ERIE INDEMNITY CO
Form DEF 14C
March 18, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14C INFORMATION
Information Statement Pursuant to Section 14(c)
of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Information Statement
þ Definitive Information Statement only
o **Confidential, for use of the Commission Only (as permitted by Rule 14c-5(d)(2)))**

ERIE INDEMNITY COMPANY

(Name of Registrant as Specified In Its Charter)

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 19, 2011

To the Holders of Class A Common Stock and
Class B Common Stock of ERIE INDEMNITY COMPANY:

We will hold our 86th annual meeting of shareholders at **9:30 a.m., local time, on Tuesday, April 19, 2011,** at the Auditorium of the F.W. Hirt Perry Square Building, 100 Erie Insurance Place (Sixth and French Streets), Erie, Pennsylvania 16530 for the following purposes:

1. To approve amendments to our articles of incorporation to: (i) modify the corporate purposes clause; (ii) update our corporate registered address; and (iii) eliminate the requirement of a specific number of directors and provide that the size of the board of directors shall be governed by our bylaws;

2. To elect 13 persons to serve as directors until our 2012 annual meeting of shareholders and until their successors are elected and qualified;

3. To approve, on an advisory basis, the compensation of our named executive officers;

4. To select, on an advisory basis, the frequency of the shareholder advisory vote on the compensation of our named executive officers; and

5. To transact any other business that may properly come before our annual meeting and any adjournment, postponement or continuation thereof.

This notice and information statement, together with a copy of our annual report to shareholders for the year ended December 31, 2010, are being sent to all holders of Class A common stock and Class B common stock as of the close of business on Friday, February 18, 2011, the record date established by our board of directors. Holders of Class B common stock will also receive a form of proxy. Holders of Class A common stock will not receive proxies because they do not have the right to vote on any of the matters to be acted upon at our annual meeting.

Holders of Class B common stock are requested to complete, sign and return the enclosed form of proxy in the envelope provided, whether or not they expect to attend our annual meeting in person.

By order of our board of directors,

James J. Tanous
Executive Vice President,
Secretary and General Counsel

March 18, 2011
Erie, Pennsylvania

NOTICE OF INTERNET AVAILABILITY OF ANNUAL MEETING MATERIALS

Important Notice Regarding the Availability of our Information Statement for the Annual Meeting of Shareholders to be held on April 19, 2011.

Our information statement and annual report are available at http://www.erieindemnityinfostatement.com.

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We Are Not Asking Holders of Our Class A Common Stock for a Proxy and You Are Requested Not to Send Us a Proxy

ERIE INDEMNITY COMPANY

INFORMATION STATEMENT

Unless the context indicates otherwise, all references in this information statement to we, us, our or the Company mean Erie Indemnity Company. Erie Insurance Exchange, or the Exchange, has four property and casualty insurance subsidiaries: Erie Insurance Company, or Erie Insurance Co., Erie Insurance Company of New York, or Erie NY, Erie Insurance Property & Casualty Company, or EI P&C and Flagship City Insurance Company, or Flagship. We sometimes refer to the Exchange and its property and casualty insurance subsidiaries as the Property and Casualty Group. We hold a 21.63% interest in the common stock (EFL Common Stock) of Erie Family Life Insurance Company, or EFL, a life insurance company. The Exchange owns the remaining 78.37% of EFL s Common Stock.

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ERIE INDEMNITY COMPANY

100 Erie Insurance Place
Erie, Pennsylvania 16530

INFORMATION STATEMENT

INTRODUCTION

This information statement, which is first being mailed to the holders of our Class A common stock and our Class B common stock on or about March 18, 2011, is furnished to such holders to provide information regarding us and our 2011 annual meeting of shareholders. This information statement is also being furnished in connection with the solicitation of proxies by our board of directors from holders of Class B common stock to be voted at our 2011 annual meeting of shareholders and at any adjournment, postponement or continuation thereof. Our annual meeting will be held at 9:30 a.m., local time, on Tuesday, April 19, 2011 at the Auditorium of the F.W. Hirt Perry Square Building, 100 Erie Insurance Place (Sixth and French Streets), Erie, Pennsylvania 16530. Holders of Class B common stock will also receive a form of proxy.

Only holders of Class B common stock of record at the close of business on February 18, 2011 are entitled to vote at our annual meeting. Each share of Class B common stock is entitled to one vote on each matter to be considered at our annual meeting. Except as otherwise provided in Sections 1756(b)(1) and (2) of the Pennsylvania Business Corporation Law of 1988, or BCL, in the case of adjourned meetings, a majority of the outstanding shares of Class B common stock will constitute a quorum at our annual meeting for the election of directors. Abstentions and shares of Class B common stock held by nominees as to which we have not received voting instructions from the beneficial owner, or other person entitled to vote such shares, and as to which the nominee does not have discretionary voting power, are considered outstanding shares of Class B common stock entitled to vote and such shares are counted in determining whether a quorum or a majority is present.

As of the close of business on February 18, 2011, we had 49,751,555 shares of Class A common stock outstanding, which are not entitled to vote on any matters to be acted upon at our 2011 annual meeting, and 2,546 shares of Class B common stock outstanding, which have the exclusive right to vote on all matters to be acted upon at our 2011 annual meeting.

There are three H.O. Hirt Trusts. Susan Hirt Hagen, or Mrs. Hagen, and Elizabeth Hirt Vorsheck, or Mrs. Vorsheck, both of whom are directors of the Company, are beneficiaries of the Trusts. Thomas B. Hagen and Jonathan Hirt Hagen, both directors of the Company, are contingent beneficiaries of the Trusts. The H.O. Hirt Trusts collectively own 2,340 shares of Class B common stock, which, because such shares represent 91.91% of the outstanding shares of Class B common stock entitled to vote at our 2011 annual meeting, is sufficient to determine the outcome of any matter submitted to a vote of the holders of our Class B common stock, assuming all of the shares held by the H.O. Hirt Trusts are voted in the same manner. As of the record date for our 2011 annual meeting, the individual trustees of the H.O. Hirt Trusts are Mrs. Hagen and Mrs. Vorsheck, and the corporate trustee is Sentinel Trust Company, L.B.A., or Sentinel. Mrs. Hagen and Mrs. Vorsheck are both candidates for re-election to the board at our 2011 annual meeting.

Under the provisions of the H.O. Hirt Trusts, the shares of Class B common stock held by the H.O. Hirt Trusts are to be voted as directed by a majority of trustees then in office. If at least a majority of the trustees then in office of each of the H.O. Hirt Trusts vote for the election of the 13 candidates for director named below, such candidates will be elected as directors even if all shares of Class B common stock other than those held by the H.O. Hirt Trusts do not vote for such candidates. We have not been advised as of the date of this information statement how the trustees of the H.O. Hirt Trusts intend to vote at our annual meeting.

Since 1925, we have served as the attorney-in-fact for the policyholders of the Exchange. As a reciprocal insurance exchange organized under the laws of the Commonwealth of Pennsylvania, the Exchange is an unincorporated association of individuals, partnerships and corporations that agree to insure one another. Each applicant for insurance from the Exchange signs a subscriber s agreement, which appoints us as the attorney-in-fact for the subscriber (policyholder). As attorney-in-fact, we are required to perform certain services relating to the sales, underwriting and issuance of policies on behalf of the Exchange. We also provide management services to the Exchange, its property and casualty subsidiaries and EFL.

Throughout 2010, we also operated as a property and casualty insurer through our wholly-owned subsidiaries, Erie Insurance Co., Erie NY and EI P&C. On December 31, 2010, we sold all of the outstanding capital stock and voting shares of Erie Insurance Co., Erie NY and EI P&C to the Exchange. Under this new structure, all property and casualty insurance operations are owned by the Exchange, and we will continue to function as the management company. We also entered into an agreement to sell our 21.63% interest in EFL Common Stock to the Exchange. Upon completion of the sale, which is expected to occur on March 31, 2011, EFL will become a wholly-owned subsidiary of the Exchange.

The Property and Casualty Group writes personal and commercial lines of property and casualty insurance coverages exclusively through approximately 2,080 independent agencies comprised of more than 9,400 licensed agents. The underwriting results of the Property and Casualty Group are pooled. As a result of the Exchange s 94.5% participation in the reinsurance pooling arrangement, the underwriting risk of the Property and Casualty Group s business is largely borne by the Exchange. The sale of our insurance subsidiaries to the Exchange did not affect the pooling agreement, and had no impact on the subscribers (policyholders) of the Exchange, the Exchange s independent insurance agents, or our employees.

Due to FASB Accounting Standards Codification No. 810, we are required to consolidate our financial statements with those of the Exchange when reporting to the Securities and Exchanges Commission, or SEC. This change to our financial reporting took effect on January 1, 2010. Accordingly, our first quarter 2010 Form 10-Q, filed on May 6, 2010, was the first filing under the new consolidation rules. This change affects the presentation of the financial reports; it does not change our financial results. For more information regarding this change to our financial reporting see the Form 8-K we filed with the SEC on May 6, 2010.

We charge the Exchange a management fee calculated as a percentage, limited to 25%, of the direct written premiums of the Property and Casualty Group. Management fees accounted for 83.6%, 81.4% and 75.7%, respectively, of our revenues for the three years ended December 31, 2008, 2009 and 2010. The management fee rate was 25% during 2008, 2009 and 2010, and beginning January 1, 2011, the rate has been set at 25%.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth as of February 18, 2011, the amount of our outstanding Class B common stock owned by shareholders known by us to own beneficially more than 5% of our Class B common stock.

Name of Individual or Identity of Group	Shares of Class B Common Stock Beneficially Owned	Percent of Outstanding Class B Common Stock
H.O. Hirt Trusts(1), Erie, Pennsylvania	2,340	91.91%
Hagen Family Limited Partnership(2), Erie, Pennsylvania	153	6.01%

(1) There are three H.O. Hirt Trusts. Mrs. Hagen and Mrs. Vorsheck are two of the beneficiaries of the Trusts, and Thomas B. Hagen, the husband of Mrs. Hagen, and Jonathan Hirt Hagen, the son of Mrs. Hagen, are two of the

contingent beneficiaries. The Trustees of the H.O. Hirt Trusts as of the date of this information statement are Mrs. Hagen, Mrs. Vorsheck and Sentinel. The Trustees collectively control voting and disposition of the shares of Class B common stock. A majority of the Trustees then in office acting together is required to take any action with respect to the voting or disposition of shares of Class B common stock.

(2) Thomas B. Hagen, the chairman of our board of directors, is the general partner of the Hagen Family Limited Partnership. As general partner, Mr. Hagen has sole voting power and investment power over the shares of Class B common stock held by the Hagen Family Limited Partnership. Mr. Hagen is the husband of Mrs. Hagen and the father of Jonathan Hirt Hagen. Mrs. Hagen and Jonathan Hirt Hagen are also directors of the Company.

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The following table sets forth as of February 18, 2011, the amount of the outstanding shares of Class A common stock and Class B common stock beneficially owned by (i) each director and candidate for director nominated by our Nominating and Governance Committee, or nominating committee, (ii) each executive officer named in the Summary Compensation Table and (iii) all of our executive officers and directors as a group.

Name of Individual or Identity of Group	Shares of Class A Common Stock Beneficially Owned(1)(2)	Percent of Outstanding Class A Common Stock(3)	Shares of Class B Common Stock Beneficially Owned(1)(2)	Percent of Outstanding Class B Common Stock(3)
Directors and Nominees for Director:				
J. Ralph Borneman, Jr.	50,000			
Terrence W. Cavanaugh	21,600			
Jonathan Hirt Hagen	223,130		1	
Susan Hirt Hagen(4)	6,658,800	13.39%	12	
Thomas B. Hagen(5)	10,091,159	20.28%	157	6.17%
C. Scott Hartz	2,097			
Claude C. Lilly, III	1,273			
Lucian L. Morrison(6)				
Thomas W. Palmer	770			
Martin P. Sheffield	400			
Richard L. Stover	1,000			
Elizabeth Hirt Vorsheck(7)	4,782,282	9.61%		
Robert C. Wilburn	3,000			
Executive Officers(8):				
Marcia A. Dall	1,250			
George R. Lucore	3,299			
James J. Tanous	6,423			
Michael S. Zavasky	18,232			
Douglas F. Ziegler(9)	33,699			
All Directors and Executive Officers as a Group (20 persons)(10)	21,908,720	44.04%	170	6.68%

(1) Information furnished by the named persons.

(2) Under the rules of the SEC, a person is deemed to be the beneficial owner of securities if the person has, or shares, voting power, which includes the power to vote, or to direct the voting of, such securities, or investment power, which includes the power to dispose, or to direct the disposition, of such securities. Under these rules, more than one person may be deemed to be the beneficial owner of the same securities. Securities beneficially owned also include securities owned jointly, in whole or in part, or individually by the person s spouse, minor

children or other relatives who share the same home. The information set forth in the above table includes all shares of Class A common stock and Class B common stock over which the named individuals, individually or together, share voting power or investment power. The table does not reflect shares of Class A common stock and Class B common stock as to which beneficial ownership is disclaimed.

(3) Less than 1% unless otherwise indicated.

(4) Mrs. Hagen owns 300 shares of Class A common stock directly and 6,658,500 shares of Class A common stock indirectly through a revocable trust of which Mrs. Hagen was the grantor and is the sole trustee and beneficiary. Mrs. Hagen owns 12 shares of Class B common stock directly. Mrs. Hagen disclaims beneficial ownership of the 5,100 shares of Class A common stock and four shares of Class B common stock owned by Thomas B. Hagen, her husband, and the 10,086,059 shares of Class A common stock

and 153 shares of Class B common stock owned by the Hagen Family Limited Partnership, for which Thomas B. Hagen, as general partner, has sole voting power and investment power. Mrs. Hagen also disclaims beneficial ownership of any shares of Class B common stock held by the H.O. Hirt Trusts of which she is a beneficiary, contingent beneficiary and one of three trustees.

(5) Mr. Hagen owns 5,100 shares of Class A common stock directly and 10,086,059 shares of Class A common stock indirectly through the Hagen Family Limited Partnership. Mr. Hagen owns four shares of Class B common stock directly and 153 shares of Class B common stock indirectly through the Hagen Family Limited Partnership. Mr. Hagen disclaims beneficial ownership of the 300 shares of Class A common stock and 12 shares of Class B common stock owned by Mrs. Hagen, his wife, and the 6,658,500 shares of Class A common stock owned indirectly by Mrs. Hagen. Mr. Hagen also disclaims beneficial ownership of any shares of Class B common stock held by the H.O. Hirt Trusts of which his wife is a beneficiary, contingent beneficiary and one of three trustees.

(6) See discussion under Director Compensation Director Stock Ownership Guidelines.

(7) Mrs. Vorsheck owns 69,516 shares of Class A common stock directly and 4,712,766 shares of Class A common stock indirectly through several trusts.

(8) Excludes Mr. Cavanaugh, who is listed under Directors and Nominees for Director.

(9) Includes 27,549 shares of Class A common stock held by Mr. Ziegler directly and 6,150 shares of Class A common stock held by his wife.

(10) Includes Executive Vice Presidents George D. Dufala and John F. Kearns.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires that the officers and directors of a corporation, such as us, that has a class of equity securities registered under Section 12 of the Exchange Act, as well as persons who own more than 10% of a class of equity securities of such a corporation, file reports of their ownership of such securities, as well as statements of changes in such ownership, with the corporation and the SEC. Based upon written representations we received from our officers and directors and shareholders owning more than 10% of any class of our stock, and our review of the statements of changes of ownership filed with us by our officers and directors and shareholders owning more than 10% of any class of our stock during 2010, we believe that all such filings required during 2010 were made on a timely basis.

PROPOSAL 1 APPROVAL OF AMENDMENTS TO OUR ARTICLES OF INCORPORATION

We are proposing certain amendments to our articles of incorporation, our articles, to: (i) modify the corporate purposes clause; (ii) update our corporate registered address; and (iii) eliminate the requirement of a specific number of directors and provide that the size of the board of directors shall be governed by our bylaws. Each of these amendments is discussed below.

Following shareholder approval, the amendments will become effective upon the filing of articles of amendment with the Pennsylvania Department of State. We also intend to file a restatement of our articles to incorporate all amendments that are adopted by our shareholders at the annual meeting as well as all other amendments that have been adopted by our shareholders since the original filing of our articles in 1925.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE PROPOSED AMENDMENTS IN THIS PROPOSAL 1.

A. AMENDMENT TO MODIFY THE CORPORATE PURPOSES CLAUSE

Article 2nd of our original articles reads as follows: *Said corporation is formed for the purpose of conducting a general real estate and insurance agency and brokerage business in all the various branches thereof, the placing of surety bonds and the transaction of all such business as is necessary or incidental thereto.* Since the original filing of our articles in 1925, we have never operated as a real estate agency or brokerage, or otherwise engaged in the real estate business other than the purchase, sale or lease of real property incidental to the growth of our insurance business. Our business has consisted primarily of serving as the attorney-in-fact for the policyholders of the Exchange and providing management services to the Exchange, its subsidiaries and EFL.

At its meeting on February 24, 2011, our board of directors unanimously approved, and recommended for approval by our voting shareholders, an amendment to our articles that would replace the current Article 2nd in its entirety with the following: *2. The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Business Corporation Law of the Commonwealth of Pennsylvania, including, but not limited to, the conduct of an insurance business, whether directly or indirectly, as attorney-in-fact for the subscribers at Erie Insurance Exchange or other reciprocal insurance exchanges, or manager or administrator for stock or mutual insurance companies or risk retention groups, or agent or broker for insurance underwriting entities, or other activities related to any of the foregoing businesses or purposes.* The proposed amendment will conform the corporate purposes clause to the types of business actually conducted by the Company, but will have no other effect on the Company or its shareholders.

The affirmative vote of a majority of the shares of Class B common stock cast at our annual meeting is required to approve the proposed amendment to our articles.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSED AMENDMENT TO MODIFY THE CORPORATE PURPOSES CLAUSE (ITEM 1A ON THE PROXY CARD).

B. AMENDMENT TO UDPATE THE COMPANY S REGISTERED ADDRESS

Article 3rd of our original articles reads as follows: *The business of said corporation is to be transacted in The City of Erie, Pennsylvania.* Since 1925, our business has grown both in size and geographic area. We currently transact business in 11 states and the District of Columbia, primarily as attorney-in-fact for the Exchange and as a manager of the Exchange, its subsidiaries and EFL. Accordingly, we believe it would be appropriate to amend our articles to reflect that, although we remain headquartered in Erie, Pennsylvania, we regularly transact business within and outside the City of Erie, Pennsylvania.

At its meeting on February 24, 2011, our board of directors unanimously approved, and recommended for approval by our voting shareholders, an amendment to our articles that would replace the current Article 3rd in

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its entirety with the following: *3. The address of the Corporation in the Commonwealth is 100 Erie Insurance Place, City of Erie, County of Erie, Pennsylvania 16530-0001. The Corporation shall be headquartered in the City of Erie, Pennsylvania, and the business of the Corporation may be transacted throughout the United States of America and in such other sovereign nations as the Board of Directors deems advisable.*

The affirmative vote of a majority of the shares of Class B common stock cast at our annual meeting is required to approve the proposed amendment to our articles.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSED AMENDMENT TO UPDATE THE COMPANY S REGISTERED ADDRESS (ITEM 1B ON THE PROXY CARD).

C. AMENDMENT TO ELIMINATE THE REQUIREMENT OF A SPECIFIC NUMBER OF DIRECTORS AND TO PROVIDE THAT THE SIZE OF OUR BOARD SHALL BE GOVERNED BY OUR BYLAWS

We are also proposing an amendment to our articles that would allow our bylaws to address the size of our board of directors, thereby correcting a discrepancy that exists between our articles and our bylaws with respect to setting the size of the board. When our original articles were filed on April 17, 1925, the incorporators included a provision fixing the size of the board of directors at fifteen. When our bylaws were first adopted on April 18, 1925, they contained a similar provision requiring that the Company have fifteen directors. Since 1925, several amendments to our bylaws have addressed the size of our board, but none of the amendments to our articles ever transferred such authority to regulate the size of the board to the bylaws. This proposed amendment to the articles will definitively allow our bylaws to establish the size of our board of directors.

Article 6th of our articles currently provides, in pertinent part, that *[t]he number of directors of said corporation is fixed at Fifteen...* At its meeting on February 24, 2011, our board of directors unanimously approved, and recommended for approval by our voting shareholders, an amendment to our articles that would replace the current Article 6th in its entirety with the following: *6. The number of directors of the Corporation shall be determined in accordance with the Corporation s Bylaws, as may be amended from time to time.* Our bylaws provide that our board of directors shall consist of not less than 7, nor more than 16, directors, with the exact number to be fixed from time to time by resolution of our board of directors. The effect of this amendment would be to provide our board of directors with the ability to set the size of the board without having to obtain shareholder approval to do so.

The affirmative vote of a majority of the shares of Class B common stock cast at our annual meeting is required to approve the proposed amendment to our articles.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSED AMENDMENT TO ELIMINATE THE REQUIREMENT OF A SPECIFIC NUMBER OF DIRECTORS AND TO PROVIDE THAT THE SIZE OF OUR BOARD SHALL BE GOVERNED BY OUR BYLAWS (ITEM 1C ON THE PROXY CARD).

PROPOSAL 2 ELECTION OF DIRECTORS

Introduction

The election of directors by the holders of our Class B common stock is governed by provisions of the Pennsylvania Insurance Holding Companies Act, or the Holding Companies Act, in addition to provisions of the BCL, the Pennsylvania Associations Code and our bylaws. The following discussion summarizes these statutory and bylaw provisions and describes the process undertaken in connection with the nomination of candidates for election as directors by the holders of Class B common stock at our annual meeting.

Background of our Nominating Committee

Section 1405(c)(4.1) of the Holding Companies Act provides that the board of directors of a domestic insurer must establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer. Such committee or committees must have responsibility for, among other things, recommending candidates to be nominated by the board of directors, in addition to any other nominations by voting shareholders, for election as directors by the voting shareholders. Section 1405(c)(5) of the Holding Companies Act provides that the above provisions shall not apply to a domestic insurer if the person controlling such insurer is an insurer or another business entity having a board of directors and committees thereof which already meet the requirements of Section 1405(c)(4.1). For purposes of the Holding Companies Act, we are deemed to control the Exchange, its subsidiaries and EFL, and our board of directors and its committees are in compliance with Section 1405(c)(4.1).

Section 3.09 of our bylaws is consistent with this statutory provision and provides that (i) our board of directors must appoint annually a nominating committee that consists of not less than three directors, each of whom is not an officer or employee of us or of any entity controlling, controlled by or under common control with us, and (ii) our nominating committee must, prior to each annual meeting of shareholders, determine and nominate candidates for the office of director to be elected by the holders of Class B common stock to serve terms as established by our bylaws and until their successors are elected.

In accordance with this bylaw provision, on April 20, 2010 our board of directors designated a nominating committee consisting of Jonathan Hirt Hagen, chair, Susan Hirt Hagen, Thomas W. Palmer and Elizabeth Hirt Vorsheck. Thomas B. Hagen is, *ex officio*, also a voting member of the nominating committee. Consistent with the Holding Companies Act, none of these persons is an officer or employee of us or of any entity controlling, controlled by or under common control with us. Each member of our nominating committee is an independent director as defined in the rules applicable to companies listed on the NASDAQ Global Select Market®, or NASDAQ.

Nominating Procedures

Under Section 2.07(a) of our bylaws, nominations of persons for election to our board of directors may be made at any meeting at which directors are to be elected (i) by or at the direction of our board of directors upon the recommendation of our nominating committee or (ii) by any holder of our Class B common stock.

With respect to nominations by or at the direction of our nominating committee, except as is required by rules promulgated by NASDAQ, the SEC or the Holding Companies Act, there are no specific, minimum qualifications that must be met by a candidate for our board of directors, and our nominating committee may take into account such factors as it deems appropriate. Our nominating committee generally bases its nominations on our general needs as well as the specific attributes of candidates that would add to the overall effectiveness of our board of directors. Specifically, among the significant factors that our nominating committee may take into consideration are judgment, skill, experience with businesses and other organizations of comparable size, the interplay of the candidate s experience with the experience of other directors, and the extent to which the candidate would be a desirable addition to our board of directors and any committee of our board of directors.

Although we do not have a formal policy or guidelines regarding diversity of membership of our board of directors, our corporate governance guidelines recognize the value of having a board that encompasses a broad range of skills, expertise, contacts, industry knowledge and diversity of opinion. Our board has not attempted to define diversity or otherwise require that the composition of our board include individuals from any particular background or who possess specific attributes.

In identifying and evaluating the individuals that it selects, or recommends that our board of directors select, as director nominees, our nominating committee utilizes the following process:

Our nominating committee reviews the qualifications of any candidates who have been recommended by a holder of Class A common stock or Class B common stock in accordance with our bylaws.

Our nominating committee also considers recommendations made by individual members of our board of directors or, if our nominating committee so determines, a search firm. Our nominating committee may consider candidates who have been identified by management, but is not required to do so.

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Our nominating committee evaluates the background, experiences, qualifications and suitability of each candidate, including the current members of our board of directors, in light of the current size and composition of our board of directors and the above discussed significant factors.

After such review and consideration, our nominating committee recommends a slate of director nominees to the board of directors.

Actions Taken for Nominations

Our nominating committee met on February 19, 2011 for the purposes of evaluating the performance and qualifications of the current or proposed members of our board of directors and nominating candidates for election as directors by the holders of Class B common stock at our annual meeting.

Our bylaws provide that our board of directors shall consist of not less than 7, nor more than 16, directors, with the exact number to be fixed from time to time by resolution of our board of directors. Our nominating committee recommended at its February 19, 2011 meeting that the size of our board of directors remain at 13 persons and that all 13 incumbent directors as of such date be nominated to stand for re-election as directors by the holders of Class B common stock at our annual meeting.

On February 24, 2011, our board of directors accepted the report and recommendation of our nominating committee, set the number of directors to be elected at our annual meeting at 13 and approved the nomination of J. Ralph Borneman, Jr., Terrence W. Cavanaugh, Jonathan Hirt Hagen, Susan Hirt Hagen, Thomas B. Hagen, C. Scott Hartz, Claude C. Lilly, III, Lucian L. Morrison, Thomas W. Palmer, Martin P. Sheffield, Richard L. Stover, Elizabeth Hirt Vorsheck and Robert C. Wilburn for election as directors by the holders of Class B common stock at our annual meeting. If elected, such persons would serve until our 2012 annual meeting of shareholders and until their successors are elected and qualified.

Candidates for Election

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of the nominees named below. All of the nominees are currently directors of the Company. If a nominee becomes unavailable for any reason, it is intended that the proxies will be voted for a substitute nominee selected by our nominating committee. Our board of directors has no reason to believe the nominees named will be unable to serve if elected.

The biography of each director nominee below contains information regarding that person s principal occupation, positions held with the Company, service as a director, committee assignments, business experience, other director positions currently held or held at any time during the past five years, involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused our nominating committee to conclude that the person should serve as a member of our board of directors:

Name (Committee Assignments)	**Age as of 4/1/11**	**Principal Occupation for Past Five Years and Positions with the Company; Directorships with other Public Companies During Past Five Years**	**Director of the Company Since**
	72		1992

J. Ralph Borneman, Jr. CIC, CPIA (5)(7C)(8)	President, Chief Executive Officer and Chairman of the Board, Body-Borneman Insurance & Financial Services LLC, insurance agency, Boyertown, PA, 2005 to present; President, Chief Executive Officer and Chairman of the Board, Body-Borneman Associates, Inc., insurance agency; President, Body-Borneman, Ltd. and Body-Borneman, Inc., 1967-2005, insurance agencies he co-founded; Director, National Penn Bancshares; Director, Erie Family Life Insurance Company, 1992-2007.

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Name (Committee Assignments)	Age as of 4/1/11	Principal Occupation for Past Five Years and Positions with the Company; Directorships with other Public Companies During Past Five Years	Director of the Company Since
		Mr. Borneman has extensive knowledge of, and over 40 years of experience with, the business of insurance, agency matters, sales and marketing, and insurance distribution strategies. Mr. Borneman also has experience as a director of other public companies.	
Terrence W. Cavanaugh (5)(6)(7)	57	President and Chief Executive Officer of the Company, July 2008 to present; Senior Vice President, Chubb & Son/Federal Insurance and Chief Operating Officer, Chubb Surety, for more than five years prior thereto. Mr. Cavanaugh has prior executive management experience with a large national property-casualty insurance company, and broad knowledge of insurance operations and the insurance industry.	2008
Jonathan Hirt Hagen, J.D. (2)(3)(4C)(7)(8)	48	Vice Chairman, Custom Group Industries, Erie, PA, machining and fabrication manufacturing companies, since 1999; private investor, since 1990; Director, Erie Family Life Insurance Company, 2005-2007. Mr. Hagen, as the grandson of our late founder and longtime leader of the Company, has significant knowledge of our history and culture. His extensive business and legal educational background, prior insurance experience and service on our board also give him broad knowledge of the insurance industry and business law. In addition, he has experience with his family s business interests, as a private investor and as a director of another public company.	2005
Susan Hirt Hagen (1)(4)(5)(8C)	75	Co-Trustee of the H.O. Hirt Trusts, Erie, PA, since 1967; private investor, since 1989; Director, Erie Family Life Insurance Company, 1980-2007.	1980

8,433198,452
M&G-1,7741,774 -1,5721,572
Prudential Capital-7070 -7474
Other operations-(3,005)(3,005) -(2,292)(2,292)
Shareholders' equity at end of year33,010(651)32,359 29,357(196)29,161

Representing:
Net assets excluding acquired goodwill and holding company net borrowings32,77786633,643 29,1241,54230,666
Acquired goodwill2331,2301,463 2331,2301,463
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

Note31 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 932,359 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 912,955 11,811
Additional EEV basis retained profit 919,404 17,350
Total EEV basis shareholders' equity (excluding non-controlling interests) 932,359 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 AERCER AERCER
Asia operations 2,853 2,2372,267 28%26%

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005) -(2,292)

US operations 1,729 1,5561,677 11%3%
UK operations* 1,025 834834 23%23%
Total*35,607 4,6274,778 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 AERCER AERCER
Asia operations
New business31,490 1,1621,168 28%28%
Business in force4831 738735 13%13%
Long-term business 2,321 1,9001,903 22%22%
Eastspring Investments 101 7879 29%28%
Total 2,422 1,9781,982 22%22%
US operations
New business3809 694748 17%8%
Business in force4999 834899 20%11%
Long-term business 1,808 1,5281,647 18%10%
Broker-dealer and asset management 7 67 17%-
Total 1,815 1,5341,654 18%10%
UK operations*
New business3318 259259 23%23%
Business in force4545 476476 14%14%
Long-term business 863 735735 17%17%
General insurance commission 22 1919 16%16%
Total UK insurance operations 885 754754 17%17%
M&G 358 353353 1%1%
Prudential Capital 18 3333 (45)%(45)%
Total 1,261 1,1401,140 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 - 1111 (100)%(100)%
Operating profit based on longer-term investment returns 4,881 4,0964,220 19%16%

Analysed as profit (loss) from:
New business*3 2,617 2,1152,175 24%20%
Business in force*4 2,375 2,048 2,110 16%13%
Total long-term business* 4,992 4,1634,285 20%16%
Asset management 484 470472 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

2015 £m 2014 £m % change
Note AERCER AERCER
Operating profit based on longer-term investment returns 4,881 4,0964,220 19%16%
Short-term fluctuations in investment returns 5(1,208) 763771 (258)%(257)%
Effect of changes in economic assumptions 657 (369)(389) 115%115%
Other non-operating profit (loss) 221 (147)(147) 250%250%
Total non-operating (loss) profit (930) 247235 (477)%(496)%
Profit for the year attributable to shareholders 3,951 4,3434,455 (9)%(11)%
Basic earnings per share (in pence)

2015 2014 % change
AER CER AERCER
Based on post-tax operating profit including longer-term investment returns191.2p 160.7p165.6p 19%15%
Based on post-tax profit154.8p 170.4p174.8p (9)%(11)%
3 Analysis of new business contribution
(i) Group summary

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

2015
Annual premium and contribution equivalents (APE)Presentvalue of new business premiums (PVNBP)New business contribution New business margin
APEPVNBP
£m£m£m %%
note 16note 16note
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)Presentvalue of new business premiums (PVNBP)New business contribution New business margin
APEPVNBP
£m£m£m %%
note 16note 16note
Asia operationsnote (ii) 2,237 12,331 1,162 52 9.4
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.
NoteThe 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
AERCER
China 30 2729
Hong Kong 835 405436
India 18 1212
Indonesia 229 296282
Korea 8 1111
Taiwan 28 2930
Other 342 382368
Total Asia operations 1,490 1,1621,168
4 Operating profit from business in force
(i) Group summary

2015 £m
AsiaoperationsUSoperationsUKinsuranceoperationsTotal
note (ii)note (iii)note (iv)note
Unwind of discount and other expected returns7494724881,709
Effect of changes in operating assumptions1211555182
Experience variances and other items704122484
Total8319995452,375

2014 £m
AsiaoperationsUSoperationsUKinsuranceoperationsTotal
note (ii)note (iii)note (iv)note
Unwind of discount and other expected returns6483824101,440
Effect of changes in operating assumptions5286- 138
Experience variances and other items3836666470
Total7388344762,048
NoteThe 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:

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

Effects of changes in:
Interest rates6
Foreign exchange22
Growth in opening value and other items241
269
Year-on-year change in effects of operating assumptions, experience variances and other items58
Net increase in operating profit from business in force327

(ii) Asia operations
2015 £m2014 £m
Unwind of discount and other expected returnsnote (a)749648
Effect of changes in operating assumptions:
Mortality and morbiditynote (b)6327
Persistency and withdrawalsnote (c)(46)(17)
Expense(1)(5)
Othernote (d)(4)47
1252
Experience variances and other items:
Mortality and morbiditynote (e) 5823
Persistency and withdrawalsnote (f) 2044
Expensenote (g)(32)(27)
Other including development expenses24(2)
7038
Total Asia operations831738

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 £m2014 £m
Unwind of discount and other expected returnsnote (a)472382
Effect of changes in operating assumptions:
Persistencynote (b)13955
Other(24)31
11586
Experience variances and other items:
Spread experience variancenote (c)149192
Amortisation of interest-related realised gains and lossesnote (d)7056
Othernote (e)193118
412366
Total US operations999834

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 £m2014 £m
Unwind of discount and other expected returnsnote (a)488410
Reduction in future UK corporate tax ratenote (b)55-
Othernote (c)266
Total UK insurance operations545476
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 £m2014 £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)6174
 266
(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 £m2014 £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 £m2014 £m
Hong Kong(144)178
Indonesia(53)35
Singapore(104)92
Taiwan4423
Other51111
Total Asia operationsnote(206)439
NoteFor 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 £m2014 £m
Investment return related experience on fixed income securitiesnote (a)(17)31

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

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 operationsThe 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)

NoteThe 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 operationsnote109(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 £m2014 £m
Shareholder-backed annuity businessnote (a)(56)352
With-profits and other businessnote (b)152(375)
Total UK insurance operations96(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
 IFRSbasisMark tomarketvalueadjustmentEEVbasis atmarketvalue IFRSbasisMark tomarketvalueadjustmentEEVbasis atmarketvalue
Holding company* cash and short-term investments(2,173)-(2,173) (1,480)-(1,480)
Core structural borrowings – central fundsnote4,5673534,920 3,8695794,448
Holding company net borrowings2,3943532,747 2,3895792,968
Core structural borrowings – Prudential Capital275-275 275-275
Core structural borrowings – Jackson16955224 16042202
Net core structural borrowings of shareholder-financed operations2,8384083,246 2,8246213,445
*Including central finance subsidiaries.
NoteIn 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
  AERCER AERCER
Asia operations
Underlying free surplus generated from in-force life business985 860851 15%16%
Investment in new businessnotes (ii)(a), (ii)(g)(413) (346)(352) (19)%(17)%
Long-term business572 514499 11%15%
Eastspring Investmentsnote (ii)(b)101 7879 29%28%
Total673 592578 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 business1,159 1,004 1,083 15%7%
Broker-dealer and asset managementnote (ii)(b)7 67 17% -
Total1,166 1,0101,090 15%7%
UK insurance operations*
Underlying free surplus generated from in-force life business878 637637 38%38%
Investment in new businessnote (ii)(a)(65) (65)(65) - -
Long-term business813 572572 42%42%
General insurance commissionnote (ii)(b)22 1919 16%16%
Total835 591591 41%41%
M&Gnote (ii)(b)358 353353 1%1%
Prudential Capitalnote (ii)(b)18 3333 (45)%(45)%
Underlying free surplus generated3,050 2,5792,645 18%15%

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005) -(2,292)

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 items559 314336 78%66%
Underlying free surplus generated from in-force life business3,289 2,6882,772 22%19%
Investment in new businessnotes (ii)(a), (ii)(g)(745) (598)(618) (25)%(21)%
Total long-term business*2,544 2,0902,154 22%18%
Asset management and general insurance commissionnote (ii)(b)506 489491 3%3%
Underlying free surplus generated3,050 2,5792,645 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 businessAsset management and UK general insurance commissionFree 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
note 10note (b)
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)2,7305063,236 2,863
Effects of changes in operating assumptions, operating experience variances and other operating items559-559 314
2,5445063,050 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)
2,1604532,613 2,443
Net cash flows to parent companynote (d)(1,271)(354)(1,625) (1,482)
Exchange movements, timing differences and other itemsnote (e)560159719 130
Net movement in free surplus1,4492581,707 1,091
Balance at beginning of year:
As previously reported4,1938665,059 4,003
Effect of domestication of Hong Kong branch**--- (35)
Balance at end of yearnote (g)5,6421,1246,766 5,059

Representing:
Asia operations1,5032451,748 1,560
US operations1,5671661,733 1,557
UK operations2,5727133,285 1,942
5,6421,1246,766 5,059

Balance at beginning of year:
Asia operations1,3472131,560 1,379
US operations1,4161411,557 1,074
UK operations1,4305121,942 1,550
4,1938665,059 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:

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

2015 £m
Long-termbusinessAsset managementand UK generalinsurance commissionTotal
Exchange movementsnote 1067370
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 schemes14822
Other itemsnote (f)555148703
560159719

(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 operationsOther operationsGroupTotal
Asia operationsUSoperationsUKinsurance operationsTotallong-term businessoperations
_
_
_
note (i) note (i)
Operating profit (based on longer-term investment returns)
Long-term business:
New businessnote 31,4908093182,617-2,617
Business in forcenote 48319995452,375-2,375
2,3211,8088634,992-4,992
Asset management----484484
Other results-(1)(28)(29)(566)(595)
Operating profit based on longer-term investment returns2,3211,8078354,963(82)4,881
Total non-operating (loss) profit(354)(654)(98)(1,106)176(930)
Profit for the year1,9671,1537373,857943,951
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)692671(618)53
Mark to market value movements on Jackson assets backing surplus and required capital-(76)-(76)-(76)
Net increase in shareholders' equity1,3311,1081,2143,653(455)3,198
Shareholders' equity at beginning of year12,3128,3798,43329,1243729,161
Shareholders' equity at end of year13,6439,4879,64732,777(418)32,359
Representing:
Statutory IFRS basis shareholders' equity:
Net assets (liabilities)3,7234,1545,11812,995(1,503)11,492
Goodwill----1,4631,463
Total IFRS basis shareholders' equity3,7234,1545,11812,995(40)12,955
Additional retained profit (loss) on an EEV basisnote (iv)9,9205,3334,52919,782(378)19,404
EEV basis shareholders' equity13,6439,4879,64732,777(418)32,359
Balance at beginning of year:
Statutory IFRS basis shareholders' equity:
Net assets (liabilities)3,3154,0673,78511,167(819)10,348
Goodwill----1,4631,463
Total IFRS basis shareholders' equity3,3154,0673,78511,16764411,811
Additional retained profit (loss) on an EEV basisnote (iv)8,9974,3124,64817,957(607)17,350
EEV basis shareholders' equity12,3128,3798,43329,1243729,161

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.

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

(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
Total
Value of long-term
FreeRequiredTotal net in-force business
surpluscapital worth business operations
note 8 note (iii)
Group
Shareholders' equity at beginning of year4,1934,5568,749 20,375 29,124
New business contributionnote (ii)(745)493(252) 2,869 2,617
Existing business – transfer to net worth2,611(355)2,256 (2,256) -
Expected return on existing businessnote 4119129248 1,461 1,709
Changes in operating assumptions and experience variancesnote 458888676 (10) 666
Solvency II and restructuring costs(29)- (29) - (29)
Operating profit based on longer-term investment returns2,5443552,899 2,064 4,963
Disposal of Japan Life business23(48)(25) 25 -
Other non-operating items(407)(216)(623) (483) (1,106)
Profit from long-term business2,160912,251 1,606 3,857
Exchange movements on foreign operations and net investment hedges6757124 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 year5,6424,70410,346 22,431 32,777

Representing:
Asia operations
Shareholders' equity at beginning of year1,3471,3272,674 9,638 12,312
New business contributionnote (ii)(413)124(289) 1,779 1,490
Existing business – transfer to net worth974(77)897 (897) -
Expected return on existing businessnote 4304373 676 749
Changes in operating assumptions and experience variancesnote 4(19)6546 36 82
Operating profit based on longer-term investment returns572155727 1,594 2,321
Disposal of Japan Life business23(48)(25) 25 -
Other non-operating items61(6)55 (409) (354)
Profit from long-term business656101757 1,210 1,967
Exchange movements on foreign operations and net investment hedges(21)(42)(63) (94) (157)
Intra-group dividends and investment in operations(472)- (472) - (472)
Other movements(7)- (7) - (7)
Shareholders' equity at end of year1,5031,3862,889 10,754 13,643
US operations
Shareholders' equity at beginning of year1,4161,7103,126 5,253 8,379
New business contributionnote (ii)(267)28417 792 809
Existing business – transfer to net worth1,064(196)868 (868) -
Expected return on existing businessnote 4424991 381 472
Changes in operating assumptions and experience variancesnote 432122343 184 527
Solvency II and restructuring costs(1)- (1) - (1)
Operating profit based on longer-term investment returns1,1591591,318 489 1,807
Other non-operating items(541)(162)(703) 49 (654)
Profit from long-term business618(3)615 538 1,153
Exchange movements on foreign operations and net investment hedges8899187 323 510
Intra-group dividends(465)- (465) - (465)
Other movements(90)- (90) - (90)

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

Shareholders’ equity at end of year1,5671,8063,373 6,114 9,487
UK insurance operations
Shareholders’ equity at beginning of year1,4301,5192,949 5,484 8,433
New business contributionnote (ii)(65)8520 298 318
Existing business – transfer to net worth573(82)491 (491) -
Expected return on existing businessnote 4473784 404 488
Changes in operating assumptions and experience variancesnote 42861287 (230) 57
Solvency II and restructuring costs(28)- (28) - (28)
Operating profit based on longer-term investment returns81341854 (19) 835
Other non-operating items73(48)25 (123) (98)
Profit from long-term business886(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 year2,5721,5124,084 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
AsiaoperationsUSoperationsUKinsuranceoperationsTotal
long-termbusinessoperations AsiaoperationsUSoperationsUKinsuranceoperations*Total long-termbusinessoperations
Post-tax new business contributionnote 31,4908093182,617 1,1626942592,115
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 invested3.63.04.93.5 3.43.74.03.5

*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
AsiaoperationsUSoperationsUKinsuranceoperationsTotallong-termbusinessoperations AsiaoperationsUSoperationsUKinsuranceoperations
Value of in-force business before deduction of cost of capital and time value of guarantees11,2807,3555,81724,452 10,1685,9145,75621,838
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 business10,7546,1145,56322,431 9,6385,2535,48420,375

(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 104,704 4,556
Value of in-force (VIF)note 1022,431 20,375
Add back: deduction for cost of time value of guaranteesnote 101,100 575
Expected cash flow from sale of Japan Life business- (23)
Other itemsnote(1,948) (1,382)
Total26,287 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.

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005) -(2,292)

2015 £m
Expected period of conversion of future post tax distributable earningsand required capital flows to free surplus
2015 Total as shown above1-5 years6-10 years11-15 years16-20 years21-40 years40+ years
Asia operations11,8583,9162,5521,6691,1152,055551
US operations8,7404,3612,7521,129383115-
UK insurance operations5,6892,0971,49896257654412
Total26,28710,3746,8023,7602,0742,714563
100%40%26%14%8%10%2%

2014 £m
Expected period of conversion of future post tax distributable earningsand required capital flows to free surplus
2014 Total as shown above1-5 years6-10 years11-15 years16-20 years21-40 years40+ years
Asia operations10,8593,6602,2891,5531,0261,874457
US operations7,4713,8672,29887333499-
UK insurance operations5,7712,1111,46497360660413
Total24,1019,6386,0513,3991,9662,577470
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 operationsUS operationsUK insurance operationsTotallong-termbusinessoperations Asia operationsUS operationsUK insurance operations*Totallong-termbusinessoperations
New business contributionnote 31,4908093182,617 1,1626942592,115
Discount rates – 1% increase(260)(38)(40)(338) (176)(27)(38)(241)
Interest rates – 1% increase28807115 1361(15)59
Interest rates – 1% decrease(78)(127)(9)(214) (52)(101)19(134)
Equity/property yields – 1% rise739520188 467312131
Long-term expected defaults – 5 bps increase- - (8)(8) - - (10)(10)
Liquidity premium – 10 bps increase- - 1616 - - 2020
*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
AsiaoperationsUSoperationsUKinsuranceoperationsTotallong-termbusinessoperations AsiaoperationsUSoperationsUKinsuranceoperations
Shareholders' equitynote 913,6439,4879,64732,777 12,3128,3798,43329,124
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% decrease132 (93)426465 21116452679
Equity/property yields – 1% rise5065142711,291 4353652821,082
Equity/property market values – 10% fall (246) (411) (373) (1,030) (221) (129) (380) (730)
Statutory minimum capital1481624314 1291394272
Long-term expected defaults – 5 bps increase- - (141) (141) - - (139) (139)
Liquidity premium – 10 bps increase- - 282282 - - 278278

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

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

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 operationsUSoperationsUKinsuranceoperationsTotallong-termbusinessoperations Asia operationsUSoperationsUKinsuranceoperations*Totallong-termbusinessoperations
New business contributionnote 31,4908093182,617 1,1626942592,115
Maintenance expenses – 10% decrease288238 238334
Lapse rates – 10% decrease112259146 88276121
Mortality and morbidity – 5% decrease501(13)38 522(20)34
Change representing effect on:
Life business501152 522155
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
AsiaoperationsUSoperationsUKinsuranceoperationsTotallong-termbusinessoperations AsiaoperationsUSoperationsUKinsuranceoperations
Shareholders' equitynote 913,6439,4879,64732,777 12,3128,3798,43329,124
Maintenance expenses – 10% decrease1538068301 1367156263
Lapse rates – 10% decrease50839475977 42235467843
Mortality and morbidity – 5% decrease449172(299)322 433163(347)249
Change representing effect on:
Life business44917211632 4331639605
UK annuities- - (310)(310) - - (356)(356)

13 Methodology and accounting presentation

(a) Methodology

OverviewThe 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 businessThe 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

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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 ofdistinguishing 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 asinvestment 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.

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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 operationsFor 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 valueThe 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 capitalIn 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 estateThe proportion of surplus allocated to shareholders from the

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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 managementThe 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

OverviewUnder 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 allowanceThe 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 allowanceThe 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 operationsFor 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 businessFor 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 businessFor 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 securitiesThe 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 risksThe 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 translationForeign 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) TaxationIn 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 arrangementsThe 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 profitTo 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

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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 profitFor 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 returnsThe 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 assumptionsOperating 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 variancesOperating 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 assumptionsMovements 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 assumptionsThe 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.

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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 governmentbond yield %		Expectedlong-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.

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**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.

NoteFor 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 assumptionsDetails 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 assumptionsBest 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 assumptionsPersistency, 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 assumptionsExpense 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 ratesThe 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 2015 £m	Single 2014 £m	Regular 2015 £m	Regular 2014 £m	Annual premium and contribution equivalents (APE) note 13(a)(ii) 2015 £m	APE 2014 £m	Present value of new business premiums (PVNBP) note 13(a)(ii) 2015 £m	PVNBP 2014 £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								

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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 10.156%
Closing Rate 9.57 9.671%
Hong Kong Average Rate 11.85 12.788%

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)45-(2,292)

Closing Rate 11.42 12.096%
India Average Rate 98.08 100.532%
Closing Rate 97.51 98.421%
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 53.512%
Closing Rate 53.04 51.30 (3)%
US Average Rate 1.53 1.658%
Closing Rate 1.47 1.566%
Vietnam Average Rate 33,509.21 34,924.624%
Closing Rate 33,140.64 33,348.461%***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)
20152014 20152014 20152014 20152014
YTDYTD+/- (%) YTDYTD+/- (%) YTDYTD+/- (%) YTDYTD+/- (%)
£m£m £m£m £m£m £m£m
Group Insurance Operations
Asia (1a) 2,120 2,272(7)% 2,641 2,01031% 2,853 2,23728% 15,208 12,33123%
US(1a) 17,286 15,55511% - -N/A 1,729 1,55611% 17,286 15,55511%
UK(11) 8,463 6,68127% 179 1668% 1,025 83423% 9,069 7,30524%
Group Total (11) 27,869 24,50814% 2,820 2,17630% - 5,607 4,62721% 41,563 35,19118%

Asia Insurance Operations(1a)
Cambodia - -N/A 8 3167% 8 3167% 38 16138%
Hong Kong 546 41930% 1,158 60392% 1,213 64588% 7,007 3,86181%
Indonesia 230 280(18)% 303 357(15)% 326 385(15)% 1,224 1,619(24)%
Malaysia 100 117(15)% 201 1896% 211 2015% 1,208 1,284(6)%
Philippines 146 12121% 44 3913% 59 5116% 287 24816%
Singapore 454 677(33)% 264 289(9)% 309 357(13)% 2,230 2,683(17)%
Thailand 69 92(25)% 88 7419% 95 8314% 422 3928%
Vietnam 6 450% 82 6134% 83 6136% 343 24739%

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

SE Asia Operations 1,551 1,710(9)% 2,148 1,61533% 2,304 1,78629% 12,759 10,35023%
inc. Hong Kong
China(6) 308 23929% 111 8137% 142 10535% 739 55034%
Korea 182 212(14)% 123 9234% 141 11325% 780 60928%
Taiwan 45 83(46)% 127 1169% 131 1246% 442 462(4)%
India(4) 34 2821% 132 10625% 135 10924% 488 36036%
Total Asia Insurance Operations 2,120 2,272(7)% 2,641 2,01031% 2,853 2,23728% 15,208 12,33123%

US Insurance Operations(1a)
Variable annuities 11,977 10,89910% - -N/A 1,198 1,09010% 11,977 10,89910%
Elite Access (variable annuity) 3,144 3,1081% - -N/A 314 3111% 3,144 3,1081%
Fixed annuities 477 527(9)% - -N/A 48 53(9)% 477 527(9)%
Fixed index annuities 458 37024% - -N/A 46 3724% 458 37024%
Wholesale 1,230 65189% - -N/A 123 6589% 1,230 65189%
Total US Insurance Operations 17,286 15,55511% - -N/A 1,729 1,55611% 17,286 15,55511%

UK & Europe Insurance Operations(11)
Individual annuities 565 1,065(47)% - -N/A 57 106(46)% 565 1,065(47)%
Bonds 3,327 2,93413% - -N/A 333 29413% 3,328 2,93713%
Corporate pensions 175 9290% 135 138(2%) 152 1473% 600 5921%
Individual pensions 1,185 508133% 32 2245% 150 72108% 1,295 595118%
Income drawdown 1,024 352191% - -N/A 102 35191% 1,024 352191%
Other products 679 203,295% 12 6100% 80 9789% 749 541,287%
Total Retail 6,955 4,97140% 179 1668% 874 66332% 7,561 5,59535%
Wholesale 1,508 1,710(12)% - -N/A 151 171(12)% 1,508 1,710(12)%
Total UK & Europe Insurance Operations 8,463 6,68127% 179 1668% 1,025 83423% 9,069 7,30524%
Group Total (11) 27,869 24,50814% 2,820 2,17630% 5,607 4,62721% 41,563 35,19118%

Schedule A(ii) – New Business Insurance Operations (Constant Exchange Rates)

Note:In schedule A(ii) constant exchange rates have been used to calculate insurance new business for overseas operations for 2014.

Single RegularAnnual Equivalents(2) PVNBP(2)
20152014 20152014 20152014 20152014
YTDYTD+/- (%) YTDYTD+/- (%)YTDYTD+/- (%) YTDYTD+/- (%)
£m£m £m£m £m£m £m£m
Group Insurance Operations
Asia (1a) (1b) 2,120 2,300(8)% 2,641 2,03730% 2,853 2,26726% 15,208 12,50222%
US(1a) (1b) 17,286 16,7683% - -N/A 1,729 1,6773% 17,286 16,7683%
UK(11) 8,463 6,68127% 179 1668% 1,025 83423% 9,069 7,30524%
Group Total (11) 27,869 25,7498% 2,820 2,20328% 5,607 4,77817% 41,563 36,57514%

Asia Insurance Operations(1a) (1b)
Cambodia - -N/A 8 3167% 8 3167% 38 17124%
Hong Kong 546 45221% 1,158 65178% 1,213 69674% 7,007 4,16468%
Indonesia 230 267(14)% 303 340(11)% 326 367(11)% 1,224 1,545(21)%
Malaysia 100 105(5)% 201 17018% 211 18117% 1,208 1,1584%
Philippines 146 12715% 44 417% 59 549% 287 26010%
Singapore 454 673(33)% 264 287(8)% 309 354(13)% 2,230 2,664(16)%
Thailand 69 94(27)% 88 7616% 95 8512% 422 4015%
Vietnam 6 450% 82 6330% 83 6332% 343 25833%
SE Asia Operations 1,551 1,722(10)% 2,148 1,63132% 2,304 1,80328% 12,759 10,46722%
inc. Hong Kong
China(6) 308 25222% 111 8629% 142 11128% 739 58127%
Korea 182 213(15)% 123 9234% 141 11325% 780 61028%
Taiwan 45 85(47)% 127 1197% 131 1282% 442 475(7)%
India(4) 34 2821% 132 10921% 135 11221% 488 36932%
Total Asia Insurance Operations 2,120 2,300(8)% 2,641 2,03730% 2,853 2,26726% 15,208 12,50222%

US Insurance Operations(1a) (1b)
Variable annuities 11,977 11,7492% - -N/A 1,198 1,1752% 11,977 11,7492%
Elite Access (variable annuity) 3,144 3,351(6)% - -N/A 314 335(6)% 3,144 3,351(6)%
Fixed annuities 477 568(16)% - -N/A 48 57(16)% 477 568(16)%

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

Fixed index annuities 458 39815% - -N/A 46 4015% 458 39815%
Wholesale 1,230 70275% - -N/A 123 7076% 1,230 70275%
Total US Insurance Operations 17,286 16,7683% - -N/A 1,729 1,6773% 17,286 16,7683%

UK & Europe Insurance Operations(11)
Individual annuities 565 1,065(47)% - -N/A 57 106(46)% 565 1,065(47)%
Bonds 3,327 2,93413% - -N/A 333 29413% 3,328 2,93713%
Corporate pensions 175 9290% 135 138(2)% 152 1473% 600 5921%
Individual pensions 1,185 508133% 32 2245% 150 72108% 1,295 595118%
Income drawdown 1,024 352191% - -N/A 102 35191% 1,024 352191%
Other products 679 203,295% 12 6100% 80 9789% 749 541,287%
Total Retail 6,955 4,97140% 179 1668% 874 66332% 7,561 5,59535%
Wholesale 1,508 1,710(12)% - -N/A 151 171(12)% 1,508 1,710(12)%
Total UK & Europe Insurance Operations 8,463 6,68127% 179 1668% 1,025 83423% 9,069 7,30524%
Group Total (11) 27,869 25,7498% 2,820 2,20328% 5,607 4,77817% 41,563 36,57514%

Schedule A(iii) – Total Insurance New Business APE – By Quarter (Actual Exchange Rates)

2014 2015
Q1Q2Q3Q4 Q1Q2Q3Q4
£m£m£m£m £m£m£m£m
Group Insurance Operations
Asia (1a) 507 489 548 693 681 685 655 832
US(1a) 432 439 364 321 400 457 421 451
UK (11) 230 189 209 206 169 341 252 263
Group Total (11) 1,169 1,117 1,121 1,220 1,2501,483 1,328 1,546

Asia Insurance Operations(1a)
Cambodia - 1 1 1 2 1 3 2
Hong Kong 128 130 166 221 246 273 283 411
Indonesia 86 98 80 121 93 90 64 79
Malaysia 43 48 48 62 54 51 47 59
Philippines 11 11 13 16 14 15 15 15
Singapore 87 85 86 99 72 81 71 85
Thailand 25 17 18 23 28 20 21 26
Vietnam 11 12 16 22 13 21 21 28
SE Asia Operations inc. Hong Kong 391 402 428 565 522552 525 705
China(6) 38 19 23 25 56332627
Korea 26 22 32 33 31433829
Taiwan 24 30 34 36 28333238
India(4) 28 16 31 34 44243433
Total Asia Insurance Operations 507 489 548 693 681685 655 832

US Insurance Operations(1a)
Variable annuities 317 297 260 216 272334307285
Elite Access (variable annuity) 69 80 80 82 74928167
Fixed annuities 12 15 14 12 11121213
Fixed index annuities 8 10 10 9 10111114
Wholesale 26 37 - 2 3381072
Total US Insurance Operations 432 439 364 321 400457 421 451

UK & Europe Insurance Operations(11)
Individual annuities 36 27 23 20 14141514
Bonds 63 67 77 87 76808394
Corporate pensions 40 39 38 30 33433145
Individual pensions 12 15 21 24 27353850
Income drawdown 5 7 11 12 14253231
Other products 1 3 2 3 5272127
Total Retail 157 158 172 176 169224220261
Wholesale 73 31 37 30 -117322
Total UK & Europe Insurance Operations 230 189 209 206 169341 252 263
Group Total(11) 1,169 1,117 1,121 1,220 1,2501,483 1,328 1,546

Schedule A(iv) – Total Insurance New Business APE – By Quarter (2014 at Constant Exchange Rates)

Note:In schedule A(iv) constant exchange rates have been used to calculate insurance new business for overseas operations for

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

all periods in 2014. Discrete quarters in 2015 are presented on actual exchange rates.
2014 2015
Q1Q2Q3Q4 Q1Q2Q3Q4
£m£m£m£m £m£m£m£m
Group Insurance Operations
Asia(1b) 517 500 560 690 681 685 655 832
US(1b) 468 483 398 328 400 457 421 451
UK (11) 230 189 209 206 169 341 252 263
Group Total(11) 1,215 1,172 1,167 1,224 1,2501,483 1,328 1,546

Asia Insurance Operations(1b)
Cambodia - 1 1 1 2132
Hong Kong 139 141 184 232 246273283411
Indonesia 82 94 76 115 93906479
Malaysia 40 43 42 56 54514759
Philippines 11 13 13 17 14151515
Singapore 87 85 86 96 72817185
Thailand 26 18 18 23 28202126
Vietnam 11 14 16 22 13212128
SE Asia Operations inc. Hong Kong 396 409 436 562 522552 525 705
China(6) 40 21 25 25 56332627
Korea 27 22 32 32 31433829
Taiwan 25 31 35 37 28333238
India(4) 29 17 32 34 44243433
Total Asia Insurance Operations 517 500 560 690 681685 655 832

US Insurance Operations(1b)
Variable annuities 343 327 285 220 272334307285
Elite Access (variable annuity) 75 88 87 85 74928167
Fixed annuities 13 16 15 13 11121213
Fixed index annuities 9 11 11 9 10111114
Wholesale 28 41 - 1 3381072
Total US Insurance Operations 468 483 398 328 400457 421 451

UK & Europe Insurance Operations(11)
Individual annuities 36 27 23 20 14141514
Bonds 63 67 77 87 76808394
Corporate pensions 40 39 38 30 33433145
Individual pensions 12 15 21 24 27353850
Income drawdown 5 7 11 12 14253231
Other products 1 3 2 3 5272127
Total Retail 157 158 172 176 169224 220 261
Wholesale 73 31 37 30 -117322
Total UK & Europe Insurance Operations230189209206 169341252263
Group Total(11)1,2151,1721,1671,224 1,2501,4831,3281,546

Schedule A(v) – Total Insurance New Business APE – By Quarter (2015 and 2014 at Constant Exchange Rates)

Note:In schedule A(v) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014 and 2015 ie the average exchange rate for the year ended 31 December 2015 is applied to each discrete quarter for 2014 and 2015.
2014 2015
Q1Q2Q3Q4 Q1Q2Q3Q4
£m£m£m£m £m£m£m£m
Group Insurance Operations
Asia(1c) 517 500 560 690 661 676 675 841
US(1c) 468 483 398 328 396 459 427 447
UK (11) 230 189 209 206 169 341 252 263
Group Total(11) 1,215 1,172 1,167 1,224 1,2261,476 1,354 1,551

Asia Insurance Operations(1c)
Cambodia - 1 1 1 2132
Hong Kong 139 141 184 232 244273287409
Indonesia 82 94 76 115 88886882

Malaysia 40 43 42 56 50484964
Philippines 11 13 13 17 13151615
Singapore 87 85 86 96 70817187
Thailand 26 18 18 23 26202326
Vietnam 11 14 16 22 13202228
SE Asia Operations inc. Hong Kong 396 409 436 562 506546 539 713
China(6) 40 21 25 25 56322727
Korea 27 22 32 32 30414129
Taiwan 25 31 35 37 27333239
India(4) 29 17 32 34 42243633
Total Asia Insurance Operations 517 500 560 690 661676 675 841

US Insurance Operations(1c)
Variable annuities 343 327 285 220 269336310283
Elite Access (variable annuity) 75 88 87 85 73928366
Fixed annuities 13 16 15 13 11121213
Fixed index annuities 9 11 11 9 10111213
Wholesale 28 41 - 1 3381072
Total US Insurance Operations 468 483 398 328 396459 427 447

UK & Europe Insurance Operations(11)
Individual annuities 36 27 23 20 14141514
Bonds 63 67 77 87 76808394
Corporate pensions 40 39 38 30 33433145
Individual pensions 12 15 21 24 27353850
Income drawdown 5 7 11 12 14253231
Other products 1 3 2 3 5272127
Total Retail157158172176 169224 220 261
Wholesale 73 31 37 30 -117322
Total UK & Europe Insurance Operations230189209206 169341252263
Group Total(11)1,2151,1721,1671,224 1,2261,4761,3541,551

Schedule A(vi) – Investment Operations – By Quarter (Actual Exchange Rates)
2014 2015
Q1Q2Q3Q4 Q1Q2Q3Q4
£m£m£m£m £m£m£m£m
Group Investment Operations
Opening FUM 143,916147,914153,849157,533 162,380169,345163,488155,365
Net Flows:(8) 2,5714,1232,8932,930 2,990(804)(2,314)(909)
- Gross Inflows 12,14614,04512,84713,670 17,51214,56611,83910,553
- Redemptions (9,575)(9,922)(9,954)(10,740) (14,522)(15,370)(14,153)(11,462)
Other Movements 1,4271,8127911,917 3,975(5,053)(5,809)2,230
Total Group Investment Operations(10) 147,914153,849157,533162,380 169,345163,488155,365156,686

M&G
Retail
Opening FUM 67,20268,98171,94173,012 74,28975,67369,15863,464
Net Flows: 1,2912,4931,5311,371 558(3,976)(3,939)(3,501)
- Gross Inflows 7,3057,4686,8017,414 8,5925,6723,7603,076
- Redemptions (6,014)(4,975)(5,270)(6,043) (8,034)(9,648)(7,699)(6,577)
Other Movements 488467(460)(94) 826(2,539)(1,755)838
Closing FUM 68,98171,94173,01274,289 75,67369,15863,46460,801

Comprising amounts for:
UK 42,19942,39241,75640,705 41,14338,70136,45735,738
Europe (excluding UK) 25,24427,92729,62231,815 32,67528,72625,38823,524
South Africa 1,5381,6221,6341,769 1,8551,7311,6191,539
68,98171,94173,01274,289 75,67369,15863,46460,801

Institutional(3)
Opening FUM 58,78759,73660,83061,572 62,75863,83864,24263,845
Net Flows: 152275138(164) 1229211,2431,564
- Gross Inflows 1,6552,8942,2952,185 3,7122,4493,3123,053

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)- -(2,292)

- Redemptions (1,503)(2,619)(2,157)(2,349) (3,590)(1,528)(2,069)(1,489)
Other Movements 7978196041,350 958(517)(1,640)195
Closing FUM 59,73660,83061,57262,758 63,83864,24263,84565,604

Total M&G Investment Operations 128,717132,771134,584137,047 139,511133,400127,309126,405

PPM South Africa FUM included in Total M&G 4,7204,8154,9055,203 5,4565,1084,6284,365

Eastspring - excluding MMF(8)
Third Party Retail(7)
Opening FUM 16,10916,75318,25919,893 21,89325,68726,01724,175
Net Flows: 5401,0631,1271,640 2,1332,102225391
- Gross Inflows 2,5463,2853,5833,760 5,0076,0824,4393,726
- Redemptions (2,006)(2,222)(2,456)(2,120) (2,874)(3,980)(4,214)(3,335)
Other Movements 104443507360 1,661(1,772)(2,067)975
Closing FUM(5) 16,75318,25919,89321,893 25,68726,01724,17525,541

Third Party Institutional Mandates
Opening FUM 1,8182,4442,8193,056 3,4404,1474,0713,881
Net Flows: 5882929783 177149157637
- Gross Inflows 640398168311 201363328698
- Redemptions (52)(106)(71)(228) (24)(214)(171)(61)
Other Movements 3883140301 530(225)(347)222
Closing FUM(5) 2,4442,8193,0563,440 4,1474,0713,8814,740

Total Eastspring Investment Operations 19,19721,07822,94925,333 29,83430,08828,05630,281

US
Curian - FUM(5) (9) 6,7816,9487,4217,933 8,5578,0784,5261,891

Schedule A(vii) – Total Insurance New Business Profit (Actual Exchange Rates)

2014 2015
Q1Q2Q3Q4 Q1Q2 Q3Q4
YTDYTDYTDYTD YTDYTDYTDYTD
£m£m£m£m £m£m£m£m

New Business Profit(1a)
Total Asia Insurance Operations2434947751,162 309664976 1,490
Total US Insurance Operations195376530694 153371557809
Total UK & Europe Insurance Operations(11)88139200259 34155231318
Group Total (11)5261,0091,5052,115 4961,1901,7642,617

Annual Equivalent(1a) (2)
Total Asia Insurance Operations5079961,5442,237 6811,3662,0212,853
Total US Insurance Operations4328711,2351,556 4008571,2781,729
Total UK & Europe Insurance Operations(11)230419628834 1695107621,025
Group Total(11)1,1692,2863,4074,627 1,2502,7334,0615,607

New Business Margin (NBP as % of APE)
Total Asia Insurance Operations48%50%50%52% 45%49%48%52%
Total US Insurance Operations45%43%43%45% 38%43%44%47%
Total UK & Europe Insurance Operations38%33%32%31% 20%30%30%31%
Group Total45%44%44%46% 40%44%43%47%

PVNBP(1a) (2)
Total Asia Insurance Operations2,6905,3788,40812,331 3,6437,34010,84715,208
Total US Insurance Operations4,3238,70312,35215,555 3,9988,57412,78217,286
Total UK & Europe Insurance Operations(11)2,0243,6445,4597,305 1,4504,5246,8159,069
Group Total(11)9,03717,72526,21935,191 9,09120,43830,44441,563

New Business Margin (NBP as % of PVNBP)
Total Asia Insurance Operations9.0%9.2%9.2%9.4% 8.5%9.0%9.0%9.8%
Total US Insurance Operations4.5%4.3%4.3%4.5% 3.8%4.3%4.4%4.7%

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

Total UK & Europe Insurance Operations4.3%3.8%3.7%3.5% 2.3%3.4%3.4%3.5%
Group Total5.8%5.7%5.7%6.0% 5.5%5.8%5.8%6.3%

Schedule A(viii) – Total Insurance New Business Profit (2014 at Constant Exchange Rates)

Note:In schedule A(viii) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014. The year-to-date amounts for 2015 are presented on actual exchange rates.

2014 2015
Q1Q2Q3Q4 Q1Q2 Q3 Q4
YTDYTDYTDYTD YTDYTDYTDYTD
£m£m£m£m £m£m£m£m

New Business Profit(1b)
Total Asia Insurance Operations 245 499 785 1,168 309664976 1,490
Total US Insurance Operations 211 411 579 748 153371557809
Total UK & Europe Insurance Operations(11) 88 139 200 259 34155231318
Group Total(11)5441,0491,5642,175 4961,1901,7642,617

Annual Equivalent(1b) (2)
Total Asia Insurance Operations5171,0171,5772,267 6811,3662,0212,853
Total US Insurance Operations4689511,3491,677 4008571,2781,729
Total UK & Europe Insurance Operations(11)230419628834 1695107621,025
Group Total(11)1,2152,3873,5544,778 1,2502,7334,0615,607

New Business Margin (NBP as % of APE)
Total Asia Insurance Operations47%49%50%52% 45%49%48%52%
Total US Insurance Operations45%43%43%45% 38%43%44%47%
Total UK & Europe Insurance Operations38%33%32%31% 20%30%30%31%
Group Total45%44%44%46% 40%44%43%47%

PVNBP(1b) (2)
Total Asia Insurance Operations2,7405,4938,58712,502 3,6437,34010,84715,208
Total US Insurance Operations4,6829,50613,49316,768 3,9988,57412,78217,286
Total UK & Europe Insurance Operations(11)2,0243,6445,4597,305 1,4504,5246,8159,069
Group Total(11)9,44618,64327,53936,575 9,09120,43830,44441,563

New Business Margin (NBP as % of PVNBP)
Total Asia Insurance Operations8.9%9.1%9.1%9.3% 8.5%9.0%9.0%9.8%
Total US Insurance Operations4.5%4.3%4.3%4.5% 3.8%4.3%4.4%4.7%
Total UK & Europe Insurance Operations4.3%3.8%3.7%3.5% 2.3%3.4%3.4%3.5%
Group Total5.8%5.6%5.7%5.9% 5.5%5.8%5.8%6.3%

Schedule A(ix) – Total Insurance New Business Profit (2015 and 2014 at Constant Exchange Rates)

Note:In schedule A(ix) constant exchange rates have been used to calculate insurance new business for overseas operations for all periods in 2014 and 2015, ie the average exchange rates for the year ended 31 December 2015 are applied to each period for 2014 and 2015.

2014 2015
Q1Q2Q3Q4 Q1Q2 Q3Q4
YTDYTDYTDYTD YTDYTDYTDYTD
£m£m£m£m £m£m£m£m
Post-tax analysis

New Business Profit(1c)
Total Asia Insurance Operations 245 499 785 1,168 299 651 972 1,490
Total US Insurance Operations 211 411 579 748 152 370 558 809
Total UK & Europe Insurance Operations(11) 88 139 200 259 34 155 231 318
Group Total(11)5441,0491,5642,175 4851,1761,7612,617

Annual Equivalent(1c) (2)
Total Asia Insurance Operations5171,0171,5772,267 6611,3372,0122,853
Total US Insurance Operations4689511,3491,677 3968551,2821,729
Total UK & Europe Insurance Operations(11)230419628834 1695107621,025
Group Total(11)1,2152,3873,5544,778 1,2262,7024,0565,607

New Business Margin (NBP as % of APE)

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

Total Asia Insurance Operations47%49%50%52% 45%49%48%52%
Total US Insurance Operations45%43%43%45% 38%43%44%47%
Total UK & Europe Insurance Operations38%33%32%31% 20%30%30%31%
Group Total45%44%44%46% 40%44%43%47%

PVNBP(1c) (2)
Total Asia Insurance Operations2,7405,4938,58712,502 3,5397,19010,79915,208
Total US Insurance Operations4,6829,50613,49316,768 3,9608,54712,81517,286
Total UK & Europe Insurance Operations(11)2,0243,6445,4597,305 1,4504,5246,8159,069
Group Total(11)9,44618,64327,53936,575 8,94920,26130,42941,563

New Business Margin (NBP as % of PVNBP)
Total Asia Insurance Operations8.9%9.1%9.1%9.3% 8.4%9.1%9.0%9.8%
Total US Insurance Operations4.5%4.3%4.3%4.5% 3.8%4.3%4.4%4.7%
Total UK & Europe Insurance Operations4.3%3.8%3.7%3.5% 2.3%3.4%3.4%3.5%
Group Total5.8%5.6%5.7%5.9% 5.4%5.8%5.8%6.3%

B Reconciliation of expected transfer of value of in-force business and required capital to free surplus
The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (less than 3 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2015 results.
The impact of Solvency II which is effective from 1 January 2016 is not reflected in the analysis below in line with the guidance issued by the CFO Forum. The new regulatory regime will not impact the free surplus generation profile of our operations in Asia and the US as Solvency II does not act as the local constraint on the ability to distribute profits to the Group. For these businesses free surplus generation will continue to be driven by local regulatory and target capital requirements. For the UK insurance operations Solvency II will alter free surplus generation and an early estimate is provided in section D of the additional unaudited information.
In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2015, the tables also present the expected future free surplus to be generated from the investment made in new business during 2015 over the same 40-year period.
Expected transfer of value of in-force business (VIF) and required capital to free surplus

2015 £m
Undiscounted expected generation fromall in-force business at 31 December* Undiscounted expected generation from2015 long-term new business written*
Expected period of emergenceAsiaUSUKTotal AsiaUSUKTotal
20161,0151,1204862,621 14827628452
20179629915102,463 14012028288
20189269515062,383 15013129310
20199059705032,378 1346529228
20208711,0184992,388 13910633278
20218899824982,369 12310631260
20228879214892,297 1288829245
20238718944912,256 12415728309
20248447554782,077 11814029287
20258176804661,963 12312929281
20268006064541,860 10511026241
20277895124371,738 1099524228
20287664474241,637 1028524211
20297403864111,537 1007623199
20307243283981,450 1086922199
20316992763831,358 965521172
20326812723731,326 944820162
20336611663531,180 914220153
20346481303311,109 893520144
20356361023131,051 943018142
2036-20403,0201901,2554,465 4294881558
2041-20452,659-1,0813,740 396-104500
2046-20502,342-4702,812 368-43411

2051-20552,056-2612,317 350-26376
Total free surplus expected to
emerge in the next 40 years26,20812,69711,87050,775 3,8582,0117656,634
*The analysis excludes amounts incorporated into VIF at 31 December 2015 where there is no definitive timeframe for when the payments will be made or receipts received. In particular it excludes the value of the shareholders' interest in the estate. It also excludes any free surplus emerging after 2055.

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

2015 £m
AsiaUSUKTotal
Undiscounted expected free surplus generation for years 2016 to 20553,8582,0117656,634
Less: discount effect(2,138)(725)(392)(3,255)
Discounted expected free surplus generation for years 2016 to 20551,7201,2863733,379
Discounted expected free surplus generation for years 2055+153-2155
Less: Free surplus investment in new businessnote 8(413)(267)(65)(745)
Other items**30(210)8(172)
Post-tax EEV new business profitnote 31,4908093182,617
**Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2015 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2014 as follows:

Group201520162017201820192020 Other Total
£m£m£m£m£m£m £m £m
2014 expected free surplus generation for years 2015 - 2054 2,513 2,336 2,228 2,141 2,179 2,079 33,666 47,142
Less: Amounts expected to be realised in the current year(2,513) (2,513)
Add: Expected free surplus to be generated in year 2055* 355 355
Foreign exchange differences 29 28 27 31 27 (165) (23)
New business 452 288 310 228 278 5,078 6,634
Operating movements 5 35 25 50 29 (392) (820)
Non-operating and other movements (201)(116)(120)(110)(25)
2015 expected free surplus generation for years 2016 - 2055 - 2,621 2,463 2,383 2,378 2,388 38,542 50,775

Asia201520162017201820192020 Other Total
£m£m£m£m£m£m £m £m
2014 expected free surplus generation for years 2015 - 2054 953 920 883 846 819 796 19,360 24,577
Less: Amounts expected to be realised in the current year(953) - (953)
Add: Expected free surplus to be generated in year 2055* 315 315
Foreign exchange differences (23)(22)(19)(19)(20) (466) (569)
New business 148 140 150 134 139 3,147 3,858
Operating movements 3 -(20) 6(15) (827) (1,020)
Non-operating and other movements (33)(39)(31)(35)(29)
2015 expected free surplus generation for years 2016 - 2055 - 1,015 962 926 905 871 21,529 26,208

US201520162017201820192020 Other Total
£m£m£m£m£m£m £m £m
2014 expected free surplus generation for years 2015 - 2054 1,054 902 844 792 866 801 5,271 10,530
Less: Amounts expected to be realised in the current year(1,054) (1,054)
Add: Expected free surplus to be generated in year 2055*
Foreign exchange differences 52 50 46 50 47 301 546
New business 276 120 131 65 106 1,313 2,011
Operating movements 4 22 30 35 40 762 664
Non-operating and other movements (114)(45)(48)(46) 24
2015 expected free surplus generation for years 2016 - 2055 - 1,120 991 951 970 1,018 7,647 12,697

UK201520162017201820192020 Other Total
£m£m£m£m£m£m £m £m
2014 expected free surplus generation for years 2015 - 2054 506 514 501 503 494 482 9,035 12,035
Less: Amounts expected to be realised in the current year(506) (506)
Add: Expected free surplus to be generated in year 2055* 40 40
New business 28 28 29 29 33 618 765

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

Operating movements (2) 13 15 9 4 (327) (464)
Non-operating and other movements (54)(32)(41)(29)(20)
2015 expected free surplus generation for years 2016 - 2055 - 486 510 506 503 499 9,366 11,870
*Excluding 2015 new business.

At 31 December 2015 the total free surplus expected to be generated over the next five years (2016 to 2020 inclusive), using the same assumptions and methodology as those underpinning our 2015 embedded value reporting was £12.2 billion, an increase of £1.2 billion from the £11.0 billion expected over the same period at the end of 2014.

This increase primarily reflects the new business written in 2015, which is expected to generate £1,556 million of free surplus over the next five years.

At 31 December 2015 the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £50.8 billion, up from the £47.1 billion expected at the end of 2014 reflecting the effect of new business written across all three business operations of £6.6 billion and a positive foreign exchange translation effect of £0.4 billion. These positive effects have been offset by a £(0.8) billion adverse effect reflecting operating, market assumption changes and other items. In Asia, these principally reflect the impact of falls in equity market returns and bond values. In the US these mainly reflect higher future separate account growth due to the increase in interest rates, together with improved persistency. Offsetting these positive impacts is the negative effect of lower than expected separate account growth in the year due to broadly flat equity market returns in 2015. In the UK, these mainly arise from the effect of longevity reinsurance transactions entered into during the year and the effect of a partial hedge to protect future shareholder with-profits transfers from declines in UK equity markets. The longevity reinsurance transactions executed this year had the effect of accelerating the generation of future free surplus into 2015. The overall growth in the Group's undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2015 from life business in-force at the end of 2015 was £3.3 billion including £0.6 billion of changes in operating assumptions and experience variances. This compares with the expected 2015 realisation at the end of 2014 of £2.5 billion. This can be analysed further as follows:

AsiaUSUKTotal
£m£m£m£m
Transfer to free surplus in 20159741,0645732,611
Expected return on free assets304247119
Changes in operating assumptions and experience variances(19)320258559
Underlying free surplus generated from in-force life business in 20159851,4268783,289

2015 free surplus expected to be generated at 31 December 20149531,0545062,513

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

2015 £m
Discounted expected generation from allin-force business at 31 December Discounted expected generation fromlong-term 2015 new business written
Expected period of emergenceAsiaUSUKTotal AsiaUSUKTotal
20169691,0814572,507 14126728436
20178519024522,205 12211025257
20187668174242,007 12211224258
20197017853951,881 1035224179
20206297763691,774 1017925205
20215977063471,650 847622182
20225586253201,503 835820161
20235125743021,388 759718190
20244644592761,199 688118167
20254213882531,062 667117154
2026388330232950 525614122
2027362261209832 514513109
202833216190739 45381295
202930417717465 542321185
203028214515758 443271080
203125811814251 83720966
203223911312948 13416858
20332206211539 73213752
20342064910135 63011748
2035192418932 2319646
2036-20408071152891,211 1261623165

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

2041-2045565-183748 97-22119
2046-2050403-51454 76-783
2051-2055280-21301 59-362
Total discounted free surplus expected to emerge in the next 40 years11,3078,7405,67725,724 1,7201,2863733,379
The above amounts can be reconciled to the Group's financial statements as follows:
2015 £m
Discounted expected generation from all in-force business for years 2016-205525,724
Discounted expected generation from all in-force business for years after 2055563
Discounted expected generation from all in-force business at 31 December 2015note 1126,287
Add: Free surplus of life operations held at 31 December 2015notes 8,105,642
Less: Time value of guaranteesnote 11(1,100)
Other non-modelled itemsnote 111,948
Total EEV for life operationsnote 1032,777

C Foreign currency source of key metrics

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

Free surplus and IFRS 2015 results

Underlying free surplus generatedPre-tax operatingprofitShareholders'funds
%%%
note (2)notes (2),(3),(4)notes (2),(3),(4)
US$ linked(1)111614
Other Asia currencies111719
Total Asia223333
UK sterling(3),(4)402546
US$ (4)384221
Total100100100

EEV 2015 results

Post-tax newbusiness profitsPost-taxoperating profitShareholders'funds
%%%
notes (2),(3),(4)notes (2),(3),(4)
US$ linked(1) 44 38 30
Other Asia currencies 13 12 14
Total Asia 57 50 44
UK sterling(3),(4)121332
US$(4)313724
Total100100100

Notes

(1)US$ linked – comprising the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.
(2)Includes long-term, asset management business and other businesses.
(3)For operating profit and shareholders' funds, UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.
(4)For shareholders' funds, the US$ grouping includes US$ denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

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

(i) Group summary

The Solvency II framework is effective from 1 January 2016. For our operations in Asia and the US there is no impact on the EEV results since Solvency II does not act as the local constraint on the ability to distribute profits to the Group. The embedded value 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 main supplementary reporting. An early estimate on the likely impact of Solvency II on the EEV net worth and value of in-force business, together with the impact on free surplus generation is provided in this section of the additional unaudited information.

The impact of Solvency II on the EEV net worth and value of in-force business reported on 1 January 2016 are shown below:

Adjustment to shareholders' equity at 1 January 2016

Long-term insurance operationsTotal EEV £m
As reported at 31 December 2015note 1032,777
Opening adjustment at 1 January 2016
Solvency II impact on net worth3,108

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

Solvency II impact on net VIF(3,412)
Total opening adjustments at 1 January 2016note(304)
Long-term insurance operations as at 1 January 201632,473

NoteThe Solvency II framework requires technical provisions to be valued on a best estimate basis and capital requirements to be risk-based. It also requires the establishment of a risk margin (which for business in-force at 31 December 2015 can be broadly offset by transitional measures). As a result of applying this framework the EEV net worth increased by £3,108 million following the release of the prudent regulatory margins previously included under Solvency I, and also from the recognition within net worth of a portion of future shareholder transfers expected from the with-profits fund. The higher net worth is mirrored by increases in required capital reflecting the higher solvency capital requirements of the new regime.

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

- the release of prudent regulatory margins and recognition of a portion of future shareholders transfers within Net Worth leads to a corresponding reduction in VIF;
- the run-off of the risk margin, net of transitional measures, is now captured in VIF;
- the cost of capital deducted from gross VIF increases as a result of higher Solvency II capital requirements;

The overall impact of these changes is to reduce the value of in-force by £3,412 million. The overall impact on the Group's EEV of the above changes is a reduction of £304 million.

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

The tables below show how the UK value of in-force business and the associated required capital is expected to emerge into free surplus over the next 40 years. A comparison is shown between the current Solvency I and Solvency II regimes. A small amount (less than 3 per cent) of the Group's embedded value emerges after this date. The modelled cashflows use the methodology underpinning the Group's embedded value reporting, updated under Solvency II.

(a) Undiscounted expected generation from all in-force business at 31 December 2015 is as follows:

Expected period of emergenceUndiscounted expected generation 2015 £m
UK insurance operations Group Total
As reportedSolvency II basisDifference As reportedSolvency II basisDifference
2016486 527 41 2,621 2,662 41
2017510 560 50 2,463 2,513 50
2018506 549 43 2,383 2,426 43
2019503 542 39 2,378 2,417 39
2020499 535 36 2,388 2,424 36
2021498 539 41 2,369 2,410 41
2022489 531 42 2,297 2,339 42
2023491 526 35 2,256 2,291 35
2024478 513 35 2,077 2,112 35
2025466 504 38 1,963 2,001 38
2026454 493 39 1,860 1,899 39
2027437 475 38 1,738 1,776 38
2028424 462 38 1,637 1,675 38
2029411 447 36 1,537 1,573 36
2030398 429 31 1,450 1,481 31
2031383 410 27 1,358 1,385 27
2032373 505 132 1,326 1,458 132
2033353 479 126 1,180 1,306 126
2034331 446 115 1,109 1,224 115
2035313 416 103 1,051 1,154 103
2036-20401,255 1,614 359 4,465 4,824 359
2041-20451,081 1,228 147 3,740 3,887 147
2046-2050470 539 69 2,812 2,881 69
2051-2055261 292 31 2,317 2,348 31
Total free surplus expected to
emerge in the next 40 years11,87013,561 1,691 50,77552,466 1,691

(b) The equivalent discounted amounts of the undiscounted totals shown above are as follows:

Expected period of emergenceDiscounted expected generation 2015 £m
UK insurance operations Group Total
As reportedSolvency II basisDifference As reportedSolvency II basisDifference
2016457 513 56 2,507 2,563 56
2017452 524 72 2,205 2,277 72
2018424 491 67 2,007 2,074 67

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)-(2,292)

2019395 462 67 1,881 1,948 67
2020369 433 64 1,774 1,838 64
2021347 412 65 1,650 1,715 65
2022320 384 64 1,503 1,567 64
2023302 359 57 1,388 1,445 57
2024276 331 55 1,199 1,254 55
2025253 306 53 1,062 1,115 53
2026232 282 50 950 1,000 50
2027209 257 48 832 880 48
2028190 235 45 739 784 45
2029174 215 41 655 696 41
2030157 195 38 584 622 38
2031142 176 34 518 552 34
2032129 208 79 481 560 79
2033115 186 71 397 468 71
2034101 166 65 356 421 65
203589 146 57 322 379 57
2036-2040289 501 212 1,211 1,423 212
2041-2045183 279 96 748 844 96
2046-205051 116 65 454 519 65
2051-205521 52 31 301 332 31
Total free surplus expected to
emerge in the next 40 years5,6777,229 1,552 25,72427,276 1,552

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

Reconciliation of discounted expected free surplus generation to EEV
Asreported£mSolvency II basis£mImpact£m
Discounted expected generation from all in-force business for years 2016-205525,72427,2761,552
Discounted expected generation from all in-force business for years after 205556357815
Discounted expected generation from all in-force business at 31 December 201526,28727,8541,567
Add: Free surplus of life operations held at 31 December 20155,6423,958(1,684)
Less: Time value of guarantees(1,100)(1,100)-
Other non-modelled items1,9481,761(187)
Total EEV for insurance operations32,77732,473(304)

Representing:
Asia13,64313,643-
US9,4879,487-
UK9,6479,343(304)
Total EEV for insurance operations32,77732,473(304)

to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date 09 March 2016
PRUDENTIAL PUBLIC LIMITED COMPANY

By: /s/ Nic Nicandrou

Nic Nicandrou
CFO

8,433198,452M&G-1,7741,774 -1,5721,572Prudential Capital-7070 -7474Other operations-(3,005)(3,005)58-(2,292)