

PRUDENTIAL PLC
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of August, 2017

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

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

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

Form 20-F Form 40-F

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

Yes No

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

European Embedded Value (EEV) Basis Results

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

Results analysis by business area

	2017 £m	2016 £m	
	Half year	Half year	Full year
Note		notes (iii)(iv)	note (iii)
Asia operations			
New business 3	1,092	821	2,030

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Business in force	4	549	388	1,044
Long-term business		1,641	1,209	3,074
Eastspring Investments		73	53	125
Total		1,714	1,262	3,199
US operations				
New business	3	436	311	790
Business in force	4	452	383	1,181
Long-term business		888	694	1,971
Broker-dealer and asset management		(4)	(8)	(3)
Total		884	686	1,968
UK operations				
New business	3	161	125	268
Business in force	4	304	259	375
Long-term business		465	384	643
General insurance commission		14	15	23
Total UK insurance operations		479	399	666
M&G		201	181	341
Prudential Capital		5	11	22
Total		685	591	1,029
Other income and expenditure note (i)		(386)	(302)	(679)
Solvency II and restructuring costs note (ii)		(27)	(17)	(57)
Interest received from tax settlement		-	37	37
Operating profit based on longer-term investment returns		2,870	2,257	5,497

Analysed as profit (loss) from:				
New business	3	1,689	1,257	3,088
Business in force	4	1,305	1,030	2,600
Long-term business		2,994	2,287	5,688
Asset management and general insurance commission		289	252	508
Other results		(413)	(282)	(699)
		2,870	2,257	5,497

Notes

(i) EEV basis other income and expenditure represents the post-tax IFRS basis result less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 12(a)(vii)).

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

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

(iv) The Group completed the sale of its life business in Korea in May 2017. In order to show the results of the retained operations on a comparable basis, operating profit based on longer-term investment returns excludes the results attributable to the sold Korea life business for all periods shown, as described in note 15. For half year 2016 this has resulted in a reclassification of £6 million of operating profit attributable to the Korea life business to non-operating profit. This approach has been adopted consistently throughout this supplementary information.

POST-TAX SUMMARISED CONSOLIDATED INCOME STATEMENT

		2017 £m	2016 £m	
	Note	Half year	Half year*	Full year
Asia operations		1,714	1,262	3,199
US operations		884	686	1,968
UK operations		685	591	1,029
Other income and expenditure		(386)	(302)	(679)
Solvency II and restructuring costs		(27)	(17)	(57)
Interest received from tax settlement		-	37	37
Operating profit based on longer-term investment returns		2,870	2,257	5,497
Short-term fluctuations in investment returns	5	739	479	(507)
Effect of changes in economic assumptions	6	(50)	(1,318)	(60)
Mark to market value movements on core borrowings		(262)	(13)	(4)
Loss attaching to the sold Korea life business	15	-	(11)	(410)
Total non-operating profit (loss)		427	(863)	(981)
Profit for the period attributable to equity holders of the Company		3,297	1,394	4,516

Basic earnings per share

	2017 Half year	2016 Half year*	Full year
Based on post-tax operating profit including longer-term investment returns (in pence)	111.9p	88.2p	214.7p
Based on post-tax profit attributable to equity holders of the Company (in pence)	128.5p	54.5p	176.4p
Average number of shares (millions)	2,565	2,558	2,560

*

The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

MOVEMENT IN
SHAREHOLDERS'
EQUITY

	Note	2017 £m Half year	2016 £m Half year	Full year
Profit for the period attributable to equity shareholders		3,297	1,394	4,516
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges		(1,045)	2,663	4,211
Dividends		(786)	(935)	(1,267)
Mark to market value movements on Jackson assets backing surplus and required capital		31	138	(11)
Other reserve movements		55	(165)	(367)
Net increase in shareholders' equity	8	1,552	3,095	7,082
Shareholders' equity at beginning of period		38,968	31,886	31,886
Shareholders' equity at end of period	8	40,520	34,981	38,968

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Comprising:	30 Jun 2017 £m			30 Jun 2016 £m			31 Dec 2016 £m		
	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
	note 8								
Asia operations	19,851	382	20,233	16,578	352	16,930	18,717	383	19,100
US operations	11,370	202	11,572	10,150	201	10,351	11,805	204	12,009
UK insurance operations	10,865	14	10,879	10,075	37	10,112	10,307	25	10,332
M&G	-	1,868	1,868	-	1,838	1,838	-	1,820	1,820
Prudential Capital	-	61	61	-	31	31	-	22	22
Other operations	-	(4,093)	(4,093)	-	(4,281)	(4,281)	-	(4,315)	(4,315)
Shareholders' equity at end of period	42,086	(1,566)	40,520	36,803	(1,822)	34,981	40,829	(1,861)	38,968
Representing:									
Net assets excluding acquired goodwill and holding company net borrowings	41,841	1,305	43,146	36,545	270	36,815	40,584	961	41,545
Acquired goodwill	245	1,230	1,475	258	1,230	1,488	245	1,230	1,475
Holding company net borrowings at market value	-	(4,101)	(4,101)	-	(3,322)	(3,322)	-	(4,052)	(4,052)
	note 7								
	42,086	(1,566)	40,520	36,803	(1,822)	34,981	40,829	(1,861)	38,968

SUMMARY STATEMENT
OF FINANCIAL POSITION

	Note	2017 £m 30 Jun	2016 £m 30 Jun	31 Dec
Total assets less liabilities, before deduction for insurance funds		419,810	381,242	407,928
Less insurance funds:*				

Policyholder liabilities (net of reinsurers' share) and unallocated surplus				
of with-profits funds		(404,361)	(366,637)	(393,262)
Less shareholders' accrued interest in the	8	25,071	20,376	24,302
long-term business		(379,290)	(346,261)	(368,960)
Total net assets	8	40,520	34,981	38,968
Share capital		129	128	129
Share premium		1,937	1,921	1,927
IFRS basis shareholders' reserves		13,383	12,556	12,610
Total IFRS basis shareholders' equity	8	15,449	14,605	14,666
Additional EEV basis retained profit	8	25,071	20,376	24,302
Total EEV basis shareholders' equity (excluding non-controlling interests)	8	40,520	34,981	38,968

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

Net asset value per share

	2017 30 Jun	2016 30 Jun	31 Dec
Based on EEV basis shareholders' equity of £40,520 million (half year 2016: £34,981 million, full year 2016: £38,968 million) (in pence)	1,567p	1,356p	1,510p
Number of issued shares at period end (millions)	2,586	2,579	2,581
Annualised return on embedded value*	15%	14%	17%

*

Annualised return on embedded value is based on EEV post-tax operating profit, as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

NOTES ON THE EEV BASIS RESULTS

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, issued by the European Insurance CFO Forum. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

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The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The EEV basis results of half year 2017 and half year 2016 are unaudited. The full year 2016 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2016. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 12.

2 Results analysis by business area

The half year 2016 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2016 CER comparative results are translated at half year 2017 average exchange rates.

Annual premium equivalents (APE)note 14

	Note	Half year 2017 £m	Half year 2016* £m		% change	
			AER	CER	AER	CER
Asia operations		1,943	1,605	1,814	21%	7%
US operations		960	782	889	23%	8%
UK operations**		721	593	593	22%	22%
Group Total	3	3,624	2,980	3,296	22%	10%

Post-tax operating profit

	Note	Half year 2017 £m	Half year 2016* £m		% change	
			AER	CER	AER	CER
Asia operations						
New business	3	1,092	821	928	33%	18%
Business in force	4	549	388	433	41%	27%
Long-term business		1,641	1,209	1,361	36%	21%
Eastspring Investments		73	53	60	38%	22%
Total		1,714	1,262	1,421	36%	21%
US operations						
New business	3	436	311	354	40%	23%
Business in force	4	452	383	435	18%	4%
Long-term business		888	694	789	28%	13%

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Broker-dealer and asset management	(4)	(8)	(9)	50%	56%
Total	884	686	780	29%	13%
UK operations					
New business	161	125	125	29%	29%
Business in 4 force	304	259	259	17%	17%
Long-term business	465	384	384	21%	21%
General insurance commission	14	15	15	(7)%	(7)%
Total					
UK insurance operations	479	399	399	20%	20%
M&G	201	181	181	11%	11%
Prudential Capital	5	11	11	(55)%	(55)%
Total	685	591	591	16%	16%
Other income and expenditure	(386)	(302)	(309)	(28)%	(25)%
Solvency II and restructuring costs	(27)	(17)	(17)	(59)%	(59)%
Interest received from tax settlement	-	37	37	n/a	n/a
Operating profit based on longer-term investment returns	2,870	2,257	2,503	27%	15%
Analysed as profit (loss)					

from:					
New business	1,689	1,257	1,407	34%	20%
Business in 4	1,305	1,030	1,127	27%	16%
force					
Total					
long-term	2,994	2,287	2,534	31%	18%
business					
Asset					
management					
and					
general	289	252	258	15%	12%
insurance					
commission					
Other	(413)	(282)	(289)	(46)%	(43)%
results					
Operating					
profit					
based					
on	2,870	2,257	2,503	27%	15%
longer-term					
investment					
returns					

*

The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

**

No UK bulk annuity transactions were recorded in half year 2017 or half year 2016.

Post-tax profit

Note	Half year 2017 £m	Half year 2016*		% change	
		£m		AER	CER
Operating profit based on	2,870	2,257	2,503	27%	15%
longer-term investment returns					
Short-term fluctuations in 5	739	479	504	54%	47%
investment returns					
Effect of changes	(50)	(1,318)	(1,475)	96%	97%

in economic assumptions					
Mark to market value movements on core borrowings	(262)	(13)	(14)	(1,915)%	(1,771)%
Loss attaching to the sold Korea life business	-	(11)	(12)	n/a	n/a
Total non-operating profit (loss)	427	(863)	(997)	149%	143%
Profit for the period attributable to shareholders	3,297	1,394	1,506	137%	119%

*

The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Basic earnings per share (in pence)

	Half year 2017	Half year 2016*		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment	111.9p	88.2p	97.8p	27%	14%

returns
Based
on
post-tax
profit

128.5p	54.5p	58.9p	136%	118%
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*

The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

3 Analysis of new business contribution

(i)
Group summary

	Half year 2017			New business margin	
	Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	New business contribution	APE	PVNBP
	£m	£m	£m	%	%
Asia operationsnote (ii)	note 14	note 14	note		
	1,943	10,095	1,092	56	10.8
US operations	960	9,602	436	45	4.5
UK operations	721	6,616	161	22	2.4
Total	3,624	26,313	1,689	47	6.4
	Half year 2016*			New business margin	
	Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	New business contribution	APE	PVNBP
	£m	£m	£m	%	%
	note 14	note 14			
Asia operationsnote (ii)	1,605	8,679	821	51	9.5
US operations	782	7,816	311	40	4.0
UK operations	593	5,267	125	21	2.4
Total	2,980	21,762	1,257	42	5.8
	Full year 2016			New business margin	
	Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	New business contribution	APE	PVNBP
	£m	£m	£m	%	%
	note 14	note 14			
Asia operationsnote (ii)	3,599	19,271	2,030	56	10.5
US operations	1,561	15,608	790	51	5.1
UK operations	1,160	10,513	268	23	2.5

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Total 6,320 45,392 3,088 49 6.8

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note

The increase in new business contribution of £432 million from £1,257 million for half year 2016 to £1,689 million for half year 2017 comprises an increase on a CER basis of £282 million and an increase of £150 million for foreign exchange effects. The increase of £282 million on a CER basis comprises a contribution of £140 million for higher sales volumes in half year 2017 and a £142 million benefit from movements in long-term interest rates, generated by the active basis of setting economic assumptions (analysed as Asia £74 million, US £62 million and UK £6 million).

(ii)

Asia operations – new business contribution by business unit

	2017 £m	2016 £m		
	Half year	AER Half year*	CER Half year*	AER Full year
China	67	22	24	63
Hong Kong	706	539	612	1,363
Indonesia	88	87	100	175
Taiwan	27	9	11	31
Other	204	164	181	398
Total Asia operations	1,092	821	928	2,030

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

4 Operating profit from business in force

(i) Group summary

	Half year 2017 £m			Total note
	Asia operations note (ii)	US operations note (iii)	UK operations note (iv)	
Unwind of discount and other expected returns	499	312	232	1,043
Effect of changes in operating assumptions	6	-	-	6
Experience variances and other items	44	140	72	256
Total	549	452	304	1,305

	Half year 2016* £m			Total
	Asia operations note (ii)	US operations note (iii)	UK operations note (iv)	
Unwind of discount and other expected returns	373	209	205	787
Effect of changes in operating assumptions	2	-	-	2

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Experience variances and other items	13	174	54	241
Total	388	383	259	1,030

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

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note

The movement in operating profit from business in force of £275 million from £1,030 million for half year 2016 to £1,305 million for half year 2017 comprises:

	£m
Movement in unwind of discount and other expected returns:	
Effects of changes in:	
Growth in opening value	105
Interest rates and other economic assumptions	76
Foreign exchange	75
	256
Movement in effect of changes in operating assumptions, experience variances and other items	19
(including foreign exchange of £22 million)	
Net movement in operating profit from business in force	275

(ii) Asia operations

	2017 £m	2016 £m	Full year
	Half year	Half year*	
Unwind of discount and other expected returns note (a)	499	373	866
Effect of changes in operating assumptions:			
Mortality and morbidity	-	-	33
Persistency and withdrawals	3	3	(47)
Expense	3	-	15
Other	-	(1)	53
	6	2	54
Experience variances and other items:			
Mortality and morbidity note (b)	36	27	71
Persistency and withdrawals note (c)	11	(17)	52

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Expense	(13)	(8)	(23)
Other	10	11	24
	44	13	124
Total Asia operations	549	388	1,044

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Notes

(a)

The increase in unwind of discount and other expected returns of £126 million from £373 million for half year 2016 to £499 million for half year 2017 comprises a positive £45 million effect for the growth in the opening in-force value and a positive £46 million foreign exchange effect, together with a £35 million benefit from the increase in long-term interest rates across most business units since 30 June 2016 and the effect of changes in other economic assumptions (see note 13(i)).

(b)

The positive mortality and morbidity experience variance in half year 2017 of £36 million (half year 2016: £27 million; full year 2016: £71 million) reflects better than expected experience in a number of business units.

(c)

The positive £11 million for persistency and withdrawals experience in half year 2017 comprises positive and negative contributions from various operations, with positive persistency experience on participating and health and protection products more than offsetting negative experience on unit-linked products.

(iii)

US operations

	2017 £m	2016 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returnsnote (a)	312	209	583
Effect of changes in operating assumptions	-	-	170
Experience variances and other items:			
Spread experience variancenenote (b)	42	60	119
Amortisation of interest-related realised gains and lossesnote (c)	47	39	88
Othernote (d)	51	75	221
	140	174	428
Total US operations	452	383	1,181

Notes

(a)

The increase in unwind of discount and other expected returns of £103 million from £209 million for half year 2016 to £312 million for half year 2017 comprises a positive £43 million effect for the underlying growth in the in-force book and a positive £29 million foreign exchange effect, together with a £31 million benefit from the 80 basis points increase in the US 10-year treasury yield since 30 June 2016.

(b)

The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 13(ii)). The spread experience variance in half year 2017 of £42 million (half year 2016: £60 million; full year 2016: £119 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 period reflects the effects of declining yields in the portfolio caused by the prolonged low interest rate environment.

(c)

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

(d)

Other experience variances of £51 million in half year 2017 (half year 2016: £75 million; full year 2016: £221 million) include the effects of positive persistency experience and other variances.

(iv) UK insurance operations

	2017 £m	2016 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returnsnote (a)	232	205	445
Reduction in corporate tax ratenote (b)	-	-	25
Other itemsnote (c)	72	54	(95)
Total UK insurance operations	304	259	375

Notes

(a)

The increase in unwind of discount and expected returns of £27 million from £205 million for half year 2016 to £232 million for half year 2017 comprises a positive £17 million effect for the underlying growth in the in-force book and a £10 million effect driven by the 20 basis points increase in the UK 15-year gilt yield since 30 June 2016.

(b)

The full year 2016 credit of £25 million for the reduction in UK corporate tax rate reflected the beneficial effect of applying lower corporation tax rates (see note 13) to future life profits from in-force business in the UK.

(c)

Other items comprise the following:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Longevity reinsurance	(6)	(10)	(90)
Impact of specific management actions to improve solvency position	65	41	110
Provision for cost of undertaking past non-advised annuity sales review and potential redressnote (d)	-	-	(145)
Other itemsnote (e)	13	23	30
	72	54	(95)

(d)

In response to the findings of the FCA's Thematic Review of Annuities Sales Practices, the UK business will review all internally vesting annuities sold without advice after 1 July 2008. Reflecting this, the UK full year 2016 result included a provision of £145 million (post-tax) for the estimated cost of the review and any appropriate customer redress, but excluded any potential for insurance recoveries. Other than to cover the small amount of costs incurred in the period, no change has been made to this provision as at 30 June 2017.

(e)

The half year 2017 credit of £13 million (half year 2016: £23 million; full year 2016: £30 million) comprises experience variances for mortality, expense and other items.

5 Short-term fluctuations in investment returns

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

(i) Group summary

	2017 £m		2016 £m
	Half year	Half year*	Full year
Asia operationsnote (ii)	544	373	(100)
US operationsnote (iii)	(126)	(237)	(1,102)
UK insurance operationsnote (iv)	215	506	869
Other operationsnote (v)	106	(163)	(174)
Total	739	479	(507)

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(ii) Asia operations

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

	2017 £m		2016 £m
	Half year	Half year*	Full year
Hong Kong	371	237	(105)
Singapore	85	26	52
Other	88	110	(47)
Total Asia operationsnote	544	373	(100)

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note

For half year 2017, the credit of £544 million principally arises from unrealised gains on bonds driven by decreases in long-term interest rates across the business units (as shown in note 13(i)) and higher than assumed returns on equities backing with-profits business in Hong Kong.

(iii) US operations

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

	2017 £m		2016 £m
	Half year	Half year	Full year
Investment return related experience on fixed income securitiesnote (a)	-	(64)	(85)
Investment (126) return related	(126)	(173)	(1,017)

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)
Total US
operations

(126) (237) (1,102)

Notes

(a)

The net result relating to fixed income securities reflects a number of offsetting items as follows:

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

(b)

This item reflects the net impact of:

- changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values of 7.9 per cent and that assumed of 2.9 per cent for the period ended 30 June 2017; and
- related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

(iv) UK insurance operations

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

	2017 £m	2016 £m	
	Half year	Half year	Full year
Shareholder-backed annuity businessnote (a)	204	335	431
With-profits and othernote (b)	11	171	438

Total UK operations	215	506	869
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Notes

(a)

Short-term fluctuations in investment returns for shareholder-backed annuity business includes:

-

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

-

the difference between actual and expected default experience.

(b)

The positive £11 million fluctuation in half year 2017 for with-profits and other business represents the impact of achieving a 4.3 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 2.6 per cent for the period ended 30 June 2017 (half year 2016: achieved return of 5.3 per cent compared to assumed rate of 2.3 per cent; full year 2016: achieved return of 13.6 per cent compared to assumed rate of 5.0 per cent), partially offset by the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from movements in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns for other operations of positive £106 million (half year 2016: negative £(163) million; full year 2016: negative £(174) million) include unrealised value movements on financial instruments held outside of the 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 period arise as follows:

(i)

Group summary

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Asia operationsnote (ii)	55	(559)	70
US operationsnote (iii)	(159)	(542)	45
UK insurance operationsnote (iv)	54	(217)	(175)
Total	(50)	(1,318)	(60)

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(ii)

Asia operations

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

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Hong Kong	(72)	(483)	85

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Indonesia	67	89	46
Malaysia	(20)	9	(20)
Singapore	59	(20)	(60)
Taiwan	(16)	(78)	12
Other	37	(76)	7
Total Asia operationsnote	55	(559)	70

*

The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note

The positive effect for half year 2017 of £55 million largely arises from the movements in long-term interest rates (see note 13(i)), with losses arising from lower interest rates and hence lower fund earned rates in Hong Kong, Malaysia and Taiwan, more than offset by profits arising from the beneficial impact of valuing future profits at lower discount rates in Indonesia and Singapore, together with £117 million for the net effect of various changes to the basis of setting economic assumptions (see note 12(a)(viii) and note 13(i)).

(iii)

US operations

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

	2017 £m		2016 £m
	Half year	Half year	Full year
Variable annuity business	(194)	(709)	86
Fixed annuity and other general account business	35	167	(41)
Total US operationsnote	(159)	(542)	45

Note

For half year 2017, the charge of £(159) million mainly reflects the decrease in the assumed separate account return and reinvestment rates for variable annuity business, following the 20 basis points decrease in the US 10-year treasury yield in the period, resulting in lower projected fee income and an increase in projected benefit costs. For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income of applying a lower discount rate on the opening value of the in-force book.

(iv)

UK insurance operations

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

	2017 £m		2016 £m
	Half year	Half year	Full year
Shareholder-backed annuity businessnote (a)	-	(24)	(113)
With-profits and other businessnote (b)	54	(193)	(62)
Total UK insurance operations	54	(217)	(175)

Notes

(a)

For shareholder-backed annuity business, the overall net nil result for half year 2017 reflects the increase in the risk-free yield curve (as shown in note 13(iii)) being offset by a decrease in spreads.

(b)

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The credit of £54 million for half year 2017 mainly results from higher expected future fund earned rates following the increases in the risk-free yield curve and expected investment return on overseas equities (as shown in note 13(iii)).

7 Net core structural borrowings of shareholder-financed operations

	2017 £m			2016 £m			31 Dec		
	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company (including central finance subsidiaries) cash and short-term investments	(2,657)	-	(2,657)	(2,546)	-	(2,546)	(2,626)	-	(2,626)
Central funds									
Subordinated debt	5,598	443	6,041	4,956	192	5,148	5,772	182	5,954
Senior debt	549	168	717	549	171	720	549	175	724
	6,147	611	6,758	5,505	363	5,868	6,321	357	6,678
Holding company net borrowings	3,490	611	4,101	2,959	363	3,322	3,695	357	4,052
Prudential Capital bank loan	275	-	275	275	-	275	275	-	275
Jackson Surplus Notes	192	62	254	186	63	249	202	65	267
Net core structural borrowings of shareholder-financed operations	3,957	673	4,630	3,420	426	3,846	4,172	422	4,594

8 Reconciliation of movement in shareholders' equity

	Half year 2017 £m			Total	Asset management		Group Total
	Long-term business operations				long-term business operations	and UK general insurance commission	
	Asia operations note (i)	US operations	UK insurance operations				
Operating profit (based on longer-term investment returns)							
Long-term business:							
New business note 3	1,092	436	161	1,689	-	-	1,689
Business in force note 4	549	452	304	1,305	-	-	1,305
	1,641	888	465	2,994	-	-	2,994
	-	-	-	-	289	-	289

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Asset management and general insurance commission							
Other results	-	-	(6)	(6)	-	(407)	(413)
Operating profit based on longer-term investment returns	1,641	888	459	2,988	289	(407)	2,870
Non-operating items	599	(290)	269	578	68	(219)	427
Profit for the period	2,240	598	728	3,566	357	(626)	3,297
Other items taken directly to equity							
Exchange movements on foreign operations and net investment hedges	(611)	(579)	-	(1,190)	(11)	156	(1,045)
Intra-group dividends and investment in operationsnote (ii)	(381)	(481)	(190)	(1,052)	(272)	1,324	-
External dividends	-	-	-	-	-	(786)	(786)
Mark to market value movements on Jackson assets backing surplus and required capital	-	31	-	31	-	-	31
Other movementsnote (iii)	(114)	(4)	20	(98)	(1)	154	55
Net increase in shareholders' equity	1,134	(435)	558	1,257	73	222	1,552
Shareholders' equity at beginning of period	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968
Shareholders' equity at end of period	19,606	11,370	10,865	41,841	2,527	(3,848)	40,520
Representing:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	4,935	5,011	6,213	16,159	1,297	(3,482)	13,974
Goodwill	-	-	-	-	1,230	245	1,475
Total IFRS basis shareholders' equity	4,935	5,011	6,213	16,159	2,527	(3,237)	15,449
Additional retained profit (loss) on an EEV basisnote (iv)	14,671	6,359	4,652	25,682	-	(611)	25,071
EEV basis shareholders' equity	19,606	11,370	10,865	41,841	2,527	(3,848)	40,520
Balance at beginning of period:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	4,747	5,204	5,974	15,925	1,224	(3,958)	13,191
Goodwill	-	-	-	-	1,230	245	1,475
	4,747	5,204	5,974	15,925	2,454	(3,713)	14,666

Total IFRS basis shareholders' equity							
Additional retained profit (loss) on an EEV basisnote (iv)	13,725	6,601	4,333	24,659	-	(357)	24,302
EEV basis shareholders' equity	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968

Notes

(i)
Other operations of £(3,848) million represents the shareholders' equity of £(4,093) million for other operations as shown in the movement in shareholders' equity and includes goodwill of £245 million (half year 2016: £258 million; full year 2016: £245 million) related to Asia long-term operations.

(ii)
Intra-group dividends represent dividends that have been declared in the period and investment in operations reflect increases in share capital. The amounts included in note 10 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.

(iii)
Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments and treasury shares and intra-group transfers between operations which have no overall effect on the Group's embedded value.

(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 £(611) million (half year 2016: £(363) million; full year 2016: £(357) million), as shown in note 7.

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

	Half year 2017 £m			Value of in-force business note	Total long-term business operations
	Free surplus note 10	Required capital	Total net worth		
Group Shareholders' equity at beginning of period	5,351	10,296	15,647	24,937	40,584
New business contribution	(571)	354	(217)	1,906	1,689
Existing business – transfer to net worth	1,719	(363)	1,356	(1,356)	-
Expected return on existing businessnote 4	66	108	174	869	1,043

Changes in operating assumptions and experience variancesnote 4	348	(145)	203	59	262
Solvency II and restructuring costs	(6)	-	(6)	-	(6)
Post-tax operating profit	1,556	(46)	1,510	1,478	2,988
Sale of Korea life businessnote 15	76	(76)	-	-	-
Other non-operating items	(38)	20	(18)	596	578
Profit after tax from long-term business	1,594	(102)	1,492	2,074	3,566
Exchange movements on foreign operations and net investment hedges	(144)	(139)	(283)	(907)	(1,190)
Intra-group dividends and investment in operations	(1,052)	-	(1,052)	-	(1,052)
Other movements	(67)	-	(67)	-	(67)
Shareholders' equity at end of period	5,682	10,055	15,737	26,104	41,841
Asia operations					
New business contribution	(283)	77	(206)	1,298	1,092
Existing business – transfer to net worth	673	(58)	615	(615)	-
Expected return on existing	19	29	48	451	499

businessnote 4					
Changes in operating assumptions and experience variancesnote 4	71	(51)	20	30	50
Post-tax operating profit	480	(3)	477	1,164	1,641
Sale of Korea life businessnote 15	76	(76)	-	-	-
Other non-operating items	192	40	232	367	599
Profit after tax from long-term business	748	(39)	709	1,531	2,240
US operations					
New business contribution	(246)	220	(26)	462	436
Existing business – transfer to net worth	715	(132)	583	(583)	-
Expected return on existing businessnote 4	29	28	57	255	312
Changes in operating assumptions and experience variancesnote 4	57	(4)	53	87	140
Post-tax operating profit	555	112	667	221	888
Non-operating items	(470)	(109)	(579)	289	(290)
Profit after tax from long-term business	85	3	88	510	598
UK insurance operations					
New business contribution	(42)	57	15	146	161

Existing business – transfer to net worth	331	(173)	158	(158)	-
Expected return on existing businessnote 4	18	51	69	163	232
Changes in operating assumptions and experience variancesnote 4	220	(90)	130	(58)	72
Solvency II and restructuring costs	(6)	-	(6)	-	(6)
Post-tax operating profit	521	(155)	366	93	459
Non-operating items	240	89	329	(60)	269
Profit after tax from long-term business	761	(66)	695	33	728

Note

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

	30 Jun 2017 £m				31 Dec 2016 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	16,359	8,525	3,422	28,306	15,371	8,584	3,468	27,423
Cost of capital	(503)	(275)	(613)	(1,391)	(477)	(319)	(692)	(1,488)
Cost of time	(51)	(760)	-	(811)	(87)	(911)	-	(998)

value of guarantees								
Net								
value of in-force business	15,805	7,490	2,809	26,104	14,807	7,354	2,776	24,937
Total net worth	3,801	3,880	8,056	15,737	3,665	4,451	7,531	15,647
Total embedded valuenote	19,606	11,370	10,865	41,841	18,472	11,805	10,307	40,584
8								

10 Analysis of movement in free surplus

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

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

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

The half year 2016 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2016 CER comparative results are translated at half year 2017 average exchange rates.

	Half year 2017 £m	Half year 2016* £m		% change	
		AER	CER	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	763	600	679	27%	12%
Investment in new businessnote (iii)(a)	(283)	(228)	(257)	(24)%	(10)%
Long-term business	480	372	422	29%	14%
Eastspring Investmentsnote (iii)(b)	73	53	60	38%	22%
Total	553	425	482	30%	15%
US operations					
Underlying free surplus generated from in-force life business	801	701	797	14%	1%
Investment in new businessnote (iii)(a)	(246)	(209)	(238)	(18)%	(3)%
Long-term business	555	492	559	13%	(1)%
Broker-dealer and asset managementnote (iii)(b)	(4)	(8)	(9)	50%	56%
Total	551	484	550	14%	0%
UK insurance operations					
Underlying free surplus generated from	563	555	555	1%	1%

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in-force life business					
Investment in new businessnote (iii)(a)	(42)	(56)	(56)	25%	25%
Long-term business	521	499	499	4%	4%
General insurance commissionnote (iii)(b)	14	15	15	(7)%	(7)%
Total	535	514	514	4%	4%
M&Gnote (iii)(b)	201	181	181	11%	11%
Prudential Capitalnote (iii)(b)	5	11	11	(55)%	(55)%
Underlying free surplus generated from insurance and asset management operations	1,845	1,615	1,738	14%	6%

Representing:

Long-term business:

Expected in-force cash flows (including expected return on net assets)	1,785	1,470	1,620	21%	10%
Effects of changes in operating assumptions, operating experience variances and other operating items	342	386	411	(11)%	(17)%
Underlying free surplus generated from in-force life business	2,127	1,856	2,031	15%	5%
Investment in new businessnote (iii)(a)	(571)	(493)	(551)	(16)%	(4)%
Total long-term business	1,556	1,363	1,480	14%	5%
Asset management and general insurance commissionnote (iii)(b)	289	252	258	15%	12%
	1,845	1,615	1,738	14%	6%

*

The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(ii)

Underlying free surplus generated – total Group

	Half year 2017 £m	Half year 2016* £m		% change	
		AER	CER	AER	CER
Underlying free surplus generated from insurance and asset management operationsnote (iii)(b)	1,845	1,615	1,738	14%	6%
Other income and expenditure net of restructuring and Solvency II costsnote (iii) (b)	(407)	(308)	(315)	(32)%	(29)%
Interest received from tax settlement	-	37	37	n/a	n/a
Group underlying free surplus generated, including other operations	1,438	1,344	1,460	7%	(2)%

*

The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(iii)

Movement in free surplus

Half year 2017 £m

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Long-term business and asset management operations	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
	note 9	note (b)		note (b)	
Underlying free surplus generated	1,556	289	1,845	(407)	1,438
Sale of Korea life business	76	-	76	-	76
Other non-operating items	(38)	68	30	41	71
	1,594	357	1,951	(366)	1,585
Net cash flows to parent	(1,056)	(174)	(1,230)	1,230	-
External dividends	-	-	-	(786)	(786)
Exchange rate movements, timing differences and other items	(207)	(110)	(317)	231	(86)
Net movement in free surplus	331	73	404	309	713
Balance at beginning of period	5,351	1,224	6,575	1,639	8,214
Balance at end of period	5,682	1,297	6,979	1,948	8,927
Representing:					
Asia operations			2,347	-	2,347
US operations			1,950	-	1,950
UK operations			2,682	-	2,682
Other operations			-	1,948	1,948
			6,979	1,948	8,927
Balance at beginning of period:					
Asia operations			2,142	-	2,142
US operations			2,418	-	2,418
UK operations			2,015	-	2,015
Other operations			-	1,639	1,639
			6,575	1,639	8,214

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Half year 2016 £m					
Long-term business and asset management operations	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
		note (b)		note (b)	
Underlying free surplus generated	1,363	252	1,615	(271)	1,344
Results of the sold Korea life business	11	-	11	-	11
Other non-operating items	(829)	(61)	(890)	(129)	(1,019)
	545	191	736	(400)	336
Net cash flows to parent company	(830)	(288)	(1,118)	1,118	-
External dividends	-	-	-	(935)	(935)
Exchange rate movements, timing differences and other items	650	202	852	205	1,057
Net movement in free surplus	365	105	470	(12)	458
Balance at beginning of period	4,169	1,124	5,293	879	6,172
Balance at end of period	4,534	1,229	5,763	867	6,630
Full year 2016 £m					
Long-term business and asset	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total

management operations					
		note (b)		note (b)	
Underlying free surplus generated	3,080	508	3,588	(666)	2,922
Loss attaching to the sold Korea life business	(86)	-	(86)	-	(86)
Other non-operating items	(932)	(38)	(970)	(169)	(1,139)
	2,062	470	2,532	(835)	1,697
Net cash flows to parent company	(1,236)	(482)	(1,718)	1,718	-
External dividends	-	-	-	(1,267)	(1,267)
Exchange rate movements, timing differences and other items	356	112	468	1,144	1,612
Net movement in free surplus	1,182	100	1,282	760	2,042
Balance at beginning of period	4,169	1,124	5,293	879	6,172
Balance at end of period	5,351	1,224	6,575	1,639	8,214

Notes

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

(b) Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

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

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

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

	Half year 2017 £m					
	Long-term business	Asset management and insurance commission	UK general	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	(144)	(11)		(155)	(17)	(172)
Mark to market value movements on Jackson assets backing surplus and required capitalnote 8	31	-		31	-	31
Other itemsnote (f)	(94)	(99)		(193)	248	55
	(207)	(110)		(317)	231	(86)
	Half year 2016 £m					
	Long-term business	Asset management and insurance commission	UK general	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	329	55		384	50	434
Mark to market value movements on Jackson assets backing surplus and	138	-		138	-	138

	183	147	330	155	485
required capital Other itemsnote (f)	650	202	852	205	1,057
Full year 2016 £m					
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	633	83	716	48	764
Mark to market value movements on Jackson assets backing surplus and required capital	(11)	-	(11)	-	(11)
Other itemsnote (f)	(266)	29	(237)	1,096	859
	356	112	468	1,144	1,612

(f) Other items include the effect of intra-group loans and other intra-group transfers between operations, non-cash items, together with movements in subordinated debt for Other operations.

11 Sensitivity of results to alternative assumptions

Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2017 and 31 December 2016 and the new business contribution after the effect of required capital for half year 2017 and full year 2016 to:

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

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

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

New business contribution

	Half year 2017 £m				Full year 2016 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
New business contribution ^{note 3}	1,092	436	161	1,689	2,030	790	268	3,088
Discount rates – 1% increase	(208)	(21)	(18)	(247)	(375)	(43)	(32)	(450)
Interest rates – 1% increase	3	49	20	72	51	64	27	142
Interest rates – 0.5% decrease	(4)	(24)	(10)	(38)	(30)	(49)	(15)	(94)
Equity/property yields – 1% rise	61	52	20	133	129	91	28	248
Long-term expected defaults – 5 bps increase	--	-	(1)	(1)	-	-	(2)	(2)

Embedded value of long-term business operations

	30 Jun 2017 £m				31 Dec 2016 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
Shareholders' equity ^{note 8}	19,606	11,370	10,865	41,841	18,472	11,805	10,307	40,584
Discount rates – 1% increase	(2,268)	(350)	(815)	(3,433)	(2,078)	(379)	(809)	(3,266)
Interest rates – 1% increase	(548)	(128)	(643)	(1,319)	(701)	(241)	(638)	(1,580)
Interest rates – 0.5% decrease	184	(54)	356	486	248	25	369	642
Equity/property yields – 1% rise	841	682	359	1,882	771	653	314	1,738

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Equity/property market values – 10% fall	(416)	(127)	(447)	(990)	(361)	(11)	(399)	(771)
Statutory minimum capital	128	197	-	325	150	223	-	373
Long-term expected defaults – 5 bps increase	-	-	(136)	(136)	-	-	(138)	(138)

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

12 Methodology and accounting presentation

(a)

Methodology

Overview

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

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

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

Notwithstanding the basis of presentation of results as explained in note 12(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 12(b)(i).

(i)

Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business, including the Group's investments in joint venture and associate

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 asset management and other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 12(a)(vii).

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

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

- the closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court Approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.

- the presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

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

(ii)

Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency, mortality and morbidity, as described in note 13. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

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

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

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

For UK immediate annuity business, 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-period 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 premiums and one-tenth of single premiums. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of regular premium new 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 period (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the period 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 an IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the EEV result for Jackson 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 locked-in required capital supporting the Group's long-term business. 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 post-tax investment earnings on the capital.

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

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

(iv)

Financial options and guarantees

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

Asia operations

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

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

US operations (Jackson)

The principal financial options and guarantees in Jackson are associated with the fixed annuity (FA) 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 all periods, depending on the particular product, jurisdiction where issued, and date of issue. For all periods shown, 87 per cent of the account values on fixed annuities are for policies with guarantees of 3 per cent or less, and the average guarantee rate is 2.6 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 for which 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 upon depletion of funds (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 policyholders' value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

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

UK insurance operations

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

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses - annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The PAC with-profits fund also held a provision on the Solvency II basis of £62 million at 30 June 2017 (30 June 2016: £54 million; 31 December 2016: £62 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 Solvency II basis of £572 million was held in SAIF at 30 June 2017 (30 June 2016: £575 million; 31 December 2016: £571 million) to honour the guarantees. As described in note 12(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' funds.

Time value

The value of financial options and guarantees comprises two parts:

-

The first part arises from a deterministic valuation on best estimate assumptions (the intrinsic value).

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The second 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 13(iv), (v) and (vi).

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

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

(v)

Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets, subject to it being at least the local statutory minimum requirements.

For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. Following the implementation of Solvency II, which became effective on 1 January 2016, a portion of future shareholder transfers expected from the with-profits fund is recognised within net worth, together with the associated 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 (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and

-

UK insurance operations: the capital requirements are set at the Solvency II Solvency Capital Requirement (SCR) for shareholder-backed business as a whole.

(vi)

With-profits business and the treatment of the estate

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

(vii)
Internal asset management
The in-force and new business 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 period 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 period. 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 assets for covered business.

(viii) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin.

For Asia and US operations, the risk-free rates are based on 10-year local government bond yields.

For UK insurance operations, following the implementation of Solvency II on 1 January 2016, the EEV risk-free rate is based on the full term structure of interest rates; ie a yield curve, rather than a flat 15-year gilt yield, is used to determine the embedded value at the end of the reporting period.

The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

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

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

Market risk allowance

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

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

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

Additional credit risk allowance

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

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expected long-term defaults;

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

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

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

Asia operations

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

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

US operations (Jackson)

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

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults as shown in note 13(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

-
How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
-

Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment return rates credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

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

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

UK operations

(1) Shareholder-backed annuity business

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

In the annuity MCEV calculations, as the assets are generally held to maturity to match liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on the Solvency II allowance for credit risk. The Solvency II allowance is set by European Insurance and Occupational Pensions Authority (EIOPA) using a prudent assumption that all future downgrades will be replaced annually, and allowing for the credit spread floor.

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 a best estimate credit risk allowance. The remaining elements of prudence within the Solvency II allowance are incorporated into the risk margin included in the discount rate, shown in note 13(iii).

(2) With-profits fund non-profit annuity business

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

(3) With-profits fund holdings of debt securities

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

Allowance for non-diversifiable non-market risks

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

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's 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. The level of these allowances are reviewed and updated based on an assessment of a range of pre-defined emerging market risk indicators, as well as the Group's exposure and experience in the business units. At half year 2017, the China allowance for non-market risk was reduced reflecting the growth in the size of the business, increasing management exposure and experience in the country and an improvement in our risk assessment of the market. For the Group's US business and UK business, no additional allowance is necessary.

(ix)

Foreign currency translation

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

(x)

Taxation

In determining the post-tax profit for the period 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 period.

(xi)

Inter-company arrangements

The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies 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 the PAC non-profit sub-fund.

(b)

Accounting presentation

(i)

Analysis of post-tax profit

To the extent applicable, the presentation of the EEV post-tax profit for the period is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 12(b)(ii) below) and incorporate the following:

- new business contribution, as defined in note 12(a)(ii);
- unwind of discount on the value of in-force business and other expected returns, as described in note 12(b)(iii) below;
- the impact of routine changes of estimates relating to operating assumptions, as described in note 12(b)(iv) below; and
- operating experience variances, as described in note 12(b)(v) below.

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, for half year 2017, non-operating free surplus generated includes the effect of the disposal of the Korea life business. For all periods, non-operating profit includes a reclassification from operating profit of the results attributable to the sold Korea life business. For full year 2016, non-operating result also includes the effect of adjustment to the carrying value of the Korea life business following its reclassification as held for sale (see note 15 for details).

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

(ii)

Investment returns included in operating profit

For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 12(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-period 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 business adjusted to reflect end-of-period 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 operating result for the period.

(iii)

Unwind of discount and other expected returns

The Group's methodology in determining the unwind of discount and other expected returns is by reference