831	738

Notes
(a) The increase in unwind of discount and other expected returns of £101 million from £648 million for 2014 to £749 million for 2015 comprises an effect of £119 million for the growth in the opening in-force value, partially offset by a £(10) million decrease from changes in interest rates and an £(8) million decrease for foreign exchange effects.
(b) The 2015 credit of £63 million for mortality and morbidity assumptions mainly reflects the effect of lower projected mortality rates for traditional and linked business in Malaysia. The 2014 credit of £27 million reflected a number of offsetting items, including the effect of reduced projected mortality rates in Hong Kong.
(c) The 2015 charge of £(46) million for persistency assumption changes comprises positive and negative contributions from our various operations, with positive persistency updates on health and protection products

being more than offset by negative effects for unit-linked business. The 2014 charge of £(17) million mainly reflected increased partial withdrawal assumptions on unit-linked business in Korea.

(d) The 2014 credit of £47 million for other assumption changes reflected a number of offsetting items, including modelling improvements and those arising from asset allocation changes in Hong Kong.

(e) The positive mortality and morbidity experience variance in 2015 of £58 million (2014: £23 million) mainly reflects better than expected experience in Hong Kong and Indonesia.

(f) The positive £20 million for persistency and withdrawals experience in 2015 (2014: £44 million) is driven mainly by favourable experience in Hong Kong.

(g) The expense experience variance in 2015 is negative £(32) million (2014: £(27) million). The variance principally arises in operations which are currently sub-scale (China, Malaysia Takaful and Taiwan) and from short-term overruns in India.

(iii) US operations

		2015 £m	2014 £m
Unwind of discount and other expected returnsnote (a)		472	382
Effect of changes in operating assumptions:			
	Persistencynote (b)	139	55
	Other	(24)	31
		115	86
Experience variances and other items:			
	Spread experience variancenote (c)	149	192
	Amortisation of interest-related realised gains and lossesnote (d)	70	56
	Othernote (e)	193	118
		412	366
Total US operations		999	834

Notes

(a) The increase in unwind of discount and other expected returns of £90 million from £382 million for 2014 to £472 million for 2015 comprises a £56 million effect for the underlying growth in the in-force book, a £30 million foreign currency translation effect, and a £4 million impact of the 10 basis points increase in US 10-year treasury rates.

(b) The credit of £139 million in 2015 (2014: £55 million) for persistency assumption changes principally relates to reduced lapse rates for variable annuity business to more closely align to recent experience.

(c) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 14 (ii)). The spread experience variance in 2015 of £149 million (2014: £192 million) includes the positive effect of transactions previously undertaken to more closely match the overall asset and liability duration. The reduction compared to the prior year reflects the effects of declining yields in the portfolio caused by the prolonged low interest rate environment.

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

(e) Other experience variances of £193 million in 2015 (2014: £118 million) include the effects of positive persistency experience and other favourable experience variances. The 2015 result benefits from higher levels of tax relief from prior period adjustments.

(iv) UK insurance operations

	2015 £m	2014 £m

Unwind of discount and other expected returnsnote (a)	488	410
Reduction in future UK corporate tax ratenote (b)	55	-
Othernote (c)	2	66
Total UK insurance operations	545	476

Notes

(a) The increase in unwind of discount and other expected returns of £78 million from 2014 of £410 million to £488 million for 2015 comprises an effect of £66 million reflecting the underlying growth in the in-force book and a £12 million effect of the 20 basis points increase in gilt yields.

(b) The £55 million credit in 2015 for the change in UK corporate tax rates reflects the beneficial effect of applying lower corporation tax rates (note 14) to future life profits from in-force business in the UK.

(c) Other items of £2 million (2014: £66 million) comprise the following:

	2015 £m	2014 £m
Longevity reinsurancenote (d)	(134)	(8)
Impact of specific management actions in second half of 2015 ahead of Solvency IInote (e)	75	-
Other itemsnote (f)	61	74
	2	66

(d) During 2015 we extended our longevity reinsurance programme to cover an additional £6.4 billion of annuity liabilities at a net cost of £(134) million. Of this total, some £4.8 billion was transacted in the second half of 2015 at a net cost of £(88) million.

(e) The £75 million benefit arose from the specific management actions taken in the second half of 2015 to position the balance sheet more efficiently under the new Solvency II regime.

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

5 Short-term fluctuations in investment returns

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

(i) Group summary

	2015 £m	2014 £m
Asia operationsnote (ii)	(206)	439
US operationsnote (iii)	(753)	(166)
UK insurance operationsnote (iv)	(194)	583
Other operationsnote (v)	(55)	(93)
Total	(1,208)	763

(ii) Asia operations

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

	2015 £m	2014 £m
Hong Kong	(144)	178
Indonesia	(53)	35
Singapore	(104)	92
Taiwan	44	23
Other	51	111

Total Asia operationsnote	(206)	439

Note

For 2015, the charge of £(144) million in Hong Kong, £(53) million in Indonesia and £(104) million in Singapore principally arise from unrealised losses on bonds backing surplus assets driven by increases in long-term interest rates (as shown in note14(i)) and from the effect of falls in equity markets in the region. The credit of £44 million in Taiwan arises from unrealised gains on bonds following the decrease in long-term interest rates.

(iii) US operations

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

	2015 £m	2014 £m
Investment return related experience on fixed income securitiesnote (a)	(17)	31
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity and other itemsnote (b)	(736)	(197)
Total US operations	(753)	(166)

Notes

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

– the impact on portfolio yields of changes in the asset portfolio in the year;

– the excess of actual realised gains and losses over the amortisation of interest-related realised gains and losses recorded in the profit and loss account; and

– credit experience (versus the longer-term assumption).

(b) This item reflects the net impact of:

– changes in projected future fees and future benefit costs arising from the effect of market fluctuations on the growth in separate account asset values in the current reporting period; and

– related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

(iv) UK insurance operations

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

	2015 £m	2014 £m
Shareholder-backed annuitynote (a)	(88)	310
With-profits, unit-linked and othernote (b)	(106)	273
Total UK insurance operations	(194)	583

Notes

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

– (losses) gains on surplus assets compared to the expected long-term rate of return reflecting (increases) reductions in corporate bond and gilt yields;

– the difference between actual and expected default experience; and

– the effect of mismatching for assets and liabilities of different durations and other short-term fluctuations in investment returns.

(b) The £(106) million fluctuation in 2015 for with-profits, unit-linked and other business represents the impact of achieving a 3.1 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 5.4 per cent (2014: total return of 9.5 per cent compared to assumed rate of 5.0 per cent). This line also includes the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from declines in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns for other operations of £(55) million (2014: £(93) million) include unrealised value movements on investments held outside our main life operations.

6 Effect of changes in economic assumptions

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

(i) Group summary

	2015 £m	2014 £m
Asia operationsnote (ii)	(148)	(269)
US operationsnote (iii)	109	(77)
UK insurance operationsnote (iv)	96	(23)
Total	57	(369)

(ii) Asia operations

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

	2015 £m	2014 £m
Hong Kong	100	(121)
Indonesia	(15)	25
Malaysia	(30)	11
Singapore	(50)	(42)
Taiwan	(97)	(21)
Other	(56)	(121)
Total Asia operationsnote	(148)	(269)

Note

The negative 2015 effect in Malaysia, Indonesia and Singapore reflects the impact of valuing future health and protection profits at higher discount rates, driven by the increase in long-term interest rates in these countries (see note 14(i)). The negative effect in Taiwan is driven by a decrease in fund earned rates reflecting the decline in long-term interest rates and changes to the asset portfolio mix. The positive impact in Hong Kong is driven by the effect of higher assumed future fund earned rates for participating business.

(iii) US operations

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

	2015 £m	2014 £m
Variable annuity business	104	(228)
Fixed annuity and other general account business	5	151
Total US operationsnote	109	(77)

Note

For 2015, the credit of £109 million mainly reflects the increase in the assumed separate account return and reinvestment rates for variable annuity business, following the 10 basis points increase in the US treasury rate (2014: decrease of 90 basis points), resulting in higher projected fee income and a decrease in projected benefit costs.

(iv) UK insurance operations

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

	2015 £m	2014 £m
Shareholder-backed annuity businessnote (a)	(56)	352
With-profits and other businessnote (b)	152	(375)
Total UK insurance operations	96	(23)

Notes

(a) For shareholder-backed annuity business the overall negative (2014: positive) effect reflects the change in the present value of projected spread income arising mainly from the increase (2014: reduction) in the risk discount rates as shown in note 14(iii).

(b) The credit of £152 million in 2015 reflects the net effect of changes in fund earned rates and risk discount rates (as shown in note 14 (iii)), driven by the 20 basis points increase in gilt rates (2014: decrease of 130 basis points), together with the impact from changes in the composition of the asset portfolio.

7 Net core structural borrowings of shareholder-financed operations

	31 Dec 2015 £m			31 Dec 2014 £m		
	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company* cash and short-term investments	(2,173)	-	(2,173)	(1,480)	-	(1,480)
Core structural borrowings – central fundsnote	4,567	353	4,920	3,869	579	4,448
Holding company net borrowings	2,394	353	2,747	2,389	579	2,968
Core structural borrowings – Prudential Capital	275	-	275	275	-	275
Core structural borrowings – Jackson	169	55	224	160	42	202
Net core structural borrowings of shareholder-financed operations	2,838	408	3,246	2,824	621	3,445

* Including central finance subsidiaries.

Note

In June 2015, the Company issued core structural borrowings of £600 million 5.00 per cent subordinated notes due in 2055. The proceeds, net of discount adjustment and costs, were £590 million.

8 Analysis of movement in free surplus

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

(i) Underlying free surplus generated

The 2014 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2014 CER comparative results are translated at 2015 average exchange rates.

	2015 £m	2014 £m		% change	
		AER	CER	AER	CER
Asia operations	985	860	851	15%	16%

Underlying free surplus generated from in-force life business					
Investment in new businessnotes (ii)(a), (ii)(g)	(413)	(346)	(352)	(19)%	(17)%
Long-term business	572	514	499	11%	15%
Eastspring Investmentsnote (ii)(b)	101	78	79	29%	28%
Total	673	592	578	14%	16%
US operations					
Underlying free surplus generated from in-force life business	1,426	1,191	1,284	20%	11%
Investment in new businessnote (ii)(a)	(267)	(187)	(201)	(43)%	(33)%
Long-term business	1,159	1,004	1,083	15%	7%
Broker-dealer and asset managementnote (ii)(b)	7	6	7	17%	-
Total	1,166	1,010	1,090	15%	7%
UK insurance operations*					
Underlying free surplus generated from in-force life business	878	637	637	38%	38%
Investment in new businessnote (ii)(a)	(65)	(65)	(65)	-	-
Long-term business	813	572	572	42%	42%
General insurance commissionnote (ii)(b)	22	19	19	16%	16%
Total	835	591	591	41%	41%
M&Gnote (ii)(b)	358	353	353	1%	1%
Prudential Capitalnote (ii)(b)	18	33	33	(45)%	(45)%
Underlying free surplus generated	3,050	2,579	2,645	18%	15%
Representing:					
Long-term business:*					
Expected in-force cashflows (including expected return on net assets)	2,730	2,374	2,436	15%	12%
Effects of changes in operating assumptions, operating experience variances and other operating items	559	314	336	78%	66%
Underlying free surplus generated from in-force life business	3,289	2,688	2,772	22%	19%
Investment in new businessnotes (ii)(a), (ii)(g)	(745)	(598)	(618)	(25)%	(21)%
Total long-term business*	2,544	2,090	2,154	22%	18%
Asset management and general insurance commissionnote (ii)(b)	506	489	491	3%	3%

Underlying free surplus generated	3,050	2,579	2,645	18%	15%

*In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

(ii) Movement in free surplus

	2015 £m			2014 £m
Long-term business and asset management operations	Long-term business note 10	Asset management and UK general insurance commission note (b)	Free surplus of long-term business, asset management and UK general insurance commission	Free surplus of long-term business, asset management and UK general insurance commission
Underlying movement:*				
Investment in new businessnotes (a), (g)	(745)	-	(745)	(598)
Business in force:				
Expected in-force cash flows (including expected return on net assets)	2,730	506	3,236	2,863
Effects of changes in operating assumptions, operating experience variances and other operating items	559	-	559	314
	2,544	506	3,050	2,579
Disposal of Japan Life businessnote (h)	23	-	23	-
Gain on sale of PruHealth and PruProtect	-	-	-	130
Other non-operating itemsnote (c)	(407)	(53)	(460)	(266)
	2,160	453	2,613	2,443
Net cash flows to parent companynote (d)	(1,271)	(354)	(1,625)	(1,482)
Exchange movements, timing differences and other itemsnote (e)	560	159	719	130
Net movement in free surplus	1,449	258	1,707	1,091
Balance at beginning of year:				
As previously reported	4,193	866	5,059	4,003
Effect of domestication of Hong Kong branch**	-	-	-	(35)
Balance at end of yearnote (g)	5,642	1,124	6,766	5,059
Representing:				
Asia operations	1,503	245	1,748	1,560
US operations	1,567	166	1,733	1,557
UK operations	2,572	713	3,285	1,942
	5,642	1,124	6,766	5,059
Balance at beginning of year:				
Asia operations	1,347	213	1,560	1,379
US operations	1,416	141	1,557	1,074

UK operations	1,430	512	1,942	1,550
	4,193	866	5,059	4,003

* In order to show the UK long-term business on a comparable basis, the 2014 comparative underlying movement in free surplus excludes the contribution from the sold PruHealth and PruProtect businesses.

** On 1 January 2014, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. The 2014 EEV basis results included opening adjustments arising from the transfer of capital that was previously held within the UK business in respect of the Hong Kong branch operations and additional capital requirements arising from the newly established subsidiaries with an overall effect of £(35) million.

Notes

(a) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.

(b) Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity.

(c) Non-operating items are principally short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.

(d) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(e) Exchange movements, timing differences and other items represent:

	2015 £m		
	Long-term business	Asset management and UK general insurance commission	Total
Exchange movementsnote 10	67	3	70
Mark to market value movements on Jackson assets backing surplus and required capitalnote 9	(76)	-	(76)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	14	8	22
Other itemsnote (f)	555	148	703
	560	159	719

(f) Other items include the effect of intra-group loans, contingent loan repayments as shown in note 10(i), timing differences arising on statutory transfers and other non-cash items. For 2015, other items for long-term business include the effect of a classification change of £702 million from Other operations to UK insurance operations in order to align with Solvency II segmental reporting.

(g) Investment in new business includes the annual amortisation charge of amounts incurred to secure exclusive distribution rights through our bancassurance partners at a rate that reflects the pattern in which the future economic benefits are expected to be consumed by reference to new business levels. Included within the overall free surplus balance of our Asia life entities is £287 million representing unamortised amounts incurred to secure exclusive distribution rights through bancassurance partners. These amounts exclude £971 million of Asia distribution rights intangibles that are financed by loan arrangements from central companies, the costs of which are allocated to the Asia life segment as the amortisation cost is incurred.

(h) The credit of £23 million in free surplus in 2015 reflects the release of required capital and transfer of value of in-force business on the completion of the sale of the Japan Life business (see note 10).

9 Reconciliation of movement in shareholders' equity

	2015 £m				
	Long-term business operations			Other	Group
	US	UK	Total	operations	Total

	Asia operations note (i)	operations	insurance operations	long-term business operations	note (i)	
Operating profit (based on longer-term investment returns)						
Long-term business:						
New businessnote 3	1,490	809	318	2,617	-	2,617
Business in forcenote 4	831	999	545	2,375	-	2,375
	2,321	1,808	863	4,992	-	4,992
Asset management	-	-	-	-	484	484
Other results	-	(1)	(28)	(29)	(566)	(595)
Operating profit based on longer-term investment returns	2,321	1,807	835	4,963	(82)	4,881
Total non-operating (loss) profit	(354)	(654)	(98)	(1,106)	176	(930)
Profit for the year	1,967	1,153	737	3,857	94	3,951
Other items taken directly to equity						
Exchange movements on foreign operations and net investment hedges	(157)	510	-	353	(109)	244
Intra-group dividends (including statutory transfers) and investment in operationsnote (ii)	(472)	(465)	(215)	(1,152)	1,152	-
External dividends	-	-	-	-	(974)	(974)
Other movementsnote (iii)	(7)	(14)	692	671	(618)	53
Mark to market value movements on Jackson assets backing surplus and required capital	-	(76)	-	(76)	-	(76)
Net increase in shareholders' equity	1,331	1,108	1,214	3,653	(455)	3,198
Shareholders' equity at beginning of year	12,312	8,379	8,433	29,124	37	29,161
Shareholders' equity at end of year	13,643	9,487	9,647	32,777	(418)	32,359
Representing:						
Statutory IFRS basis shareholders' equity:						
Net assets (liabilities)	3,723	4,154	5,118	12,995	(1,503)	11,492
Goodwill	-	-	-	-	1,463	1,463
Total IFRS basis shareholders' equity	3,723	4,154	5,118	12,995	(40)	12,955
Additional retained profit (loss) on an EEV basisnote (iv)	9,920	5,333	4,529	19,782	(378)	19,404
EEV basis shareholders' equity	13,643	9,487	9,647	32,777	(418)	32,359
Balance at beginning of year:						
Statutory IFRS basis shareholders' equity:						
Net assets (liabilities)	3,315	4,067	3,785	11,167	(819)	10,348
Goodwill	-	-	-	-	1,463	1,463
Total IFRS basis shareholders' equity	3,315	4,067	3,785	11,167	644	11,811
Additional retained profit (loss) on an EEV basisnote (iv)	8,997	4,312	4,648	17,957	(607)	17,350
EEV basis shareholders' equity	12,312	8,379	8,433	29,124	37	29,161

Notes

(i) For the purposes of the table above, goodwill of £233 million (2014: £233 million) related to Asia long-term operations is included in Other operations.

(ii) Intra-group dividends (including statutory transfers) represent dividends that have been declared in the year and amounts accrued in respect of statutory transfers. Investments in operations reflect increases in share capital. The amounts included in note 8 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, timing differences arising on statutory transfers and other non-cash items.

(iii) Other movements include the effect of a classification change of £702 million from Other operations to UK insurance operations in order to align with Solvency II segmental reporting, which has no overall effect on the Group's EEV. Other movements also includes a credit of £25 million (2014: a charge of £(11) million) for the shareholders' share of actuarial and other gains and losses on the defined benefit pension schemes.

(iv) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(353) million (2014: £(579) million), as shown in note 7.

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

	2015 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note (iii)	Total long-term business operations
Group					
Shareholders' equity at beginning of year	4,193	4,556	8,749	20,375	29,124
New business contributionnote (ii)	(745)	493	(252)	2,869	2,617
Existing business – transfer to net worth	2,611	(355)	2,256	(2,256)	-
Expected return on existing businessnote 4	119	129	248	1,461	1,709
Changes in operating assumptions and experience variancesnote 4	588	88	676	(10)	666
Solvency II and restructuring costs	(29)	-	(29)	-	(29)
Operating profit based on longer-term investment returns	2,544	355	2,899	2,064	4,963
Disposal of Japan Life business	23	(48)	(25)	25	-
Other non-operating items	(407)	(216)	(623)	(483)	(1,106)
Profit from long-term business	2,160	91	2,251	1,606	3,857
Exchange movements on foreign operations and net investment hedges	67	57	124	229	353
Intra-group dividends (including statutory transfers) and investment in operationsnote (i)	(1,373)	-	(1,373)	221	(1,152)
Other movementsnote (v)	595	-	595	-	595
Shareholders' equity at end of year	5,642	4,704	10,346	22,431	32,777
Representing:					
Asia operations					
Shareholders' equity at beginning of year	1,347	1,327	2,674	9,638	12,312
New business contributionnote (ii)	(413)	124	(289)	1,779	1,490
Existing business – transfer to net worth	974	(77)	897	(897)	-
Expected return on existing businessnote 4	30	43	73	676	749
Changes in operating assumptions and experience variancesnote 4	(19)	65	46	36	82
Operating profit based on longer-term investment returns	572	155	727	1,594	2,321
Disposal of Japan Life business	23	(48)	(25)	25	-
Other non-operating items	61	(6)	55	(409)	(354)
Profit from long-term business	656	101	757	1,210	1,967
	(21)	(42)	(63)	(94)	(157)

Exchange movements on foreign operations and net investment hedges					
Intra-group dividends and investment in operations	(472)	-	(472)	-	(472)
Other movements	(7)	-	(7)	-	(7)
Shareholders' equity at end of year	1,503	1,386	2,889	10,754	13,643
US operations					
Shareholders' equity at beginning of year	1,416	1,710	3,126	5,253	8,379
New business contributionnote (ii)	(267)	284	17	792	809
Existing business – transfer to net worth	1,064	(196)	868	(868)	-
Expected return on existing businessnote 4	42	49	91	381	472
Changes in operating assumptions and experience variancesnote 4	321	22	343	184	527
Solvency II and restructuring costs	(1)	-	(1)	-	(1)
Operating profit based on longer-term investment returns	1,159	159	1,318	489	1,807
Other non-operating items	(541)	(162)	(703)	49	(654)
Profit from long-term business	618	(3)	615	538	1,153
Exchange movements on foreign operations and net investment hedges	88	99	187	323	510
Intra-group dividends	(465)	-	(465)	-	(465)
Other movements	(90)	-	(90)	-	(90)
Shareholders' equity at end of year	1,567	1,806	3,373	6,114	9,487
UK insurance operations					
Shareholders' equity at beginning of year	1,430	1,519	2,949	5,484	8,433
New business contributionnote (ii)	(65)	85	20	298	318
Existing business – transfer to net worth	573	(82)	491	(491)	-
Expected return on existing businessnote 4	47	37	84	404	488
Changes in operating assumptions and experience variancesnote 4	286	1	287	(230)	57
Solvency II and restructuring costs	(28)	-	(28)	-	(28)
Operating profit based on longer-term investment returns	813	41	854	(19)	835
Other non-operating items	73	(48)	25	(123)	(98)
Profit from long-term business	886	(7)	879	(142)	737
Intra-group dividends (including statutory transfers)note (i)	(436)	-	(436)	221	(215)
Other movementsnote (v)	692	-	692	-	692
Shareholders' equity at end of year	2,572	1,512	4,084	5,563	9,647

Notes

(i) For UK insurance operations, the amounts shown for intra-group dividends (including statutory transfers) in free surplus of £(436) million and in the value of in-force of £221 million include the impact of intragroup contingent loan repayments during the year. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(ii) New business contribution per £1 million of free surplus invested:

2015 £m				2014 £m			
Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
1,490	809	318	2,617	1,162	694	259	2,115

Post-tax new business contributionnote 3								
Free surplus invested in new business	(413)	(267)	(65)	(745)	(346)	(187)	(65)	(598)
Post-tax new business contribution per £1 million of free surplus invested	3.6	3.0	4.9	3.5	3.4	3.7	4.0	3.5

* In order to show the UK long-term business on a comparable basis, the 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses.

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

	31 Dec 2015 £m				31 Dec 2014 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	11,280	7,355	5,817	24,452	10,168	5,914	5,756	21,838
Cost of capital	(438)	(229)	(254)	(921)	(417)	(199)	(272)	(888)
Cost of time value of guaranteesnote (iv)	(88)	(1,012)	-	(1,100)	(113)	(462)	-	(575)
Net value of in-force business	10,754	6,114	5,563	22,431	9,638	5,253	5,484	20,375

(iv) The increase in the cost of time value of guarantees for US operations from £(462) million in 2014 to £(1,012) million in 2015 primarily relates to variable annuity business, mainly arising from the level of equity market performance.

(v) Other movements for UK insurance operations include the effect of a classification change, as discussed in note 9(iii).

11 Expected transfer of value of in-force business to free surplus

The discounted value of in-force business and required capital can be reconciled to the 2015 and 2014 totals in the tables below for the emergence of free surplus as follows:

	2015 £m	2014 £m
Required capitalnote 10	4,704	4,556
Value of in-force (VIF)note 10	22,431	20,375
Add back: deduction for cost of time value of guaranteesnote 10	1,100	575
Expected cash flow from sale of Japan Life business	-	(23)
Other itemsnote	(1,948)	(1,382)
Total	26,287	24,101

Note

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

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

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

		2015 £m Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2015 Total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations	11,858	3,916	2,552	1,669	1,115	2,055	551
US operations	8,740	4,361	2,752	1,129	383	115	-
UK insurance operations	5,689	2,097	1,498	962	576	544	12
Total	26,287	10,374	6,802	3,760	2,074	2,714	563
	100%	40%	26%	14%	8%	10%	2%

		2014 £m Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus					
	2014 Total as shown above	1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia operations	10,859	3,660	2,289	1,553	1,026	1,874	457
US operations	7,471	3,867	2,298	873	334	99	-
UK insurance operations	5,771	2,111	1,464	973	606	604	13
Total	24,101	9,638	6,051	3,399	1,966	2,577	470
	100%	40%	25%	14%	8%	11%	2%

12 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December and the new business contribution after the effect of required capital for 2015 and 2014 to:

— 1 per cent increase in the discount rates;

—

1 per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);

— 1 per cent rise in equity and property yields;
— 10 per cent fall in market value of equity and property assets (embedded value only);
— The statutory minimum capital level (by contrast to EEV basis required capital), (for embedded value only);
— 5 basis point increase in UK long-term expected defaults; and
— 10 basis point increase in the liquidity premium for UK annuities.

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

New business contribution

	2015 £m				2014 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
New business contributionnote 3	1,490	809	318	2,617	1,162	694	259	2,115
Discount rates – 1% increase	(260)	(38)	(40)	(338)	(176)	(27)	(38)	(241)
Interest rates – 1% increase	28	80	7	115	13	61	(15)	59
Interest rates – 1% decrease	(78)	(127)	(9)	(214)	(52)	(101)	19	(134)
Equity/property yields – 1% rise	73	95	20	188	46	73	12	131
Long-term expected defaults – 5 bps increase	-	-	(8)	(8)	-	-	(10)	(10)
Liquidity premium – 10 bps increase	-	-	16	16	-	-	20	20

* In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Embedded value of long-term business operations

	31 Dec 2015 £m				31 Dec 2014 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
Shareholders' equitynote 9	13,643	9,487	9,647	32,777	12,312	8,379	8,433	29,124
Discount rates – 1% increase	(1,448)	(271)	(586)	(2,305)	(1,214)	(268)	(602)	(2,084)
Interest rates – 1% increase	(380)	(46)	(328)	(754)	(462)	(232)	(362)	(1,056)
Interest rates – 1% decrease	132	(93)	426	465	211	16	452	679
Equity/property yields – 1% rise	506	514	271	1,291	435	365	282	1,082
Equity/property market values – 10% fall	(246)	(411)	(373)	(1,030)	(221)	(129)	(380)	(730)
Statutory minimum capital	148	162	4	314	129	139	4	272
Long-term expected defaults – 5 bps increase	-	-	(141)	(141)	-	-	(139)	(139)
Liquidity premium – 10 bps increase	-	-	282	282	-	-	278	278

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumption shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for changes in interest rates, the effect shown above for Jackson would also be recorded within the fair value movements on assets backing surplus and required capital which are taken directly to shareholders' equity.

(b) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of embedded value as at 31 December and the new business contribution after the effect of required capital for 2015 and 2014 to:

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

New business contribution

	2015 £m				2014 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations*	Total long-term business operations
New business contributionnote 3	1,490	809	318	2,617	1,162	694	259	2,115
Maintenance expenses – 10% decrease	28	8	2	38	23	8	3	34
Lapse rates – 10% decrease	112	25	9	146	88	27	6	121
Mortality and morbidity – 5% decrease	50	1	(13)	38	52	2	(20)	34
Change representing effect on:								
Life business	50	1	1	52	52	2	1	55
UK annuities	-	-	(14)	(14)	-	-	(21)	(21)

* In order to show the UK long-term business on a comparable basis, the 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses.

Embedded value of long-term business operations

	31 Dec 2015 £m				31 Dec 2014 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations

Shareholders' equitynote 9	13,643	9,487	9,647	32,777	12,312	8,379	8,433	29,124
Maintenance expenses – 10% decrease	153	80	68	301	136	71	56	263
Lapse rates – 10% decrease	508	394	75	977	422	354	67	843
Mortality and morbidity – 5% decrease	449	172	(299)	322	433	163	(347)	249
Change representing effect on:								
Life business	449	172	11	632	433	163	9	605
UK annuities	-	-	(310)	(310)	-	-	(356)	(356)

13 Methodology and accounting presentation

(a) Methodology

Overview

The embedded value is the present value of the shareholders’ interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders’ interest in the Group’s long-term business comprises:

— the present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  – the cost of locked-in required capital; and
  – the time value of cost of options and guarantees;
— locked-in required capital; and
— the shareholders’ net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in note 13(b)(iii)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items (as explained in note 13(b)(i)).

(i) Covered business

The EEV results for the Group are prepared for ‘covered business’, as defined by the EEV Principles. Covered business represents the Group’s long-term insurance business, including the Group’s investments in joint venture insurance operations, for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group’s covered business are then combined with the post-tax IFRS basis results of the Group’s other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 13(a)(vii).

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group’s long-term business operations, with two exceptions:

— the closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.
— the presentational treatment of the Group’s principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in ‘Other’ operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

(ii) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency, mortality and morbidity (as described in note 14). These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of
distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as
investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating assumptions as at the end of the year.

For UK immediate annuity business and single premium Universal Life products in Asia, primarily in Singapore, the new business contribution is determined by applying economic assumptions reflecting point-of-sale market conditions. This is consistent with how the business is priced as crediting rates are linked to yields on specific assets and the yield is locked in when the assets are purchased at the point of sale of the policy. For other business within the Group, end-of-year economic assumptions are used.

New business profitability is a key metric for the Group’s management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders’ equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders’ interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders’ interest, the basis for calculating the Jackson EEV result acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that, broadly speaking, are held for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation (depreciation) on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

(iii) Cost of capital

A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as required capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (post-tax) on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

(iv) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US operations (Jackson)

The principal financial options and guarantees in Jackson are associated with the fixed annuity and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for both years, depending on the particular product, jurisdiction where issued, and date of issue. For 2015, 87 per cent (2014: 86 per cent) of the account values on fixed annuities are for policies with guarantees of 3 per cent or less. The average guarantee rate is 2.6 per cent (2014: 2.7 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable at specified dates during the accumulation period (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)) or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholder's value in the event of poor equity market performance. Jackson hedges the GMDB and GMWB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

UK insurance operations

For covered business the only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses - annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The PAC with-profits fund also held a provision on the Pillar I Peak 2 basis of £47 million at 31 December 2015 (31 December 2014: £50 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in the UK is through the non-covered business of SAIF. A provision on the Pillar I Peak 2 basis of £412 million was held in SAIF at 31 December 2015 (31 December 2014: £549 million) to honour the guarantees. As described in note 13(a)(i), the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders.

Time value

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value). Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 14(iv), (v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

(v) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets subject to it being at least the local statutory minimum requirements. For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. For shareholder-backed business the following capital requirements apply:

— Asia operations: the level of required capital has been set to an amount at least equal to the higher of local statutory requirements and the internal target;
— US operations: the level of required capital has been set at 250 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
— UK insurance operations: the capital requirements are set to an amount at least equal to the higher of Solvency I Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole.

(vi) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

(vii) Internal asset management

The new business and in-force results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current year profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the year. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the covered business assets.

(viii) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin. The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product-specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

— expected long-term defaults;
— credit risk premium (to reflect the volatility in downgrade and default levels); and
— short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below:

Asia operations

For Asia operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

US operations (Jackson)

For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve (RMR) charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults as shown in note 14(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

— How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
— Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment return rates credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

UK operations

(1) Shareholder-backed annuity business
For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, as the assets are generally held to maturity to match long duration liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for:

- expected long-term defaults, derived as a percentage of historical default experience based on Moody's data for the period 1970 to 2009, and the definition of the credit rating assigned to each asset held is the second highest credit rating published by Moody's, Standard & Poor's and Fitch;
- a credit risk premium, derived as the excess over the expected long-term defaults, of the 95th percentile of historical cumulative defaults based on Moody's data for the period 1970 to 2009, and subject to a minimum margin over expected long-term defaults of 50 per cent;
- an allowance for a 1-notch downgrade of the asset portfolio subject to credit risk; and
- an allowance for short-term downgrades and defaults.

For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium, 1-notch downgrade and the remaining element of short-term downgrade and default allowances are incorporated into the risk margin included in the discount rate, shown in note 14(iii).

(2) With-profits fund non-profit annuity business
For UK non-profit annuity business including that attributable to the PAC with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

(3) With-profits fund holdings of debt securities
The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

Allowance for non-diversifiable non-market risks
The majority of non-market and non-credit risks are considered to be diversifiable. Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's US business and UK business other than shareholder-backed annuity, no additional allowance is necessary. For UK shareholder-backed annuity business a further allowance of 50 basis points is used to reflect the longevity risk which is of particular relevance. For the Group's Asia operations in China, Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points.

(ix) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange. The principal exchange rates are shown in note A1 of the IFRS statements.

(x) Taxation

In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting year.

(xi) Inter-company arrangements

The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension polices in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to PRIL. In addition, the free surplus and value of in-force business are calculated after taking account of the impact of contingent loan arrangements between Group companies (movements in the contingent loan liability are reflected via the projected cash flows in the value of in-force and the related funding is reflected in free surplus).

(b) Accounting presentation

(i) Analysis of post-tax profit

To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 13(b)(ii) below) and incorporate the following:

— new business contribution, as defined in note 13(a)(ii);
— unwind of discount on the value of in-force business and other expected returns, as described in note 13(b)(iii) below;
— the impact of routine changes of estimates relating to non-economic assumptions, as described in note 13(b)(iv) below; and
— non-economic experience variances, as described in note 13(b)(v) below.

In order to show the UK long-term business result on a comparable basis, the presentation of 2014 results has been adjusted to show the results of the sold PruHealth and PruProtect businesses separately.

Non-operating results comprise the recurrent items of:

— short-term fluctuations in investment returns;
— the mark to market value movements on core borrowings; and
— the effect of changes in economic assumptions.

In addition, non-operating profit includes:

— the effect on free surplus generated from the disposal of the Japan Life business in 2015;
— the gain on sale of the PruHealth and PruProtect businesses in 2014; and
— the costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

(ii) Investment returns included in operating profit

For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 13(b)(iii) below.

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end-of-year risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force adjusted to reflect end-of-year projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the result for the year.

(iii) Unwind of discount and other expected returns

The unwind of discount and other expected returns is determined by reference to:

— the value of in-force business at the beginning of the year (adjusted for the effect of current period economic and operating assumption changes); and

— required capital and surplus assets.

In applying this general approach, the unwind of discount included in operating profit for the with-profits business of UK insurance operations is determined by reference to the opening value of in-force, as adjusted for the effects of short-term investment volatility due to market movements (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2015 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £58 million lower (31 December 2014: £194 million lower) than the surplus assets carried in the statement of financial position.

(iv) Effect of changes in operating assumptions

Operating profit includes the effect of changes to non-economic assumptions on the value of in-force at the end of the year. For presentational purposes the effect of change is delineated to show the effect on the opening value of in-force as operating assumption changes, with the experience variance subsequently being determined by reference to the end-of-year assumptions (see note 13(b)(v) below).

(v) Operating experience variances

Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality and morbidity, expenses and other factors, which are calculated with reference to the end-of-year assumptions.

(vi) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the year caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results.

14 Assumptions

Principal economic assumptions

The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to year end rates of return on government bonds. Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the year.

(i) Asia operationsnotes
(b), (c)

	Risk discount rate %				10-year government bond yield %		Expected long-term Inflation %	
	New business		In force					
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
China	9.4	10.2	9.4	10.2	2.9	3.7	2.5	2.5
Hong Kongnotes (b), (c)	3.7	3.7	3.7	3.7	2.3	2.2	2.3	2.3
Indonesia	12.8	12.0	12.8	12.0	8.9	7.9	5.0	5.0
Korea	6.1	6.7	5.7	6.5	2.1	2.6	3.0	3.0
Malaysianote (c)	6.6	6.6	6.7	6.6	4.2	4.1	2.5	2.5
Philippines	11.3	10.8	11.3	10.8	4.6	4.0	4.0	4.0
Singaporenote (c)	4.3	4.3	5.1	5.0	2.6	2.3	2.0	2.0
Taiwan	4.0	4.2	3.9	4.1	1.0	1.6	1.0	1.0
Thailand	9.3	9.5	9.3	9.5	2.5	2.7	3.0	3.0
Vietnam	13.8	14.0	13.8	14.0	7.1	7.2	5.5	5.5
Total weighted risk discount ratenote (a)	5.9	6.9	6.4	6.6				

Notes

(a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each country's risk discount rates by reference to the post-tax EEV basis new business result and the closing value of in-force business. The changes in the risk discount rates for individual Asia territories reflect the movements in government bond yields, together with the effects of movements in the allowance for market risk and changes in product mix.

(b) For Hong Kong the assumptions shown are for US dollar denominated business. For other territories, the assumptions are for local currency denominated business.

(c) Equity risk premiums in Asia range from 3.5 per cent to 8.6 per cent (2014: from 3.5 per cent to 8.7 per cent). The mean equity return assumptions for the most significant equity holdings of the Asia operations were:

	31 Dec 2015 %	31 Dec 2014 %
Hong Kong	6.3	6.2
Malaysia	10.2	10.1
Singapore	8.6	8.3

(ii) US operations

	31 Dec 2015 %	31 Dec 2014 %
Assumed new business spread margins:*		
Fixed annuity business:**		
January to June issues	1.25	1.5
July to December issues	1.5	1.5
Fixed index annuity business:		
January to June issues	1.5	2.0
July to December issues	1.75	2.0
Institutional business	0.7	0.7
Allowance for long-term defaults included in projected spreadnote 13 (a)(viii)	0.24	0.25
Risk discount rate:		
Variable annuity:		
Risk discount rate	6.8	6.9
Additional allowance for credit risk included in risk discount ratenote 13 (a)(viii)	0.2	0.2
Non-variable annuity:		
Risk discount rate	3.9	3.9
Additional allowance for credit risk included in risk discount ratenote 13 (a)(viii)	1.0	1.0
Weighted average total:		
New business	6.7	6.7
In force	6.2	6.2
US 10-year treasury bond rate at end of year	2.3	2.2
Pre-tax expected long-term nominal rate of return for US equities	6.3	6.2
Expected long-term rate of inflation	2.8	2.8
Equity risk premium	4.0	4.0
S&P equity return volatilitynote (v)	18.0	18.0

* including the proportion of variable annuity business invested in the general account and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

** including the proportion of variable annuity business invested in the general account.

(iii) UK insurance operations

	31 Dec 2015 %	31 Dec 2014 %
Shareholder-backed annuity business:		
Risk discount rate:note		
New business	5.7	6.5
In force	7.4	6.9
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:note		
New business	3.5	4.1
In force	3.5	3.2
Other business:		
Risk discount rate:*		
New business	5.6	5.5
In force	5.7	5.9
Pre-tax expected long-term nominal rates of investment return:		
UK equities	6.4	6.2

Overseas equities	6.3 to 9.4	6.2 to 9.0
Property	5.2	4.9
15-year gilt rate	2.4	2.2
Corporate bonds	4.1	3.8
Expected long-term rate of inflation	3.1	3.0
Equity risk premium	4.0	4.0

* The 2014 risk discount rates exclude the sold PruHealth and PruProtect businesses.

Note
For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates for new and in-force businesses reflect the effect of changes in asset yields (based on average yields for new business).

Stochastic assumptions
Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 13(a)(iv).

(iv) Asia operations
- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Korea, Malaysia, Singapore and Taiwan operations.
- The principal asset classes are government and corporate bonds.
- The asset return models are similar to the models as described for UK insurance operations below.
- The volatility of equity returns ranges from 18 per cent to 35 per cent, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 per cent for both years.

(v) US operations (Jackson)
- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data.
- Corporate bond returns are based on treasury yields plus a spread that reflects current market conditions.
- The volatility of equity returns ranges from 18 per cent to 27 per cent, and the standard deviation of interest rates ranges from 2.2 per cent to 2.5 per cent for both years.

(vi) UK insurance operations
- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields.
- Equity returns are assumed to follow a log-normal distribution.
- The corporate bond return is calculated based on a risk-free bond return plus a mean-reverting spread.
- Property returns are also modelled on a risk-free bond return plus a risk premium with a stochastic process reflecting total property returns.
- The standard deviation of equities and property ranges from 15 per cent to 20 per cent for both years.

Operating assumptions

Best estimate assumptions
Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered. For businesses which are currently sub-scale (China, Malaysia Takaful and Taiwan), and India (where the business model is being adapted as the industry continues to adjust to regulatory changes), expense overruns are reported where these are expected to be short-lived.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia regional head office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

— expenditure for Group head office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, which are charged to the EEV basis results as incurred; and
— expenditure of the Asia regional head office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate related activities and are included within corporate expenditure.

Tax rates

The assumed long-term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 13(a)(x).

The local standard corporate tax rates applicable for the most significant operations are as follows:

Standard corporate tax rates	%
Asia operations:	
Hong Kong	16.5*
Indonesia	25.0
Malaysia	2015: 25.0; from 2016: 24.0
Singapore	17.0
US operations	35.0
UK operations**	2015: 20.0; from 2017: 19.0; from 2020: 18.0

* 16.5 per cent on 5 per cent of premium income

** The impact of the reductions in future UK corporate tax rates on the opening value of in-force business is £55 million as shown in note 4(iv)(b).

15 Effect of Solvency II on EEV basis results on 1 January 2016

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

For the UK insurance operations Solvency II will impact the EEV results as it changes the local regulatory valuation of net worth and capital requirements, affecting the components of the EEV and the expected profile of free surplus generation. In line with guidance provided by the CFO Forum in October 2015, the impact of Solvency II on the UK EEV has not been included in the results presented in this section. An early estimate on the likely impact of Solvency II on the EEV net worth and value of in-force business is provided in section D of the additional unaudited information.

16 New business premiums and contributionsnote (i)

	Single		Regular		Annual premium and contribution equivalents (APE) note 13(a)(ii)		Present value of new business premiums (PVNBP) note 13(a)(ii)	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Group insurance operations								
Asia	2,120	2,272	2,641	2,010	2,853	2,237	15,208	12,331
US	17,286	15,555	-	-	1,729	1,556	17,286	15,555
UKnote (iv)	8,463	6,681	179	166	1,025	834	9,069	7,305
Group totalnote (iv)	27,869	24,508	2,820	2,176	5,607	4,627	41,563	35,191
Asia insurance operations								
Cambodia	-	-	8	3	8	3	38	16
Hong Kong	546	419	1,158	603	1,213	645	7,007	3,861
Indonesia	230	280	303	357	326	385	1,224	1,619
Malaysia	100	117	201	189	211	201	1,208	1,284
Philippines	146	121	44	39	59	51	287	248
Singapore	454	677	264	289	309	357	2,230	2,683
Thailand	69	92	88	74	95	83	422	392
Vietnam	6	4	82	61	83	61	343	247
SE Asia operations including Hong Kong	1,551	1,710	2,148	1,615	2,304	1,786	12,759	10,350
Chinanote (ii)	308	239	111	81	142	105	739	550
Korea	182	212	123	92	141	113	780	609
Taiwan	45	83	127	116	131	124	442	462
Indianote (iii)	34	28	132	106	135	109	488	360
Total Asia insurance operations	2,120	2,272	2,641	2,010	2,853	2,237	15,208	12,331
US insurance operations								
Variable annuities	11,977	10,899	-	-	1,198	1,090	11,977	10,899
Elite Access (variable annuity)	3,144	3,108	-	-	314	311	3,144	3,108
Fixed annuities	477	527	-	-	48	53	477	527
Fixed index annuities	458	370	-	-	46	37	458	370
Wholesale	1,230	651	-	-	123	65	1,230	651
Total US insurance operations	17,286	15,555	-	-	1,729	1,556	17,286	15,555
UK and Europe insurance operationsnote (iv)								
Individual annuities	565	1,065	-	-	57	106	565	1,065
Bonds	3,327	2,934	-	-	333	294	3,328	2,937
Corporate pensions	175	92	135	138	152	147	600	592
Individual pensions	1,185	508	32	22	150	72	1,295	595
Income drawdown	1,024	352	-	-	102	35	1,024	352

Other products	679	20	12	6	80	9	749	54
Total Retailnote (iv)	6,955	4,971	179	166	874	663	7,561	5,595
Wholesale	1,508	1,710	-	-	151	171	1,508	1,710
Total UK and Europe insurance operationsnote (iv)	8,463	6,681	179	166	1,025	834	9,069	7,305
Group totalnote (iv)	27,869	24,508	2,820	2,176	5,607	4,627	41,563	35,191

Notes

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting year that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement.

(ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

(iv) The 2014 UK and Europe insurance operations comparatives have been adjusted to exclude the contribution from the sold PruHealth and PruProtect businesses (APE sales of £23 million and PVNBP of £166 million), following the disposal of our 25 per cent interest in the businesses in November 2014.

Additional Unaudited Financial Information

A New Business

BASIS OF PREPARATION

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, ie falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under Prudential Regulation Authority regulations.

The details shown for insurance products 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.

New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option. New business premiums reflect those premiums attaching to covered business, including premiums for contracts designed as investment products for IFRS reporting.

Investment products referred to in the tables for funds under management are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

Post-tax New Business Profit has been determined using the European Embedded Value (EEV) methodology set out in our EEV basis results supplement.

In determining the EEV basis value of new business written in the period policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

Annual premium equivalent (APE) sales are subject to rounding.

Notes to Schedules A(i) to A(ix)

(1) Prudential plc reports its results using both actual exchange rates (AER) and constant exchange rates (CER) so as to eliminate the impact of exchange translation.

Local currency: £		Full year 2015*	Full year 2014*	Full year 2015 vs Full year 2014 appreciation (depreciation) of local currency against GBP*
China	Average Rate	9.61	10.15	6%
	Closing Rate	9.57	9.67	1%
Hong Kong	Average Rate	11.85	12.78	8%
	Closing Rate	11.42	12.09	6%
India	Average Rate	98.08	100.53	2%
	Closing Rate	97.51	98.42	1%
Indonesia	Average Rate	20,476.93	19,538.56	(5)%
	Closing Rate	20,317.71	19,311.31	(5)%
Malaysia	Average Rate	5.97	5.39	(10)%
	Closing Rate	6.33	5.45	(14)%
Singapore	Average Rate	2.10	2.09	(0)%
	Closing Rate	2.09	2.07	(1)%
Thailand	Average Rate	52.38	53.51	2%
	Closing Rate	53.04	51.30	(3)%
US	Average Rate	1.53	1.65	8%
	Closing Rate	1.47	1.56	6%
Vietnam	Average Rate	33,509.21	34,924.62	4%
	Closing Rate	33,140.64	33,348.46	1%

*Average rate is for the 12 month period to 31 December.

(1a) Insurance new business for overseas operations are converted using the year-to-date average exchange rate applicable at the time (AER). The sterling results for individual quarters represent the difference between the year-to-date reported sterling results at successive quarters and will include foreign exchange movements from earlier periods.

(1b) Insurance new business for overseas operations for 2014 has been calculated using constant exchange rates (CER).

(1c) Constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014 and 2015.

(2) Annual Equivalents, calculated as regular new business contributions plus 10 per cent of single new business contributions, are subject to rounding. Present value of new business premiums (PVNBPs) are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.

(3) Balance includes segregated and pooled pension funds, private finance assets and other institutional clients. Other movements reflect the net flows arising from the cash component of a tactical asset allocation fund managed by PPM South Africa.

(4) New business in India is included at Prudential's 26 per cent interest in the India life operation.

(5) Balance Sheet figures have been calculated at the closing exchange rate.

(6) New business in China is included at Prudential's 50 per cent interest in the China life operation.
(7) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.
(8) Investment flows for the year exclude year-to-date Eastspring Money Market Funds (MMF) gross inflows of £89,553 million (2014: £67,749 million) and net inflows of £1,066 million (2014: £10 million). Investment flows for the discrete fourth quarter exclude MMF gross inflows of £19,176 million (2014: £17,353 million) and net inflows of £304 million (2014: net outflows of £(48) million).
(9) Excludes Curian Variable Series Trust funds (internal funds under management).
(10) Total Group Investment Operations funds under management exclude MMF funds under management of £6,006 million at 31 December 2015 (31 December 2014: £4,801 million).
(11) The 2014 UK and Europe insurance operations comparatives have been adjusted to exclude PruHealth and PruProtect APE sales of £23 million, new business profit of £11 million and PVNBP of £166 million, following the disposal of our 25 per cent interest in the businesses in November 2014.

Schedule A(i) – New Business Insurance Operations (Actual Exchange Rates)

	Single			Regular			Annual Equivalents(2)			PVNBP(2)		
	2015	2014		2015	2014		2015	2014		2015	2014	
	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)	YTD	YTD	+/- (%)
	£m	£m		£m	£m		£m	£m		£m	£m	
Group Insurance Operations												
Asia (1a)	2,120	2,272	(7)%	2,641	2,010	31%	2,853	2,237	28%	15,208	12,331	23%
US(1a)	17,286	15,555	11%	-	-	N/A	1,729	1,556	11%	17,286	15,555	11%
UK(11)	8,463	6,681	27%	179	166	8%	1,025	834	23%	9,069	7,305	24%
Group Total (11)	27,869	24,508	14%	2,820	2,176	30% -	5,607	4,627	21%	41,563	35,191	18%
Asia Insurance Operations(1a)												
Cambodia	-	-	N/A	8	3	167%	8	3	167%	38	16	138%
Hong Kong	546	419	30%	1,158	603	92%	1,213	645	88%	7,007	3,861	81%
Indonesia	230	280	(18)%	303	357	(15)%	326	385	(15)%	1,224	1,619	(24)%
Malaysia	100	117	(15)%	201	189	6%	211	201	5%	1,208	1,284	(6)%
Philippines	146	121	21%	44	39	13%	59	51	16%	287	248	16%
Singapore	454	677	(33)%	264	289	(9)%	309	357	(13)%	2,230	2,683	(17)%
Thailand	69	92	(25)%	88	74	19%	95	83	14%	422	392	8%
Vietnam	6	4	50%	82	61	34%	83	61	36%	343	247	39%
SE Asia Operations inc. Hong Kong	1,551	1,710	(9)%	2,148	1,615	33%	2,304	1,786	29%	12,759	10,350	23%
China(6)	308	239	29%	111	81	37%	142	105	35%	739	550	34%
Korea	182	212	(14)%	123	92	34%	141	113	25%	780	609	28%
Taiwan	45	83	(46)%	127	116	9%	131	124	6%	442	462	(4)%
India(4)	34	28	21%	132	106	25%	135	109	24%	488	360	36%
Total Asia Insurance Operations	2,120	2,272	(7)%	2,641	2,010	31%	2,853	2,237	28%	15,208	12,331	23%
US Insurance Operations(1a)												

Variable annuities	11,977	10,899	10%	-	-	N/A	1,198	1,090	10%	11,977	10,899	10%
Elite Access (variable annuity)	3,144	3,108	1%	-	-	N/A	314	311	1%	3,144	3,108	1%
Fixed annuities	477	527	(9)%	-	-	N/A	48	53	(9)%	477	527	(9)%
Fixed index annuities	458	370	24%	-	-	N/A	46	37	24%	458	370	24%
Wholesale	1,230	651	89%	-	-	N/A	123	65	89%	1,230	651	89%
Total US Insurance Operations	17,286	15,555	11%	-	-	N/A	1,729	1,556	11%	17,286	15,555	11%
UK & Europe Insurance Operations(11)												
Individual annuities	565	1,065	(47)%	-	-	N/A	57	106	(46)%	565	1,065	(47)%
Bonds	3,327	2,934	13%	-	-	N/A	333	294	13%	3,328	2,937	13%
Corporate pensions	175	92	90%	135	138	(2%)	152	147	3%	600	592	1%
Individual pensions	1,185	508	133%	32	22	45%	150	72	108%	1,295	595	118%
Income drawdown	1,024	352	191%	-	-	N/A	102	35	191%	1,024	352	191%
Other products	679	20	3,295%	12	6	100%	80	9	789%	749	54	1,287%
Total Retail	6,955	4,971	40%	179	166	8%	874	663	32%	7,561	5,595	35%
Wholesale	1,508	1,710	(12)%	-	-	N/A	151	171	(12)%	1,508	1,710	(12)%
Total UK & Europe Insurance Operations	8,463	6,681	27%	179	166	8%	1,025	834	23%	9,069	7,305	24%
Group Total (11)	27,869	24,508	14%	2,820	2,176	30%	5,607	4,627	21%	41,563	35,191	