PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

PRESS RELEASE AND HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

NEWS RELEASE

London,10 August 2016

PRUDENTIAL PLC 2016 HALF YEAR RESULTS

ASIA DRIVES GROWTH AND CASH GENERATION

Performance Highlights on a constant (and actual) exchange rate basis

- Group IFRS operating profit of £2,059 million, up 6 per cent[1] (up 9 per cent[2])
- Asia IFRS operating profit of £743 million and free surplus generation[3] of £419 million, both up 15 per cent[1] (both up 18 per cent[2])
- Asia new business profit of £824 million, up 20 per cent[1] (up 24 per cent[2])
- 9 per cent[1] increase in US variable annuity IFRS operating profit to £642 million (up 16 per cent[2])
- UK life retail APE sales of £593 million, up 51 per cent, with PruFund sales up 80 per cent to £438 million
- UK insurance and asset management IFRS operating profit of £730 million[4], up 3 per cent
- 2016 first interim dividend increased by 5 per cent to 12.93 pence per share
- Group Solvency II surplus[5,6] estimated at £9.1 billion; equivalent to a ratio of 175 per cent

Mike Wells, Group Chief Executive, said: “The Group has delivered good progress on its key operating metrics – IFRS operating profit, underlying free surplus generation and new business profit – in a period of heightened macro-economic, geo-political and investment market uncertainty and volatility.

“The Group’s performance is led by double-digit growth in Asia, where IFRS operating profit grew 15 per cent to £743 million, operating free surplus generation grew 15 per cent to £419 million and new business profit grew 20 per cent to £824 million. In the US and the UK, we continue to successfully manage the effects of market turbulence. The quality of our earnings, geographic diversity and strong balance sheet position us well to grow over the long term. We remain on track to achieve our 2017 financial objectives.

“The attractiveness and value to consumers of de-risking their financial lives, whether it is through protecting health or wealth, are accentuated in periods such as the one we have experienced in the first half of this year. The secular, global trend of increasing self-reliance of the middle class to provide for savings and retirement, be it by a fast-growing, wealthier but younger population in our Asian markets or by a growing number of retirees in the US and the UK, remains intact despite the macro-economic uncertainty including the effect of historic low interest rates. Prudential is well placed to serve these needs through our leading positions in three of the most attractive insurance regions globally.

“The first-half performance demonstrates the quality of our franchises, the effectiveness of our strategy and our ability to leverage our broad capabilities to deliver on the significant growth opportunities in our chosen markets. We are well placed to capitalise on the positive structural trends and remain distinctive in our ability to deliver both growth and cash.”

Summary financials	2016 Half year	2015 Half year	Change on AER basis	Change on CER basis
IFRS operating profit	**£2,059m**	£1,881m	9%	6%
Underlying free surplus generated[3]	**£1,609m**	£1,418m	13%	10%
Life new business profit[7,8]	**£1,260m**	£1,115m	13%	8%
IFRS profit after tax[9]	**£687m**	£1,438m	(52)%	(54)%
Net cash remittances from business units	**£1,118m**	£1,068m	5%	

	2016 Half year	2015 Full year	Change on AER basis
IFRS shareholders’ funds	**£14.6bn**	£13.0bn	13%
EEV shareholders’ funds[10]	**£35.0bn**	£31.9bn	10%
Group Solvency II capital surplus[5,6]	**£9.1bn**	£9.7bn	(6)%

[1] Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated. All amounts are comparable to the six months ended 30 June 2015 unless otherwise indicated.
[2] Growth rate on an actual exchange rate basis.

[3] Underlying free surplus generated comprises free surplus generated based on operating movements from long-term business (net of investment in new business) and that generated from asset management operations.
[4] Comprises UK life, UK general insurance, M&G and Prudential Capital.
[5] Before allowing for first interim dividend (31 December 2015: Second interim dividend).
[6] The Group Solvency II surplus represents shareholder capital position excluding the contribution to Own Funds and the Solvency Capital Requirement from ring fenced With-Profit Funds and staff pension schemes in surplus.
[7] The half year 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The half year 2015 comparative results for UK insurance operations reflect the Solvency I basis.
[8] Excluding UK bulk annuities from 2015 comparative results as Prudential has withdrawn from this market.
[9] Due to asymmetry in IFRS accounting requirements, Jackson's net unrealized gains on fixed income securities of £1,094 million after-tax and DAC (2015: unrealised losses of £388 million) are excluded from IFRS profit after tax and are reflected instead in movements in IFRS shareholders' funds for the period.
[10] Includes adjustment for opening EEV shareholders' funds of negative £0.5 billion for the impact of Solvency II as at 1 January 2016.

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Notes to Editors:

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The results prepared under IFRS form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the amended European Embedded Value Principles dated April 2016 prepared by the CFO Forum of European Insurance Companies. The half year 2016 EEV results for UK insurance operations have been prepared to reflect the Solvency II regime. The half year 2015 EEV results for UK insurance operations have been prepared reflecting the Solvency I basis being the regime applicable for that period. There is no change to the basis of preparation for Asia and US operations. The Group's EEV basis results are stated on a post-tax basis and, where appropriate, include the effects of IFRS. Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated. Constant exchange rates results are calculated by translating prior period results using the current period foreign exchange rate i.e. current period average rates for the income statement and current period closing rates for the balance sheet.

2. Annual Premium Equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3. Operating profit is determined on the basis of including longer-term investment returns. EEV and IFRS operating profit is stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions. Furthermore, for EEV basis results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions and the mark to market value movement on core borrowings. Separately on the IFRS basis, operating profit also excludes amortisation of accounting adjustments arising principally on the acquisition of REALIC completed in 2012 and the cumulative foreign exchange loss on the disposal of the Japan Life business that was recycled from Other Comprehensive Income on completion of the sale process in 2015.

4. Total number of Prudential plc shares in issue as at 30 June 2016 was 2,579,034,148.

5. A presentation for analysts and investors will be held today at 11.30am (UK) / 6.30pm (Hong Kong) in the conference suite at Nomura International plc, 1 Angel Lane, London EC4R 3AB. The presentation will be webcast live and as a replay on the corporate website via the link below:
http://prudential.co.uk/investors/results-and-presentations/results-day

A dial-in facility will be available to listen to the presentation. Please allow time ahead of the presentation to join the call (lines open half an hour before the presentation is due to start, i.e. from 11.00am (UK) / 6.00 pm (Hong Kong)). Dial-in: +44 (0) 20 3059 8125 / 0800 368 0649 (Freephone UK), Passcode: 'Prudential' (this must be quoted to the operator to gain access to the call). Playback: +44 (0) 121 260 4861 (UK and international excluding US) / + 1 844 2308 058 (US only) Passcode: 3920204#. This will be available from approximately 2.30pm (UK) / 9.30pm (Hong Kong) on 10 August 2016 until 11.59pm (UK) on 24 August 2016 and 6.59am (Hong Kong) on 25 August 2016.

6. High-resolution photographs are available to the media free of charge at www.prudential.co.uk/prudential-plc/media/media_library

7. 2016 First Interim Dividend

Ex-dividend date	25 August 2016 (UK, Ireland and Hong Kong) 24 August 2016 (Singapore)
Record date	26 August 2016
Payment of dividend	29 September 2016 (UK, Ireland and Hong Kong) On or about 6 October 2016 (Singapore) On or about 6 October 2016 (ADR holders)

8. About Prudential plc

Prudential plc and its affiliated companies constitute one of the world's leading financial services groups, serving around 24 million insurance customers, with £562 billion of assets under management (as at 30 June 2016). Prudential plc is incorporated in England and Wales and is listed on the stock exchanges in London, Hong Kong, Singapore and New York. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

9. Forward-Looking Statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's vote to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal actions and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading in this document.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Summary Half Year 2016 financial performance

Financial highlights

***Life APE new business sales (APE sales)*[1]**

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m Half year	2015 £m Half year	Change %	2015 £m Half year	Change %
Asia	**1,655**	1,366	21	1,404	18
US	**782**	857	(9)	912	(14)
UK retail[3]	**593**	393	51	393	51
Total Group excluding bulk annuities[3]	**3,030**	2,616	16	2,709	12
UK bulk annuities	**-**	117	(100)	117	(100)
Total Group	**3,030**	2,733	11	2,826	7

Life EEV new business profits and investment in new business

	Actual Exchange Rate						Constant Exchange Rate			
	2016 Half year £m		2015 Half year £m		Change %		2015 Half year £m		Change %	
	New Business Profit	Free surplus invested in new business	New Business Profit	Free surplus invested in new business	New Business Profit	Free surplus investment in new business	New Business Profit	Free surplus investment in new business	New Business Profit	Free surplus investment in new business
Asia	**824**	**237**	664	213	24	11	688	217	20	9
US	**311**	**209**	371	164	(16)	27	394	175	(21)	19
UK retail[2,3]	**125**	**56**	80	20	56	n/a	80	20	56	n/a
Total Group excluding bulk annuities[2,3]	**1,260**	**502**	1,115	397	13	26	1,162	412	8	22
UK bulk annuities[3]	**-**	**-**	75	37	(100)	100	75	37	(100)	100
Total Group	**1,260**	**502**	1,190	434	6	16	1,237	449	2	12

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m Half year	2015 £m Half year	Change %	2015 £m Half year	Change %
Operating profit before tax[4]					
Long-term business:					
Asia	**682**	574	19	584	17
US	**888**	834	6	887	-
UK	**473**	436	8	436	8
Long-term business operating profit before tax	**2,043**	1,844	11	1,907	7
UK general insurance commission	**19**	17	12	17	12
Asset management business:					
M&G	**225**	251	(10)	251	(10)
Prudential Capital	**13**	7	86	7	86
Eastspring Investments	**61**	58	5	60	2
US	**(12)**	12	n/a	12	n/a
Other income and expenditure	**(290)**	(308)	6	(308)	6
Total operating profit based on longer-term investment returns before tax	**2,059**	1,881	9	1,946	6
Non-operating items	**(1,395)**	1	n/a	1	n/a
Profit before tax attributable to shareholders	**664**	1,882	(65)	1,947	(66)
Tax credit/(charge) attributable to shareholders' returns	**23**	(444)	105	(461)	105
Profit for the period attributable to shareholders'	**687**	1,438	(52)	1,486	(54)

***Post-tax profit - EEV*[2,5]**

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m Half year	2015 £m Half year	Change %	2015 £m Half year	Change %
Post-tax operating profit					
Long-term business:					
Asia	**1,215**	1,072	13	1,106	10
US	**694**	812	(15)	863	(20)
UK	**384**	411	(7)	411	(7)
Long-term business post-tax operating profit	**2,293**	2,295	-	2,380	(4)
UK general insurance commission	**15**	14	7	14	7
Asset management business:					
M&G	**181**	203	(11)	203	(11)
Prudential Capital	**11**	6	83	6	83
Eastspring Investments	**53**	50	6	52	2
US	**(8)**	8	n/a	8	n/a
Other income and expenditure	**(282)**	(298)	5	(298)	5
Post-tax operating profit based on longer-term investment returns	**2,263**	2,278	(1)	2,365	(4)
Non-operating items	**(869)**	(163)	n/a	(177)	n/a
Post-tax profit for the period attributable to shareholders	**1,394**	2,115	(34)	2,188	(36)

Basic earnings per share - based on operating profit after tax

	Actual Exchange Rate			Constant Exchange Rate	
	2016 pence Half year	2015 pence Half year	Change %	2015 pence Half year	Change %
IFRS	**61.8**	57.0	8	59.0	5
EEV[2]	**88.5**	89.3	(1)	92.7	(5)

Underlying free surplus generated[2,6]

	Actual Exchange Rate						Constant Exchange Rate			
	2016 £m		2015 £m		Change %		2015 £m		Change %	
	Half year		Half year				Half year			
	Long-term	Total	Long-term	Total	Long-term	Total	Long-term	Total	Long-term	Total
Asia	**366**	**419**	306	356	20	18	312	364	17	15
US	**492**	**484**	536	544	(8)	(11)	571	579	(14)	(16)
UK	**499**	**514**	295	309	69	66	295	309	69	66
M&G	-	**181**	-	203	-	(11)	-	203	-	(11)
Prudential Capital	-	**11**	-	6	-	83	-	6	-	83
Total Group	**1,357**	**1,609**	1,137	1,418	19	13	1,178	1,461	15	10

Cash remitted by the business units to the Group[7]

	2016 £m	2015 £m	
	Half year	Half year	Change %
	Total	Total	Total
Asia	**258**	258	-
US	**339**	403	(16)
UK Life	**215**	201	7
M&G	**150**	151	(1)
Prudential Capital	**25**	25	-
Other UK	**131**	30	
Total Group	**1,118**	1,068	5

Cash and capital

	2016	2015	
	Half year	Half year	Change %
First interim dividend per share relating to the reporting period	**12.93p**	12.31p	5
Holding company cash and short-term investments	**£2,546m**	£2,094m	22
Group Solvency II capital surplus[8]	**£9.1bn**	£9.2bn	(1)
Group Solvency II capital ratio[8]	**175%**	190%	(15pp)

Group shareholders' funds (including goodwill attributable to shareholders)

	2016	2015	
	Half year	Half year	Change %
IFRS	**£14.6bn**	£12.1bn	21
EEV[2]	**£35.0bn**	£30.1bn	16

	2016 %	2015 %
	Half year	Half year
Return on IFRS shareholders' funds[9]	**24**	25
Return on embedded value[2,9]	**14**	16

	2016	2015	
	Half year	Half year	Change %
EEV shareholders' funds[2] per share (including goodwill attributable to shareholders)	**1,356p**	1,170p	16
EEV shareholders' funds[2] per share (excluding goodwill attributable to shareholders)	**1,299p**	1,113p	17

1 APE sales is a measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent of single premiums on new business written during the period for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. Further explanation of the differences is included in Note D of the Additional EEV financial information.

2 The half year 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The half year 2015 comparative results for UK insurance reflect the Solvency I basis.

3 Excluding UK bulk annuities as Prudential has withdrawn from this market.

4 IFRS operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.

5 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in Note C of the Additional EEV financial information.

6 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in notes 9 of the EEV basis results.

7 Cash remitted to the Group form part of the net cash flows of the holding company. A full holding company cash flow is set out in Note II (a) of Additional IFRS financial information. This differs from the IFRS Consolidated Statement of Cash Flows which includes all cash flows relating to both policyholders and shareholders' fund. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity.

8 Estimated before allowing for first interim dividend.

9 Annualised operating profit after tax and non-controlling interests as a percentage of opening shareholders' funds.

Group Chief Executive's Report

The Group has delivered good progress on its key operating metrics – IFRS operating profit, underlying free surplus generation and new business profit – in a period of heightened macro-economic, geo-political and investment market uncertainty and volatility.

The Group's performance is led by double digit growth in Asia and successful cycle management in the US and the UK. The quality of our earnings, geographic diversity and strong balance sheet position us well to grow over the long term.

The attractiveness and value to consumers of de-risking their financial lives, whether it is through protecting health or wealth, are accentuated in periods such as the one we have experienced in the first half of this year. The secular, global trend of increasing self-reliance of the middle class to provide for savings and retirement, be it by a fast-growing, wealthier but younger population in our Asian markets or by a growing number of retirees in the US and the UK, remains intact despite the macro-economic uncertainty. In a world of low investment returns, high volatility and improving life expectancy, Prudential is well placed to serve these needs through our leading position in three of the most attractive insurance regions globally.

Our business remains firmly anchored by these strong structural trends which give it the resilience to weather cyclical events. As a management team, we remain focused on delivering on our promises to our customers and our shareholders, and will be proactive in taking actions to protect our franchises from such headwinds.

The first half of this year has provided many such challenges, including a further decline in interest rates to historic low levels, higher investment market volatility, the announcement of the Department of Labor reforms in the US, decline in annuity sales in the UK and the continuation of net outflows at M&G. In Asia, our scale allows us to evaluate the trade-off between long-term value creation and short-term volume growth without disrupting our overall delivery, while in the US we believe we are well positioned to navigate a period of significant change. In the UK, we continue to face an extraordinary amount of change in the marketplace alongside the introduction of new capital rules. This has led us to take actions such as prioritising our new post-pension reforms offering while withdrawing from the bulk annuity market to preserve shareholder value. At M&G, where we are coming off an extended period of earnings growth, we are focused on careful management of costs and improving performance. Overall, we have the scale, diversity and capabilities to outperform our markets over the long term.

The first-half performance demonstrates the quality of our franchises, the effectiveness of our strategy and our ability to leverage our broad capabilities to deliver on the significant growth opportunities in our chosen markets. We remain well placed to capitalise on the positive structural trends and remain distinctive in our ability to deliver both growth and cash.

2016 half year financial performance

We are pleased that we have been able to grow our IFRS operating profit, underlying free surplus generation and new business profits in the first half of 2016, against an unfavourable macro-economic and market backdrop.

Our philosophy is simple: we continue to focus on both attracting new customers to our franchise and maintaining the loyalty of our existing customers. Through following this approach we are able to weather the effects of market cycles and consistently deliver value to both our customers and shareholders over the long term. Too often, the pursuit of growth which is narrowly defined as new customer acquisition can undermine the delivery of long-term value.

In the first half of 2016, our total premiums in Asia grew 12 per cent[1], and separate account assets under management in the US grew 4 per cent[2]; PruFund assets in the UK were up 22 per cent[3] while external funds under management in our asset management businesses were up 4 per cent compared to 31 December 2015.

This progress has allowed us to build on the strong progress of prior years, with IFRS operating profit of £2,059 million, up 6 per cent (9 per cent on an actual exchange rate basis), free surplus generation of £1,609 million, up 10 per cent (13 per cent on an actual exchange rate basis) and new business profit of £1,260 million, up 8 per cent[4] (13 per cent on an actual exchange rate basis) despite the known challenges in some of our businesses at the start of the period. IFRS shareholders' funds increased to £14.6 billion over the period after taking into account profit after tax and other movements. EEV shareholders' funds increased to £35.0 billion over the period equivalent to 1,356 pence per share.

Given the long-term nature of our businesses, we believe it is useful to consider our growth metrics over a longer time scale. Over the last five years, we have grown our key operating metrics of IFRS operating profit, free surplus generation and new business profit by 101 per cent, 47 per cent and 67 per cent, respectively on an actual exchange rate basis. Our broad diversification, by geography, product and channel remains a primary source of strength and resilience for both earnings and cash.

Asia

Our ongoing success in Asia is enabled by the scale and diversification of our business, which is a substantial and sustainable competitive advantage. We continue to retain our leadership position across the region with a Top 3 position in 8 of our 13 markets, distribution capabilities and a product range that supports our customers' changing needs throughout their lives.

Operating across such a broad range of markets it is inevitable that, individually, each will exhibit different rates of growth. We remain agnostic about short-term country level sales progression since we have considerable strategic flexibility to adapt to local conditions without compromising regional growth.

The consistency of this approach is evident during the first half of the year, as we have continued to flex our businesses according to market conditions, prioritising value over volume and also investing in building out our platform. In Hong Kong, we are building out our distribution footprint to capture strong demand for our products at attractive margins, both from local customers and mainland China, while retaining our focus on sales quality and process controls that are at the forefront of the industry. In Singapore and Indonesia, we are proactively managing volumes through product mix and agency actions respectively, to protect our overall economics and reinforce our longer-term positioning. The long-term growth potential for these markets remains compelling and over time they will further enhance our performance. In Malaysia, we are already benefiting from initiatives we undertook previously to pull back from business with lower margins and to drive growth through investment in the faster-growing Bumi sector of the market. In China, we continue to make rapid progress as we build out our agency sales force with a focus on driving protection regular premium sales. We are continuing to invest for the long-term with new start-ups in Cambodia and most recently in Laos that leverage our expertise in developing markets.

Across the region, we have taken proactive actions to lower the interest rate sensitivity of our business by withdrawing spread products. In this context, the quality of our delivery is reflected in the continuing growth in regular premium new business sales, which were up 21 per cent, reflecting the durable nature of demand for our products. Our now sizeable and growing in-force book of recurring premium business in the region has been the main contributor to a 17 per cent increase in life IFRS operating profit in the first half of the year to £682 million. Profits from health and protection alone contributed around two thirds of this total.

Eastspring, our asset management business, faced outflows as a result of the market volatility experienced during the half year, though we saw net inflows into our bond funds. Overall profits were in line with last year at £61 million.

Overall, at a regional level, despite the short-term adverse impact of our actions in some markets to underpin long-term value creation, we have delivered double-digit growth in our key operating metrics, with IFRS operating profit growing by 15 per cent to £743 million, free surplus generation growing by 15 per cent to £419 million and new business profit growing by 20 per cent to £824 million. We remain on track to achieve our 2017 objectives.

Our regional delivery and wide footprint are important drivers of our ability to acquire new customers at pace, adding to a large and highly valuable existing base. The headroom for growth across the region remains significant, with sizeable uninsured and underinsured populations across our markets.

US

Jackson has developed a high-quality business with significant competitive advantages across multiple dimensions. It makes more effective use of technology and is consistently recognised as having the best service[5] standards, with the largest distribution capabilities. It has a track record of innovation and bringing products to market faster and more effectively than peers and its product proposition remains central to our ability to deliver value for our customers, offering a wide fund choice and a strong track record of account value outperformance. All this is delivered on a cost base that is the most efficient[6] in the industry.

These are the hallmarks of success in any environment and are likely to be fully tested by the industry reforms announced by the Department of Labor in April. The market will take time to adjust to these reforms, which are scheduled to come into effect fully in 2018. There is likely to be market disruption in the shorter term, which has already resulted in lower variable annuity sales for the industry and for Jackson.

In the first half of 2016, traditional variable annuity sales excluding Elite Access were 22 per cent lower than the first half of 2015 in an environment of elevated market volatility and significant uncertainty on the Department of Labor reforms. The quality of our franchise is reflected in the continuing delivery of net inflows, which have driven a positive 4 per cent[2] increase in separate account assets to $138.9 billion contributing to a 9 per cent increase in fee business IFRS operating profit to £642 million. The total life IFRS operating profit is in line with last year at £888 million and cash remittance for the half year was £339 million.

In volatile markets, our in-force book has remained profitable and our hedging performance economically effective.

We remain closely engaged with all our stakeholders, in particular leveraging our exceptional relationships with broker-dealers to assess their needs and we have already filed products that complete a range of options for distributors under the new Department of Labor regime. We believe Jackson’s platform is second to none and we are convinced that it will extend its competitive position through this period.

UK

In the UK, we have already adapted to significant industry change in recent years, demonstrating our ability to innovate and distribute the right products, backed by a trusted brand. The new business focus on with-profits products continues to deliver high levels of growth, with PruFund APE sales in the first half alone growing by 80 per cent to £438 million. As flagged at our full year results in March, we have withdrawn from bulk annuities, writing no business in the first half of 2016 given the onerous capital impact under the Solvency II regime. Overall, we are pleased to report steady progress on life IFRS operating profit up 8 per cent to £473 million, with on-going with-profits and in-force annuity earnings broadly in line with prior year at £306 million, management actions to support solvency contributing £140 million (2015: £61 million) and profits from new annuity sales reducing to £27 million (2015: £66 million) following our change of stance on annuities. Underlying free surplus generation was up 66 per cent to £514 million with Solvency II surplus of £2.9 billion (equivalent to a ratio of 138 per cent) which supported a £215 million remittance to Group.

Our asset management business, M&G, as expected has continued to experience significant net outflows in the first half. M&G reported IFRS operating profit of £225 million reflecting the impact of these outflows partially offset by lower costs. Although this is likely to impact short-term earnings prospects, M&G remains a highly regarded franchise and the skills and capabilities that saw external assets under management double between 2008 and 2015 are very much intact. Anne Richards, who joined us in June following her appointment as M&G Chief Executive, is already working closely with the executive team to improve performance and address the operational impacts of the outcome of the UK referendum on EU membership.

Capital and risk management

We remain disciplined in our approach to capital management. Operating capital generation in the first half of 2016 continued to make a sizeable contribution, adding to the surplus at the beginning of the year and helping to absorb market effects during the period. At 30 June 2016, the Group Solvency II capital surplus was estimated at £9.1 billion[7], which is equivalent to a Group Solvency II capital ratio of 175 per cent (31 December 2015: £9.7 billion, equivalent to a ratio of 193 per cent).

Outlook

Our future prospects remain underpinned by the compelling structural growth fundamentals in Asia and our premium franchises across the Group, which operate with distinctive skills and capabilities to outperform our peers. In addition, the diversity and quality across the Group allows us to be disciplined across the cycle while still delivering overall progress.

Although the macro-economic context looks certain to be challenging and unpredictable in the short term, the Group has proven its ability to manage through external change. Our absolute position is strong and we believe our relative position will be a source of competitive advantage in times of market disruption. Through the durable demand for products which assist our customers in reducing risk, the growing scale of stable recurring income, and proactive management of our product mix and balance sheet, the Group has the flexibility to adapt to market conditions and deliver robust earnings and shareholder value.

[1] Gross earned premiums including Group's share of joint ventures.
[2] Comparable to 31 December 2015 on local currency basis.
[3] Comparable to 31 December 2015.
[4] Excluding UK bulk annuities as Prudential has withdrawn from the market.
[5] Awarded highest customer service in 2015 - Financial Industry – Service Quality Measurement Group.
[6] On Expense to Asset (Statutory) basis. Source: SNL Financial LLC report on industry wide data as at Q1 2016.
[7] Before allowing for first interim dividend (31 December 2015: Second interim dividend).

Chief Financial Officer's report on the 2016 first half financial performance

Prudential has made a good start to 2016. Although financial markets have been volatile in this period and the downward path of global long-term interest rates has accelerated following the UK referendum on EU membership, our operational delivery has remained intact. We have delivered increases across our key metrics of new business profit, IFRS operating profit and free surplus generation, while maintaining a strong capital position.

The high quality and recurring nature of our operating income offers meaningful protection in times of macro-economic and market uncertainty. We have used this to good effect in the first half of the year, to both offset the impact of the anticipated decline in contributions from M&G, UK bulk annuities and spread profits in the US and to protect our robust capital position. We have also proactively managed costs across the Group, taken further specific actions to improve our UK solvency position and continued to prioritise actions which sustain long-term value creation over tactical volume growth.

Compared to the same period in 2015, sterling has declined against most global currencies, which is positive for the translation of results from our sizeable non-sterling operations. To aid comparison of underlying progress, we continue to express and comment on the performance trends of our Asia and US operations on a constant currency basis.

The key operational highlights in the first half of 2016 were as follows:

- IFRS operating profit based on longer-term investment returns was 6 per cent higher at £2,059 million (up 9 per cent on an actual exchange rate basis), equivalent to an annualised 24 per cent return on opening IFRS equity. This result was driven by continued double-digit growth in our Asia life operations, with life IFRS operating profit up 17 per cent to £682 million. In Jackson, the expected reduction in spread earnings reflecting lower rates was mitigated by a robust performance from fee business. IFRS operating profit from our UK life business also increased by 8 per cent, despite the loss of earnings from new bulk annuity sales, in part due to a contribution from actions taken to improve solvency. As anticipated, M&G's earnings were lower by 10 per cent following a decline over the last year in retail assets managed, driven by net outflows.
- Underlying free surplus generation[1,2], our preferred measure of cash generation from our life and asset management businesses, increased by 10 per cent to £1,609 million, after financing new business growth. On an actual exchange rate basis the growth in this measure was 13 per cent, with the increase reflecting a higher contribution from our growing in-force book of business and continued discipline of focusing on high-return new business with fast payback periods.
- New business profit[2] was 8 per cent[3] higher at £1,260 million, with Asia up 20 per cent as a result of both volume growth and improvements in country and channel mix. The contribution from Jackson declined by 21 per cent due to lower volumes and the adverse effect of lower interest rates. UK life retail new business profit grew by 56 per cent, driven by strong consumer demand for our PruFund product range.

During the first half of 2016, investment markets have remained volatile, reflecting growing concerns on the outlook for global growth, the consequences of monetary policy actions and unease caused by steep declines in commodity prices. The first quarter of the year was characterised by sizeable equity market falls, wider credit spreads and lower rates, while in the second quarter equity and credit markets normalised but long-term interest rates fell further following the UK referendum on EU membership. Although we have taken steps to reduce the investment market sensitivity of our earnings and balance sheet, we remain significant long-term holders of financial assets to back the commitments that we have made to our customers. Short-term fluctuations in both these assets and related liabilities are reported outside the operating result, which is based on long-term assumptions. In the first half of the year, these short-term fluctuations were overall negative, driven by the net effect that the sharp decline in interest rates had on our overall balance sheet. This contrasts with the equivalent period of 2015, where a more benign market environment and rising interest rates produced comparatively modest short-term investment variances. As a result, in the first half of the year total IFRS post tax profit was 54 per cent lower at £687 million and total EEV after-tax profit was 36 per cent lower at £1,394 million.

Further, over the course of the first six months of 2016 sterling weakened significantly relative to major global currencies. As the majority of the Group's business is conducted in US dollars and in various Asian currencies, our earnings, shareholders' equity and solvency have benefited strongly from this movement. In addition, the significant fall in US long-term rates between the start and the end of the reporting period produced substantial unrealised gains on the fixed income securities held by Jackson accounted for through Other Comprehensive Income. The improved operating results, negative short-term investment variances, unrealised gains on Jackson's fixed income securities and positive currency effects combined to drive the Group's IFRS shareholders' equity 21 per cent[4] higher at £14.6 billion. Similarly, the Group's EEV basis shareholders' equity was also higher at £35.0 billion, up 16 per cent[2,4].

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m	2015 £m	Change	2015 £m	Change
	Half year	Half year	%	Half year	%
Operating profit before tax					
Long-term business:					
Asia	**682**	574	19	584	17
US	**888**	834	6	887	-
UK	**473**	436	8	436	8
Long-term business operating profit before tax	**2,043**	1,844	11	1,907	7
UK general insurance commission	**19**	17	12	17	12
Asset management business:					
M&G	**225**	251	(10)	251	(10)
Prudential Capital	**13**	7	86	7	86
Eastspring Investments	**61**	58	5	60	2
US	**(12)**	12	n/a	12	n/a
Other income and expenditure[5]	**(290)**	(308)	6	(308)	6
Total operating profit based on longer-term investment returns before tax	**2,059**	1,881	9	1,946	6
Short-term fluctuations in investment returns:					
Insurance operations	**(1,168)**	75	n/a	86	n/a
Other operations	**(192)**	11	n/a	11	n/a
	(1,360)	86	n/a	97	n/a
Other non-operating items[5]	**(35)**	(85)	59	(96)	64
Profit before tax attributable to shareholders	**664**	1,882	(65)	1,947	(66)
Tax credit/ (charge) attributable to shareholders' returns	**23**	(444)	105	(461)	105
Profit for the period attributable to shareholders	**687**	1,438	(52)	1,486	(54)

IFRS Earnings per share

	Actual Exchange Rate			Constant Exchange Rate	
	2016 pence	2015 pence	Change %	2015 pence	Change %
	Half year	Half year		Half year	
Basic earnings per share based on operating profit after tax	**61.8**	57.0	8	59.0	5
Basic earnings per share based on total profit after tax	**26.9**	56.3	(52)	58.2	(54)

IFRS Operating Profit

Total IFRS operating profit increased by 6 per cent (9 per cent on an actual exchange rate basis) in the first half of 2016 to £2,059 million.

- **Asia total operating profit** of £743 million was 15 per cent higher than the previous period (18 per cent on an actual exchange rate basis), with continued strong growth in life insurance.
- **US total operating profit** at £876 million decreased by 3 per cent (4 per cent increase on an actual exchange rate basis), reflecting stable life profits and the impact of Curian closure costs.
- **UK total operating profit** of £492 million was 9 per cent higher, with core in-force life earnings consistent with prior year and management actions to support solvency contributing £140 million (2015: £61 million). 2015 included profits of £49 million from bulk annuity transactions that were not repeated in the first half of 2016.
- **M&G operating profit** (excluding Prudential Capital) was 10 per cent lower at £225 million, reflecting the impact of recent asset outflows from retail funds on overall funds under management, the effect of which has been mitigated by action on costs.

At the beginning of the year, we expected earnings would contract in a few discrete areas of the business: at M&G, due to the impact of outflows on funds under management on the corresponding fee income; in Jackson's spread business portfolio as a result of the persistence of interest rates at historically low levels; and in our UK life business given our reduced appetite for writing new bulk annuity business. These identified effects have emerged largely as expected and we currently expect they will continue into the rest of the year. However, during the first half of 2016, we have maintained our focus on cost control across all parts of the Group, which has mitigated the overall impact of these adverse effects. Earnings have also benefited from continued growth in the premium base in Asia and the level of aggregate assets managed by our life operations across the Group, together with the additional earnings of £140 million from management actions taken in the UK to support solvency during the period.

Life insurance operations: Taken together, IFRS operating profit from our life insurance operations in Asia, the US and the UK increased 7 per cent to £2,043 million (11 per cent on an actual exchange rate basis).

IFRS operating profit in our life insurance operations in **Asia** was 17 per cent higher at £682 million (up 19 per cent on an actual exchange rate basis), reflecting our ability to translate top-line growth into shareholder value. The performance is underpinned by the recurring premium income nature of our in-force book and the highly diverse nature of our earnings by geography and by source. Income from insurance margin is the largest contributor to the growth in Asia's earnings, up 24 per cent, reflecting our continued focus on health and protection business. At a country level, we have seen double-digit growth in seven markets, led by Hong Kong, Indonesia and Malaysia, which has more than compensated for the impact of our decision to discontinue sales of universal life products across the region.

In the **US**, life IFRS operating profit at £888 million was in line with the first half of 2015 (up 6 per cent on an actual exchange rate basis), reflecting the resilient performance of our franchise in an environment of market volatility and industry disruption caused by Department of Labor reforms. Despite the equity market falls sustained in the early part of the year, we have broadly maintained the level of fee income earned on separate account values, which continue to benefit from positive net flows in spite of the reduced level of new business sales in the period. As expected, lower yields in the period have impacted spread income, which decreased by 5 per cent.

UK life IFRS operating profit increased by 8 per cent to £473 million. Within this total, the contribution from new annuity business reduced from £66 million to £27 million, as we scale down our participation in the annuity market. We have taken a number of asset and liability actions in the first half of 2016 to improve the solvency position of our UK life operations and further mitigate market risk, which have generated combined profits of £140 million. Of this amount, £66 million related to profit from new longevity reinsurance transactions (2015: £61 million), with the balance of £74 million reflecting the effect of repositioning the fixed income asset portfolio and other actions. The contribution to the IFRS operating profit from ongoing with-profits and annuity in-force business was broadly consistent with the prior year at £306 million (2015: £309 million).

The increase in our IFRS operating earning levels continues to reflect the growth in the scale of our operations, driven primarily by positive business flows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each period these increase as we write new business and collect regular premiums from existing customers and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluation of our profit potential in that it reflects, for example, our ability to earn fees on the unit-linked element and sizes the risk that we carry on the insurance element, for which Prudential needs to be compensated.

Shareholder-backed policyholder liabilities and net liability flows[6]

	2016 £m				2015 £m			
	Half year				Half year			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2016	Net liability flows[7]	Market and other movements	At 30 June 2016	At 1 January 2015	Net liability flows[7]	Market and other movements	At 30 June 2015
Asia	**27,844**	**1,001**	**4,503**	**33,348**	26,410	834	57	27,301
US	**138,913**	**2,855**	**17,387**	**159,155**	126,746	4,351	(1,430)	129,667
UK	**52,824**	**(1,699)**	**4,286**	**55,411**	55,009	(856)	503	54,656
Total Group	**219,581**	**2,157**	**26,176**	**247,914**	208,165	4,329	(870)	211,624

Focusing on the business supported by shareholder capital, which generates the majority of the life profit, in the first half of 2016 net flows into our businesses were overall positive at £2.2 billion. This was driven by our US and Asian operations, as we continue to focus on both retaining our existing customers and attracting new business to drive long-term value creation. Net outflows in the UK are partly due to the impact of large investment-only corporate pension schemes transfers combined with annuity payments that are no longer offset by new business inflows following the reduction in annuity sales.

The weakening of sterling in late June contributed a total £18.3 billion positive foreign exchange movement which, together with favourable investment and other movements, led to an additional £26.2 billion increase in policyholder liabilities, with much of this increase arising at the end of the reporting period. The average total policyholder liabilities[8] were 11 per cent higher, having increased from £209.9 billion in the first half of 2015 to £233.7 billion in the equivalent period this year. The 11 per cent increase in the Group's aggregate life IFRS operating profit on an actual exchange rate basis is in line with the growth in average policyholder liabilities.

Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver[9]

	Actual Exchange Rate						Constant Exchange Rate		
	2016 £m			2015 £m			2015 £m		
	Half year			Half year			Half year		
	Operating profit	Average liability	Margin bps	Operating profit	Average liability	Margin bps	Operating profit	Average liability	Margin bps
Spread income	**557**	**80,819**	**138**	574	72,890	157	603	75,983	159
Fee income	**993**	**131,389**	**151**	951	125,581	151	1,004	133,147	151
With-profits	**162**	**114,109**	**28**	154	106,205	29	154	107,797	29
Insurance margin	**914**			796			827		
Margin on revenues	**990**			920			933		
Expenses:									
Acquisition costs*	**(1,067)**	**3,030**	**(35)%**	(1,095)	2,733	(40)%	(1,134)	2,826	(40)%
Administration expenses	**(898)**	**219,083**	**(82)**	(829)	206,167	(80)	(859)	217,404	(79)
DAC adjustments	**140**			192			200		
Expected return on shareholder assets	**112**			120			118		
Longevity reinsurance and other management actions to improve solvency	**140**			61			61		
Operating profit based on longer-term investment returns	**2,043**			1,844			1,907		

*The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

Alongside growing our overall level of life operating profit, we continue to maintain our preference for higher-quality sources of income such as insurance margin and fee income. We favour insurance margin because it is relatively insensitive to the equity and interest rate cycle and prefer fee income to spread income because it is more capital-efficient. In line with this approach, on an actual exchange rate basis, in the first half of 2016, insurance margin has increased by 15 per cent and fee income by 4 per cent, while spread income declined by 3 per cent.

Asset management: Movements in asset management operating profit are also primarily influenced by changes in the scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations. In the first half of 2016, the lower overall contribution to IFRS operating profit from our asset management businesses in the UK and Asia reflects the decrease in average assets under management.

Asset management external funds under management[10,11]

	2016 £m				2015 £m			
	Half year				Half year			
	Actual Exchange Rate				Actual Exchange Rate			
	At 1 January 2016	**Net flows**	**Market and other movements**	**At 30 June 2016**	At 1 January 2015	Net flows	Market and other movements	At 30 June 2015
M&G	**126,405**	**(6,966)**	**10,217**	**129,656**	137,047	(2,375)	(1,272)	133,400
Eastspring[12]	**30,281**	**(412)**	**2,859**	**32,728**	25,333	4,561	194	30,088
Total asset management	**156,686**	**(7,378)**	**13,076**	**162,384**	162,380	2,186	(1,078)	163,488
Total asset management (including MMF)	**162,692**	**(6,722)**	**13,835**	**169,805**	167,180	2,795	(1,060)	168,915

M&G's IFRS operating profit declined by 10 per cent to £225 million (2015: £251 million), reflecting the impact on revenues of lower assets under management as a result of the net retail business outflows experienced since the second quarter of 2015. Careful management of costs has contributed to an 8 per cent fall in expenses, which has cushioned the full impact of the decline in revenues in the first half of the year. The same dynamics have seen the cost-income ratio move up 1 percentage point to 52 per cent.

Given the continued outflows in 2016, retail assets under management at 30 June 2016 were 14 per cent lower than a year ago at £59.2 billion, which will continue to put downward pressure on revenue prospects for the remainder of 2016. In addition, as M&G's cost base is typically higher in the second half of the year, we expect the cost-income ratio to move up towards 60 per cent for the full year.

Our Asia-based asset manager, Eastspring Investments, has also been impacted by net outflows in the first half of the year, although these have been modest considering the market volatility across the region during this period. However, taken together with positive net flows in the second half of 2015 and market movements, average external funds under management[8] (excluding MMF) increased by 14 per cent, from £27.7 billion in the first half of 2015 to £31.5 billion in the equivalent period this year. A shift in the overall mix of assets away from higher-margin equity funds towards lower-margin bonds has muted the benefit of the higher asset base on overall fee revenues, which was up 1 per cent at £155 million. Control on costs has resulted in an improvement in the cost-income ratio to 56 per cent (2015: 58 per cent), driving Eastspring's operating profit 2 per cent higher to £61 million (up 5 per cent on an actual exchange rate basis).

In the US, our non-life insurance businesses collectively generated an IFRS operating loss of £12 million (2015: profit of £12 million), mainly reflecting costs relating to the closure of Curian, which is now complete.

Prudential Capital produced IFRS operating profit of £13 million in the first half of 2016. During 2015 we started to refocus activity away from revenue generation towards internal treasury services and this reprioritisation continued into 2016. As this reprioritisation is executed through this year, Prudential Capital's contribution to operating profit will decline.

IFRS Short-term fluctuations

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In the first half of 2016 the total short-term fluctuations in investment returns relating to the life operations were negative £1,168 million, comprising positive £26 million for Asia, negative £1,440 million in the US and positive £246 million in the UK.

The Asia positive £26 million short-term fluctuations principally reflect the net value movements on shareholders' assets and related liabilities following the fall in bond yields across the region.

In the US, Jackson provides certain guarantees on its annuity products, the value of which would typically rise when equity markets fall and long-term interest rates decline. Jackson charges annual fees for these guarantees which are in turn used to purchase downside protection in the form of options and futures to mitigate the effect of equity market falls, and swaps and swaptions to cushion the impact of drops in long-term interest rates. Under IFRS, accounting for the movement in the valuation of these derivatives, which are all fair valued, is asymmetrical to the movement in guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and accepts the variability in accounting results. The negative short-term fluctuations of £1,440 million in the first half mainly reflect the net value movements on the guarantees and the associated derivatives of the 78bps fall in the 10-year US government bond yields during the period.

Jackson hedges on a macro-economic basis and an extension of its approach of seeking economic protection against declining rates has provided a further source of accounting asymmetry in the first half of 2016. Given poor value offered by traditional derivative instruments, at the start of 2016 Jackson opted to manage interest rate risk by further increasing its holding of long-dated US Treasuries, achieving an economically similar result when rates fall in a more efficient manner. At 30 June 2016 Jackson's holding of US Treasuries totalled £6.3 billion in value (31 December 2015: £3.5 billion). The decline in interest rates observed during the first half of 2016 gave rise to unrealised gains on these US Treasuries of £627 million over the period, which provided an additional economic offset against the higher guaranteed reserves booked. Under the Group's accounting policies, these unrealised gains were recorded within Other Comprehensive Income, rather than in the profit and loss account, giving rise to a further accounting asymmetry in Jackson's reported profit for the period.

The UK non-operating profit of positive £246 million mainly reflects gains on bonds backing annuity capital and shareholders' funds following the 89bps fall in 15-year UK gilt yields in the first half of 2016.

The negative short-term fluctuations in investment returns for other operations of £192 million (2015: positive £11 million) principally reflect unrealised value movements on financial instruments.

IFRS Effective tax rates
In the first half of 2016, the effective tax rate on IFRS operating profit based on longer-term investment returns was in line with the equivalent period last year at 23 per cent. A lower benefit from non-recurring tax credits was offset by a larger overall contribution to the operating profit from Asia which attracts a lower rate of tax.

The effective tax rate on the total IFRS profit was negative 3 per cent in the first half of 2016 (2015: 24 per cent), driven by the larger negative short-term investment fluctuations in the US insurance operations, which attract tax relief at a higher rate than the rates at which profits are taxed elsewhere in the Group.

Total tax contribution
The Group continues to make significant tax contributions in the countries in which it operates, with £1,293 million remitted to tax authorities in the first half of 2016. This was lower than the equivalent amount of £1,574 million in the first half of 2015. This is principally due to lower corporation tax payments driven by the absence of two exceptional factors arising in 2015. In the US, a change in basis for taxing derivatives which affects the timing, but not the quantum, of tax payable accelerated tax payments into 2015 and decreased payments in 2016. In the UK, payments in 2015 reflected positive investment returns in 2014, while the adverse market conditions in late 2015 are reflected in the 2016 payments.

	2016 £m				**2015 £m**	
	Half year				**Half year**	**Full year**
	Corporation taxes	**Other taxes**	**Taxes collected**	**Total**	**Total**	**Total**
Taxes paid in:						
Asia	**138**	**50**	**60**	**248**	164	446
US	**53**	**34**	**254**	**341**	461	1,040
UK	**93**	**99**	**484**	**676**	941	1,491
Other	**3**	**23**	**2**	**28**	8	27
Total tax paid	**287**	**206**	**800**	**1,293**	1,574	3,004

Corporation taxes include amounts paid, by both Group companies and the Group's share of joint ventures, on taxable profits. In certain countries this includes policyholder investment returns on certain life insurance products, such as in the UK, and withholding tax where this is a form of corporation tax, such as in Indonesia and the Philippines. Other taxes include property taxes, withholding taxes (allocated to the jurisdiction in which the withholding tax is paid), employer payroll taxes and irrecoverable indirect taxes. Taxes collected are other taxes that Prudential remits to tax authorities that it is obliged to collect from employees, customers and third parties which include taxes on sales, and those associated with employee and annuitant payrolls.

New business performance

Life EEV new business profit[2] and APE new business sales (APE sales)

	Actual Exchange Rate						**Constant Exchange Rate**			
	2016 £m		**2015 £m**		**Change %**		**2015 £m**		**Change %**	
	APE Sales	**New Business Profit**	**APE Sales**	**New Business Profit**	**APE Sales**	**New Business Profit**	**APE Sales**	**New Business Profit**	**APE Sales**	**New Business Profit**
Asia	**1,655**	**824**	1,366	664	21	24	1,404	688	18	20
US	**782**	**311**	857	371	(9)	(16)	912	394	(14)	(21)
UK retail[3]	**593**	**125**	393	80	51	56	393	80	51	56
Total Group excluding bulk annuities[3]	**3,030**	**1,260**	2,616	1,115	16	13	2,709	1,162	12	8
UK bulk annuities	**-**	**-**	117	75	(100)	(100)	117	75	(100)	(100)
Total Group	**3,030**	**1,260**	2,733	1,190	11	6	2,826	1,237	7	2

Life insurance new business profit[2] was up 8 per cent[3] (13 per cent on an actual exchange rate basis) to £1,260 million, reflecting a strong underlying increase in contributions from Asia and the UK retail business, which has outweighed the adverse impact of lower interest rates across the Group and reduced volumes in the US. **Life insurance new business APE sales** increased by 12 per cent[3] (16 per cent on an actual exchange rate basis) to £3,030 million led by Asia and the UK.

In **Asia** new business profit was 20 per cent higher at £824 million, outpacing new business APE sales in the region which increased by 18 per cent to £1,655 million (up 24 and 21 per cent respectively on an actual exchange rate basis). Our product solutions vary by market, but typically start with tailored morbidity or mortality riders and a long-term savings component, with premium payments stretching over multiple years. This strategic preference underpins the quality of our new business production, which has a high proportion of regular premiums (94 per cent of APE sales) and a significant proportion directed towards health and protection coverage (24 per cent of APE sales), which makes our business less correlated to investment markets.

APE sales in Hong Kong were up 58 per cent in the first half of 2016, with regular premiums driving growth and accounting for 94 per cent of the total. We continue to generate business from both Mainland China residents and local customers. In Indonesia, trading conditions remain challenging, and in such an environment we have retained our more cautious approach to new business sales, resulting in a decline of 33 per cent in APE sales. In Malaysia, APE sales increased by 10 per cent, with good progress in developing the Bumi sector of the market, where Takaful now accounts for 25 per cent of our overall new business sales. In

Singapore, we remain focused on growing regular premium agency sales of protection products, which is driving improvements in the economics of new business written. Our decision to discontinue sales of universal life during 2015 means headline APE sales were 11 per cent lower overall. In our other Asian markets we continue to focus on positioning our businesses for long-term growth, with pleasing improvements in China in particular, where regular premium APE sales were up 59 per cent.

The 20 per cent increase in new business profit reflects the increase in APE sales volumes (up 18 per cent) and positive effects from changes in country mix and channel mix (contributing 9 percentage points to the increase), which have more than offset the overall negative impact of the downward movements in interest rates (generating a drag of 7 percentage points).

In **the US**, retirement markets were disrupted by the Department of Labor reforms, resulting in lower industry sales of variable annuities. Although Jackson retained market share[13], total variable annuity sales including Elite Access were down 27 per cent, contributing to an overall decline in APE sales of 14 per cent. The lower variable annuity sales were partially offset by higher opportunistic institutional APE sales. Traditional variable annuities excluding Elite Access were down 22 per cent. Elite Access continues to be the undisputed leader[14] in the investment-only variable annuity market. APE sales of this product were lower at £99 million (2015: £176 million), due in part to the wider disruption in the variable annuity market, as well as a demand shift from qualified to non-qualified accounts, which in the first half accounted for 69 per cent of sales. Notwithstanding this reduction, the proportion of variable annuity sales without living benefits remains significant at 28 per cent (2015: 34 per cent).

The 21 per cent decrease in Jackson's new business profit reflected a lower level of sales (down 14 per cent), the negative impact of downward movements in interest rates (generating a drag of 10 percentage points) and improved business mix (contributing 3 percentage points to the increase). The economics on Jackson's new business remain extremely attractive, with high internal rates of return and short payback periods.

In **the UK**, at a time when asset yields are declining and consumers are becoming more self-reliant, our strong customer propositions in retail risk-managed products are proving ever more popular. The smoothed balanced-fund returns and volatility control offered by our sizeable and well capitalised UK with-profits funds continue to attract record levels of new business flows. Our strategy of extending the PruFund range of investments to new product wrappers such as income drawdown, individual pensions and most recently to ISAs, has delivered a 51 per cent increase in retail APE sales to £593 million. Within this, PruFund APE sales grew by 80 per cent to £438 million, driving the total PruFund assets under management 22 per cent higher than at the end of 2015, to £20.1 billion. Despite the continued volatility in financial markets, the with-profit fund performed strongly, achieving a 5.3 per cent pre-tax investment return[15] during the first half of 2016, outperforming the FTSE All-Share index total return of 2.1 per cent over the same period.

This excellent performance demonstrates our success in diversifying our product portfolio in response to regulatory change and the expanding market for flexible retirement income and pensions products. As previously signalled, our appetite for annuities has diminished following the significant increase in capital requirements under Solvency II, which has made annuities economically unattractive for Prudential. Consequently, we transacted no bulk deals in the period (2015: APE sales of £117 million and new business profit of £75 million).

Free surplus generation

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations. For life insurance operations it represents amounts maturing from the in-force business during the year, net of amounts reinvested in writing new business. For asset management it equates to post-tax IFRS profit for the period.

This metric is based on the capital regimes which apply locally in the various jurisdictions in which our life businesses operate. The introduction of Solvency II with effect from 1 January this year has altered the regime locally applied to our UK life business, so the 2016 UK life half year free surplus figures reflect this change. The 2015 UK life comparatives are unchanged as they reflect the regime that applied at that time. Solvency II does not directly impact the way capital is generated locally in the US and in our Asian life operations, so there is no change in the way free surplus is calculated for these businesses.

In the first half of 2016 underlying free surplus generation, after investment in new business, increased by 10 per cent[2] to £1,609 million, even though the considerably lower interest rate environment depressed this measure by an estimated £128 million (Asia £41 million, US £70 million and UK £17 million).

Free surplus generation

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m	2015 £m	Change	2015 £m	Change
	Half year	Half year	%	Half year	%
Free surplus generation[1, 2]					
Asia	**656**	569	15	581	13
US	**693**	708	(2)	754	(8)
UK	**570**	366	56	366	56
M&G	**181**	203	(11)	203	(11)
Prudential Capital	**11**	6	83	6	83
Underlying free surplus generated from in-force life business and asset management	**2,111**	1,852	14	1,910	11
Investment in new business	**(502)**	(434)	(16)	(449)	(12)
Underlying free surplus generated	**1,609**	1,418	13	1,461	10
Free surplus at 30 June[2]	**5,763**	5,304			

The 10 per cent[2] increase in free surplus generated by our life insurance and asset management businesses to £1,609 million (up 13 per cent[2] on an actual exchange rate basis) reflects our growing scale and the highly capital-generative nature of our business model. We drive this metric by targeting markets and products that have low-strain, high-return and fast payback profiles and by delivering both good service and value to improve customer retention. Our ability to generate both growth and cash is a distinctive feature of Prudential. The closing value of free surplus in our life and asset management operations was £5.8 billion[2] at 30 June 2016, after financing reinvestment in new business, covering negative non-operating free surplus movements following the large falls in long-term interest rates and funding cash remittances from the business units to Group.

In **Asia**, growth in the in-force life portfolio, combined with post-tax asset management profits from Eastspring Investments, contributed to free surplus generation of £656 million, up 13 per cent. In the **US**, free surplus generation decreased by 8 per cent, mainly reflecting the negative impact of lower long-term interest rates on expected returns and lower positive experience. In the **UK**[2], the 56 per cent increase to £570 million included a contribution of £190 million (2015: £52 million from longevity reinsurance) from the specific asset and liability management actions taken in the first half of 2016 to improve the solvency position of our UK life business and further mitigate market risk.

We invested £502 million of the free surplus generated[2] during the period in writing new business (2015: £449 million, including bulk annuities) equivalent to an increase of 12 per cent.

Asia remained the primary destination of our new business investment, 9 per cent higher at £237 million, given the superior profitable growth opportunities available in that region. We continue to generate internal rates of return in the region in excess of 20 per cent, with an average payback period of four years.

In the **US**, new business investment increased by 19 per cent to £209 million, as a result of change in the mix of business sold, including higher institutional volumes. At just 3 per cent of new business single premium sales, Jackson's overall strain remains low, supporting the generation of significant returns on capital. New business economics on Jackson's new business remain extremely attractive, with business written at an overall internal rate of return in excess of 20 per cent and short payback periods averaging three years.

The new business investment in the **UK**[2] was £56 million (2015: £57 million), albeit comparisons are distorted by the application of different capital regimes in the two periods. Investment in the first half of 2016 included a significantly higher strain for new non-profit annuities which totalled £69 million in the period (on APE sales of £29 million), compared to a £39 million strain in the same period last year (on APE sales of £139 million, including £117 million for bulks). The much increased capital intensity of new annuity business in the current interest rate environment has lowered returns significantly. Consequently, our appetite for annuity business has diminished further and we are taking steps in the second half of this year which will see us curtail retail sales.

We continue to manage cashflows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

Holding company cash[16]

	Actual Exchange Rate	
	2016 £m	**2015 £m**
	Half year	**Half year**
Net cash remitted by business units:		
Asia	**258**	258
US	**339**	403
UK Life	**215**	201
M&G	**150**	151
Prudential Capital	**25**	25
Other UK	**131**	30
Net cash remitted by business units	**1,118**	1,068
Holding company cash at 30 June	**2,546**	2,094

Cash remitted to the corporate centre in the first half of 2016 amounted to £1,118 million. Asia's net remittances of £258 million were consistent with those in the first half of 2015, which included £42 million of one-off proceeds from the sale of the Japan life business. Excluding these, underlying remittances from Asia were up 19 per cent. Our disciplined approach to balancing trade-offs between growth, value and risk, enabled Jackson to make a sizeable remittance of £339 million in the first half, albeit lower than last year when investment market conditions were more benign. The remittances from UK Life and M&G were broadly in line with the first half of 2015. Actions completed in the period including internal restructuring that has enabled us to centrally access resources previously held at intermediary holding and other companies contributed £131 million to the remittances total. As the restructuring is now complete, these are not expected to recur.

Cash remitted to the Group in the first half of 2016 was used to meet central costs of £199 million (2015: £168 million), pay the 2015 second interim ordinary and special dividend and finance the final up-front payment for the renewal of the distribution agreement with Standard Chartered Bank. We took advantage of the low interest rate environment to issue US $1 billion of perpetual subordinated debt at attractive rates in early June. The proceeds will be used for general business purposes and to support the withdrawal of Solvency II grandfathered debt in due course. Reflecting these movements in the period, total holding company cash at 30 June 2016 was £2,546 million compared to £2,094 million at the end of 2015.

EEV Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2016 £m	2015 £m	Change	2015 £m	Change
	Half year	Half year	%	Half year	%
Post -tax operating profit[2]					
Long-term business:					
Asia	**1,215**	1,072	13	1,106	10
US	**694**	812	(15)	863	(20)
UK	**384**	411	(7)	411	(7)
Long-term business post-tax operating profit	**2,293**	2,295	-	2,380	(4)
UK general insurance commission	**15**	14	7	14	7
Asset management business:					
M&G	**181**	203[1]	(11)	203	(11)
Prudential Capital	**11**	6	83	6	83
Eastspring Investments	**53**	50	6	52	2
US	**(8)**	8	n/a	8	n/a
Other income and expenditure[17]	**(282)**	(298)	5	(298)	5
Post-tax operating profit based on longer-term investment returns	**2,263**	2,278	(1)	2,365	(4)
Short-term fluctuations in investment returns:					
Insurance operations	**652**	(382)	n/a	(403)	n/a
Other operations	**(163)**	15	n/a	14	n/a
	489	(367)	n/a	(389)	n/a
Effect of changes in economic assumptions	**(1,345)**	80	n/a	88	n/a
Other non-operating items[17]	**(13)**	124	110	124	(110)
Profit for the period attributable to shareholders	**1,394**	2,115	(34)	2,188	(36)

EEV Earnings per share[2]

	Actual Exchange Rate			Constant Exchange Rate	
	2016 pence	2015 pence	Change %	2015 pence	Change %
	Half year	Half year		Half year	
Basic earnings per share based on post-tax operating profit	**88.5**	89.3	(1)	92.7	(5)
Basic earnings per share based on post-tax total profit	**54.5**	82.9	(34)	85.7	(36)

EEV Operating Profit

On an EEV basis, Group post-tax operating profit based on longer-term investment returns was 4 per cent[2] lower (1 per cent on an actual exchange rate basis) at £2,263 million in the first half of 2016. Prudential adopts an active basis for setting the future return assumptions used to calculate both the Group's EEV basis operating profit and the Group's overall embedded value. These assumptions are, therefore, based on 30 June 2016 long-term interest rates, which for our main life operations in the US, the UK, Hong Kong, Singapore and Indonesia were between 80 and 100 basis points lower than those used at 30 June 2015. The adoption of these lower long-term rates reduced the half year 2016 EEV operating profit by an estimated £249 million. EEV operating profit would have increased by 6 per cent[2], if the adverse interest rate effect is removed (up 10 per cent[2] on an actual exchange rate basis). The EEV results of all three life operations have, therefore, been adversely impacted by lower interest rates, the effect of which has masked the underlying business growth and a higher contribution from experience profits and assumption changes. Despite this, the Group's operations delivered an overall annualised return on opening embedded value of 14 per cent.

EEV operating profit includes new business profit from the Group's life businesses, which increased by 8 per cent[2,3] (13 per cent on an actual exchange rate basis) to £1,260 million, despite the adverse interest rate effect estimated at £88 million. It also includes life in-force profit of £1,033 million, which was 10 per cent[2] lower, in part due to the estimated £161 million adverse interest rate effect. This is most evident in the profit from the unwind of the in-force business, which was lower at £798 million[2] (2015: £915 million). Experience and assumptions changes were positive at £235 million[2] (2015: £228 million), reflecting our ongoing focus on managing the in-force book for value.

In **Asia**, EEV life operating profit was up 10 per cent to £1,215 million, reflecting growth in new business profit of 20 per cent at £824 million. Overall in-force profit was 6 per cent lower at £391 million, after a £75 million adverse interest rate effect. In-force profit continues to benefit from favourable experience profits.

Jackson's EEV life operating profit was down 20 per cent to £694 million, reflecting a 21 per cent decline in new business profit to £311 million and a reduction in the contribution from in-force profit of 18 per cent to £383 million. The decline in our US EEV operating profit reflected lower sales volumes, an adverse interest rate effect estimated at £91 million and a reduction in experience profits to £174 million (2015: £218 million), driven by lower spreads.

In the **UK**, EEV life operating profit decreased by 7 per cent[2] to £384 million (2015: £411 million). The decline is due to the absence of new bulk annuities, which contributed £75 million in the comparative period, a £37 million adverse interest rate effect, offset by higher profits from retail sales and a positive contribution from actions taken to improve the solvency of the UK business.

EEV non-operating result

EEV operating profit is based on longer-term investment returns and excludes the effect of short-term volatility arising from market movements and the effect of changes from economic assumptions. These items are included in non-operating profit and were negative £869 million[2] in the first half of 2016 (2015: negative £163 million on an actual exchange rate basis).

EEV short-term fluctuations

Short-term fluctuations in investment returns reflect the element of non-operating profit which relates to the difference between the actual investment returns achieved and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for life operations of positive £652 million include positive £383 million for Asia, negative £237 million for our US operations and positive £506 million[2] in the UK.

In Asia and the UK, positive short-term fluctuations principally reflect unrealised movements on bond holdings in the period. In the US, the short-term fluctuations of negative £237 million mainly represent the effect of lower than anticipated equity returns compared to those assumed.

Effect of changes in economic assumptions
The fall in interest rates also had a net negative impact on the overall level of future earnings that we expect to generate from our existing book of business. Once this and other changes in investment market conditions are factored into the EEV calculations they gave rise to a negative movement of £1,345 million[2] in the first half of 2016 (2015: positive £80 million on an actual exchange rate basis) more than offsetting the overall positive short-term fluctuations reported in the period.

Taken together, the two non-operating result components totalling negative £869 million[2] are equivalent to just over 2 per cent of the Group's 30 June 2016 embedded value, a modest impact considering the significant falls in long-term rates in the first half of 2016 to all-time lows. This demonstrates the resilience of our life operations, which benefit from the natural offsets that exist across our large and well diversified books of life businesses globally.

2017 Financial objectives

We are continuing to make good progress towards our 2017 objectives announced in December 2013.

Asia Objectives	**2012 £m[18]**	**2013 £m**	**2014 £m**	**2015 £m**	**Half year 2016 £m**	**CAGR (since 2012) %**	**Objectives* 2017**
Asia life and asset management IFRS operating profit							
Full year							
Reported actuals	924	1,075	1,140	1,324			>£1,858 million**
Constant exchange rate***	901	1,075	1,260	1,468			>15% CAGR**
Constant exchange rate change % (year-on-year)		19	17	17		18	
Half year							
Reported actuals	435	512	525	632	743		
Constant exchange rate***	420	512	583	683	787		
Constant exchange rate change % (year-on-year)		22	14	17	15		
Asia Underlying Free Surplus Generation[19]							
Full year							
Reported actuals	484	573	592	673			£0.9 - £1.1 billion
Constant exchange rate***	471	573	662	765			
Constant exchange rate change % (year-on-year)		22	16	16			
Half year							
Reported actuals	201	292	302	356	419		
Constant exchange rate***	192	292	335	392	453		
Constant exchange rate change % (year-on-year)		52	15	17	16		

Group Objective for cumulative period 1 January 2014 to 31 December 2017	**Actual 1 Jan 2014 to 30 June 2016**	**Objective 1 Jan 2014 to 31 December 2017**
Cumulative Group Underlying Free Surplus Generation**** from 2014 onwards	£7.2 billion	> £10 billion

* The objectives assume exchange rate at December 2013 and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume the existing EEV, IFRS and Free Surplus methodology at December 2013 will be applicable over the period.
** Asia life and asset management pre-tax operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012-2017.
*** Constant exchange rates results translated using exchange rates at December 2013.
**** The half year 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The cumulative results for UK insurance prior to 31 December 2015 reflect the Solvency I basis.

Capital position, financing and liquidity
Capital position

With effect from 1 January 2016, the Group is required to adopt Solvency II as its consolidated capital regime. This was developed by the EU in order to harmonise the various regimes previously applied across EU member states. As the regime was primarily designed with European life products in mind, it is a poor fit with Prudential's business given the predominantly non-EU footprint of the Group. The one year value at risk nature of the Solvency II test, which has its roots in banking regulation where risk positions can be priced and readily traded, runs counter to the multi-year nature of life insurance business, where the illiquid nature of liabilities renders such potential market solutions theoretical and not grounded in established sector practices. It also means that solvency capital will be highly volatile.

While Solvency II does not fully recognise the economic capital strength of the Group, we have implemented it after receiving internal model approval from the Prudential Regulation Authority in December 2015.

The high quality and recurring nature of our operating capital generation and our disciplined approach to managing balance sheet risk have enabled us to enter the new Solvency II regime with a strong Group shareholders' capital surplus of £9.7 billion. These factors have also provided meaningful protection against the significant adverse market-driven effects on this metric in the first half of the year. As a result the overall net reduction in the Group shareholders' Solvency II capital was contained, with surplus estimated at £9.1 billion[20,21] at 30 June 2016 (equivalent to a solvency ratio of 175 per cent).

In July 2013, Prudential plc was listed by the Financial Stability Board as one of nine companies to be designated as a Global Systemically Important Insurer, a classification that was reaffirmed in November 2015. Prudential is monitoring the development and potential impact of the related framework of policy measures and is engaging closely with the Prudential Regulation Authority on the implications of this designation.

Local statutory capital

All of our subsidiaries continue to hold appropriate capital positions on a local regulatory basis. In the UK, at 30 June 2016 the Prudential Assurance Company Limited and its subsidiaries had an estimated Solvency II shareholder surplus of £2.9 billion (equivalent to a solvency ratio of 138 per cent) and a with-profits surplus of £3.5 billion (equivalent to a solvency ratio of 176 per cent). In the US, a high start of year capital level coupled with strong operational capital formation in the first half has allowed Jackson to withstand the adverse market-driven effects and remit £339 million to Group.

Debt Portfolio

The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified and 98 per cent of our UK portfolio and 98 per cent of our US portfolio are investment grade. During the first half of 2016 default losses were minimal and reported impairments were £32 million (2015: £3 million) across these two fixed income securities portfolios.

Financing and liquidity

Shareholders' net core structural borrowings and ratings

	30 June 2016 £m			**30 June 2015 £m**			**31 December 2015 £m**		
	IFRS basis	**Mark to market value**	**EEV basis**	**IFRS basis**	**Mark to market value**	**EEV basis**	**IFRS basis**	**Mark to market value**	**EEV basis**
Shareholders' borrowings in holding company	**5,505**	**363**	**5,868**	4,446	442	4,888	4,567	353	4,920
Prudential Capital	**275**	**-**	**275**	275	-	275	275	-	275
Jackson surplus notes	**186**	**63**	**249**	159	51	210	169	55	224
Total	**5,966**	**426**	**6,392**	4,880	493	5,373	5,011	408	5,419
Less: Holding company cash and short-term investments	**(2,546)**	**-**	**(2,546)**	(2,094)	-	(2,094)	(2,173)	-	(2,173)
Net core structural borrowings of shareholder-financed operations	**3,420**	**426**	**3,846**	2,786	493	3,279	2,838	408	3,246

Our financing and central liquidity position remained strong throughout the period. Our central cash resources amounted to £2.5 billion at 30 June 2016 (31 December 2015: £2.2 billion). Total core borrowings increased by £1.0 billion to £6.0 billion following the issue of US$1 billion (£738 million at 30 June 2016) 5.25 per cent tier 2 perpetual subordinated debt in June 2016 and the impact of currency movements.

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 30 June 2016, we had issued commercial paper under this programme totalling £182 million and US$ 2,370 million.

Prudential's holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities, provided by 19 major international banks, expiring between 2020 and 2021. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 30 June 2016.

Prudential manages the Group's core debt within a target level consistent with its current debt ratings. At 30 June 2016, the gearing ratio (core debt, net of cash and short-term investments, expressed as a proportion of IFRS shareholders' funds plus net core debt) was 19 per cent (31 December 2015: 18 per cent).

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively.

The financial strength of PAC is rated AA by Standard & Poor's, Aa3 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's and AA by Fitch.

Prudential Assurance Co. Singapore (Pte) Ltd.'s (Prudential Singapore) financial strength is rated AA by Standard & Poor's.

All ratings on Prudential and its subsidiaries have been reaffirmed on stable outlook except for PAC, which was placed on negative outlook by Moody's in June 2016 following the UK referendum on EU membership.

Shareholders' Funds

	IFRS			EEV[2]		
	2016 £m	2015 £m		2016 £m	2015 £m	
	Half year	Half year	Full year	Half year	Half year	Full year
Profit after tax for the period	**687**	1,438	2,579	**1,394**	2,115	3,951
Exchange movements, net of related tax	**806**	(120)	118	**2,663**	(554)	244
Unrealised gains and losses on Jackson securities classified as available for sale[22]	**1,094**	(388)	(629)	-	-	-
Dividends	**(935)**	(659)	(974)	**(935)**	(659)	(974)
Mark to market value movements on Jackson assets backing surplus and required capital	-	-	-	**138**	(8)	(76)
Other	**(2)**	22	50	**(165)**	19	53
Net increase in shareholders' funds	**1,650**	293	1,144	**3,095**	913	3,198
Shareholders' funds at beginning of the period	**12,955**	11,811	11,811	**32,359**	29,161	29,161
Effect of implementation of Solvency II	**-**	-	-	**(473)**	-	-
Shareholders' funds at end of the period	**14,605**	12,104	12,955	**34,981**	30,074	32,359
Shareholders' value per share	**566p**	471p	504p	**1,356p**	1,170p	1,258p
Return on Shareholders' funds[23]	**24%**	25%	27%	**14%**	16%	17%

In the first half of 2016 UK sterling weakened relative to the US dollar and various Asian currencies. With approximately 58 per cent of the Group's IFRS net assets (78 per cent of the Group's EEV net assets) denominated in non-sterling currencies this generated a positive foreign exchange movement on net assets in the period. In addition, the significant fall in US long-term rates between the start and the end of the reporting period produced substantial unrealised gains on the fixed income securities held by Jackson accounted through Other Comprehensive Income.

After taking these movements together with the profit for the period and dividends paid, the Group's IFRS shareholders' funds at 30 June 2016 increased by 21 per cent to £14.6 billion (30 June 2015: £12.1 billion on an actual exchange rate basis).

The introduction of Solvency II at the start of 2016 changed the capital dynamics of our UK life operations which are directly impacted by this change. In overview, it permitted the inclusion of future profits in the available capital of the business but increased the statutory capital requirements. Factoring these and other consequential methodology changes in the EEV calculations of the UK life business produced a net charge of £473 million, equivalent to 5 per cent of the UK's embedded value (just over 1 per cent of the Group's embedded value). 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 Group's EEV basis shareholders' funds also increased by 16 per cent[2] to £35.0 billion (30 June 2015: £30.1 billion on an actual exchange rate basis). On a per share basis the Group's embedded value at 30 June 2016 stood at 1,356 pence, up from 1,170 pence at 30 June 2015.

Corporate transactions

Entrance into Zambia

In June 2016 we completed the acquisition of Professional Life Assurance of Zambia, increasing Prudential's insurance business footprint in Africa to four markets. Across Ghana, Kenya, Uganda and now Zambia we are gradually laying the foundations for what we hope will become a meaningful component of the Group in the years to come. Our current focus in these businesses is on growing our distribution; at 30 June we had nearly 1,500 agents and five local bank partnerships (four exclusive) in place across these businesses.

Dividend

As in previous years, the first interim dividend for 2016 has been calculated formulaically as one third of the prior year's full year ordinary dividend, excluding special dividends. The Board has approved a first interim dividend for 2016 of 12.93 pence per share, which equates to an increase of 5 per cent over the 2015 first interim dividend.

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

Notes:

1 Free surplus generation represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the period and excludes market movements, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs.

2 The half year 2016 EEV basis results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The half year 2015 comparative results for UK insurance reflects the Solvency I basis.

3 Excluding UK bulk annuities as Prudential has withdrawn from this market.

4 Comparable to 30 June 2015 on an actual exchange rate basis.

5 Refer to note B1.1 in IFRS financial statements for the break-down of other income and expenditure, and other non-operating items.

6 Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures in Asia.

7 Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

8 Average is calculated as opening plus closing balances for the period divided by two.

9 For basis of preparation see note I (a) of Additional IFRS financial information.

10 Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.

11 For our asset management business the level of funds managed on behalf of third parties, which are not therefore recorded on the balance sheet, is a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing between those which are external to the Group and those held by the insurance business and included on the Group balance sheet. This is analysed in note II(b) of the Additional IFRS financial information.

12 Net inflows exclude Asia Money Market Fund (MMF) inflows of £656 million (2015: net inflows £609 million). External funds under management exclude Asia MMF balances of £7,421 million (2015: £5,428 million).

[13] Source: Morningstar, incl. Variable Annuity new sales data as at Q1 2016.
[14] Based on investment-only variable annuity sales since the Elite Access launch March 2012 through 1Q2016. Top competitors include Lincoln, MetLife, Prudential, AXA, Nationwide, American General (SunAmerica).
[15] Based on total return including unallocated surplus.
[16] The full Holding Company Cashflow is disclosed in note II (a) of Additional IFRS financial information.
[17] Refer to the EEV basis supplementary information – Post-tax operating profit based on longer-term investment returns and Post-tax summarised consolidated income statement, for the break-down of other income and expenditure, and other non-operating items.
[18] Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards as at 31 December 2013, and excludes the 2012 one-off gain of £51 million from the sale of the Group's holding in China Life Insurance Company of Taiwan.
[19] Underlying free surplus generation comprises underlying free surplus released from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the 2012 one-off gain of £51 million from the sales of the Group's holding in China Life Insurance Company of Taiwan.
[20] Before allowing for first interim dividend.
[21] The methodology and assumptions used in calculating the Solvency II capital results are set out in note II (c) of Additional IFRS financial information.
[22] Net of related changes to deferred acquisition costs and tax.
[23] Annualised operating profit after tax and non-controlling interests as percentage of opening shareholders' funds.

Group Chief Risk Officer's Report of the risks facing our business and how these are managed

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

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

In my report, I seek to explain the main risks inherent in our business and how we manage those risks, with the aim of ensuring we maintain an appropriate risk profile.

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

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

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

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

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

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

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

Key Risks

Risk Type	Risk Definition	Risk Management and Mitigation
Market Risk Equity Investment risk Interest rates Foreign exchange	The risk of loss for our business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.	• Market risk policy • Risk appetite statements, limits and triggers in place • Monitoring and oversight of market risks through the reporting of regular management information • Asset Liability Management programmes in place • Use of derivative programmes • Currency hedging of expected business unit remittances
Credit Risk Counterparty Invested credit	The risk of loss for our business, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening).	• Credit risk policy • Risk appetite statements and limits defined on an issuer/counterparty/average credit quality of the portfolio basis • Collateral arrangements in place for derivative transactions • Group Credit Risk Committee oversight of credit and counterparty credit risk and sector and/or name specific reviews • Close monitoring/restricting of investments that may be of concern
Insurance Risk Mortality/Longevity Morbidity/Health Persistency Medical expense inflation risk	The risk of loss for our business, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and claim inflation.	• Insurance and Underwriting risk policies • Risk appetite statements, limits and triggers in place • Longevity, morbidity and persistency assumptions reflect recent experience and expectation of future trends; industry data and expert judgement are used, where appropriate • Reinsurance is used to mitigate longevity and morbidity risks • Morbidity mitigated by appropriate underwriting when policies are issued and claims received • Persistency mitigated through improving quality of sales processes and customer retention initiatives • Medical expense inflation risk mitigated through regular product re-pricing
Liquidity Risk	The risk of the Group being unable to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stress scenarios.	• Liquidity risk policy • Risk appetite statements, limits and triggers in place • Monitoring of liquidity risk through regular management information • Regular stress testing • Liquidity contingency plans established and sources identified • Ability to access the money and debt capital markets • Access to external sources of finance through committed credit facilities
Operational Risk Regulatory and legislative compliance Third party management IT and information (including cybersecurity) Business continuity	The risk of loss (or unintended gain/profit) arising from inadequate or failed internal processes, or from personnel and systems, or from external events (other than those external events covered under Business Environment Risk).	• Operational risk and Outsourcing and Third Party supply policies • Corporate insurance programmes to limit the impact of operational risks • Scenario analysis for operational risk capital requirements, which focus on extreme, yet plausible, events • Internal and external review of cyber security capability • Regular testing of elements of the disaster recovery plan
Business Environment Risk **Strategic Risk**	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall strategy Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.	• A Risk and Capital Plan that includes considerations of current strategies • Business environment and strategic risks closely monitored and assessed for consideration in the business plans where appropriate • Board Strategy sessions consider risk themes • Systemic Risk Management Plan which details the Group's strategy and risk management framework • Recovery Plan which covers the Group corporate and risk governance for managing distressed environment, a range of credible recovery options, and scenarios to assess the effectiveness of these recovery options

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

Market Risk

Market conditions worsened during 2016 with periods of significant increases in volatility, particularly following the UK's referendum on membership of the European Union (EU) which returned a majority in favour of the UK leaving the EU. In the immediate aftermath of the result announcement UK government bond yields, swap rates and equity markets fell sharply while UK sterling made an unprecedented fall against the US dollar. Some markets, particularly UK equities, have recovered since the referendum result although the recovery is more pronounced for global UK-listed firms over smaller UK-focused ones. Interest rates have reduced significantly across many countries that we operate in and rates may now remain at current low levels or lower for a longer period of time. Interest rates in the United States fell post-referendum as investors seeking a safe haven increased demand for US government bonds. The Bank of England, in particular, has taken a number of steps in response to current market conditions including cutting interest rates to a record low and initiating a programme of buying UK government and corporate bonds (often referred to as quantitative easing). The uncertainty in market conditions is expected to continue while the UK's future relationship with the EU is uncertain and the key risks to the business should be understood in this context.

Investment Risk

In Prudential UK, investment risk arising out of the assets in the with-profits fund impacts the shareholders' interest in future transfers and is driven predominantly by equities in the fund as well as by other investments such as property and bonds. The value of the future transfers is partially protected against equity falls by hedging conducted outside of the fund. The fund's large inherited estate – estimated at £8.2 billion[1] as at 30 June 2016 on a Solvency II basis – can absorb market fluctuations and protect the fund's solvency. The inherited estate is partially protected against falls in equity markets through an active hedging programme within the fund.

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

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

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

Interest Rate Risk

Long-term rates remain at a near-historic low in the US, the UK and some Asian countries in which Prudential operates (and in some jurisdictions have become negative). Products that we offer are sensitive to movements in interest rates. We have already taken a number of actions to de-risk the in-force business as well as re-price and restructure new business offerings in response to historically low interest rates. However, this remains an area of sensitivity and persistently low rates may impact policyholders' savings patterns and behaviour.

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

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

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

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

Foreign Exchange Risk

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

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

Credit Risk

We invest in fixed income assets in order to match policyholder liabilities and enter into reinsurance and derivative contracts to mitigate various types of risk. As a result, we are exposed to credit and counterparty credit risk across our business. We employ a number of risk management tools to manage credit risk, including limits defined on an issuer/counterparty basis as well as on average credit quality to seek to ensure the diversification of the portfolio and have in place collateral arrangements in derivative transactions. The Group Credit Risk Committee oversees credit and counterparty credit risk across the Group and conducts sector and/or name-specific reviews as required. During 2015 it conducted sector reviews in the banking, commodities and energy sectors. In 2016 it has conducted a review into the Asian banking sector and considered exposure to alternative investments. It continues to monitor key counterparties through the market volatility.

Debt and loan portfolio

Our UK business is primarily exposed to credit risk in the shareholder-backed portfolio, with fixed income assets of £35.3 billion (excluding unit-linked). Credit risk arising from a further £47.2 billion of fixed income assets is largely borne by the with-profits fund, although in extremis shareholder support may be required should the with-profits fund become unable to meet its liabilities.

The debt portfolio of our Asia business totalled £35.5 billion at 30 June 2016. Of this, approximately 68 per cent was in unit-linked and with-profits funds with minimal shareholder risk. The remaining 32 per cent is shareholder exposure.

Credit risk arises in the general account of our US business, where £41.1 billion of fixed income assets back shareholder liabilities including those arising from fixed annuities, fixed index annuities and life insurance.

The shareholder-owned debt and loan portfolio of the Group's asset management operations of £3.4 billion as at 30 June 2016 is principally related to Prudential Capital operations. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and our clients.

Certain sectors have seen specific pressure during 2015 and into early 2016. The Group's credit exposure to the oil and gas sector represents approximately 4 per cent or £3.2 billion of the shareholder credit portfolio. Prolonged, depressed oil prices are expected to exert downward rating pressure within the sector, which is being monitored closely through Group risk processes and the Group Credit Risk Committee. Similarly, this sector is subject to ongoing monitoring and regular management information reporting to the Group's risk committees.

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

Group sovereign debt

Sovereign debt represented 19 per cent or £17.4 billion of the debt portfolio backing shareholder business at 30 June 2016 (31 December 2015: 17 per cent or £12.8 billion). 4 per cent of this was rated AAA and 94 per cent investment-grade (31 December 2015: 44 per cent AAA, 94 per cent investment-grade). The primary driver of the change in holdings of AAA rated sovereign debts from 31 December 2015 is the downgrade of UK sovereign debt following the outcome of the referendum on UK membership of the EU. At 30 June 2016, the Group's shareholder-backed business's holding in Eurozone sovereign debt[2] was £745 million. 73 per cent of this was AAA rated (31 December 2015: 75 per cent AAA rated). We do not have any sovereign debt exposure to Greece.

Bank debt exposure and Counterparty Credit Risk

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

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt and bank debt securities at 30 June 2016 are given in Note C3.3(f) of the Group's IFRS financial statements.

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

Where appropriate, we reduce our exposure, purchase credit protection or make use of additional collateral arrangements to control our levels of counterparty credit risk. At 30 June 2016, shareholders' exposure to corporate debt by rating and sector is shown below:

- 97 per cent of the shareholder portfolio is investment-grade rated. In particular, 66 per cent of the portfolio is rated A- and above[3].
- The Group's shareholder portfolio is well diversified: no individual sector makes up more than 10 per cent of the total portfolio (excluding the financial and utilities sectors).

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

Longevity risk (people's propensity to live longer) is a significant contributor to our insurance risk exposure and is also capital-intensive under the Solvency II regime. One tool used to manage this risk is reinsurance. To date in 2016 we completed deals on a number of tranches of retail annuity liabilities when terms were sufficiently attractive and aligned with our risk management framework. The enhanced pensions freedoms introduced in the UK in 2015 have greatly reduced the demand for retail annuities and further liberalisation is anticipated. However, given our significant UK annuity portfolio, the assumptions that we make about future rates of mortality improvement will remain key to the measurement of insurance liabilities and to the assessment of any subsequent reinsurance transactions.

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

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

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

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

Liquidity Risk
The Group has significant internal sources of liquidity, which are sufficient to meet all of its expected requirements, for a period of at least 12 months from the date the financial statements are approved, without having to make use of external funding. In aggregate the Group currently has £2.6 billion of undrawn committed facilities, expiring between 2020 and 2021. In addition, the Group has access to liquidity via the debt capital markets. We also have in place an unlimited commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade.

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

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

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

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

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

Top Operational Risks
Key areas of focus within the operational risk framework are:
- the risk of non-compliance due to the momentum of regulatory change in both our developed and developing markets, as well as recognising that Prudential's designation as a Global Systemically Important Insurer requires the Group to comply with additional policy measures including enhanced Group-wide supervision;
- the risk of improper, or mis-selling of Prudential products and the resulting risk of censure from local regulators;
- the risk of regulatory censure due to poor conduct or weaknesses in systems and controls;
- the risk of censure for money laundering, sanctions or anti-bribery and corruption failures;
- the risk that reliance on IT infrastructures which support core activities/processes of the business, could fail or otherwise negatively impact business continuity and scalability needed to support the growth and changing needs of the business;
- the risk of a significant failure of a third-party provider impacting critical services;
- the risk of trading, transacting or modelling errors having a material cost across Group;

- the risk of the Group failing to attract and retain quality senior managers and other key employees;
- the risk that key people, processes and systems are unable to operate (thus impacting the on-going operation of the business) due to a significant unexpected external event occurring (e.g. a pandemic, terrorist attack, natural disaster, political unrest); and
- the risk of losses resulting from damage to the firm's reputation. This can be either real or perceived reputational damage but which could nevertheless diminish the standing of the organisation in the eyes of key stakeholders (e.g. customers, shareholders), destroy shareholder value, adversely impact revenues or result in significant costs to rectify.

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

<u>Business environment and strategic risks</u>

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

The International Association of Insurance Supervisors has various initiatives. On 18 July 2013, it published a methodology for identifying Global Systemically Important Insurers, and a set of policy measures that will apply to them, which the Financial Stability Board endorsed. An updated methodology for identifying Global Systemically Important Insurers was published by the International Association of Insurance Supervisors on 16 June 2016. Groups designated as a Global Systemically Important Insurer are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential's designation as a Global Systemically Important Insurer was reaffirmed on 3 November 2015. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the Prudential Regulation Authority on the implications of the policy measures and Prudential's designation as a Global Systemically Important Insurer.

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

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

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

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

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

On 23 June 2016, the UK held a referendum in which a majority of the voting population voted in favour of the UK leaving the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market is currently unknown. The ongoing uncertainty and likelihood of a lengthy negotiation period may increase volatility in the markets where the Group operates and creates the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary policy easing and investor sentiments. The Group has several UK domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. However the Group's diversification by geography, currency, product and distribution should reduce the impact on the Group. Contingency plans were developed ahead of the referendum by business units and operations that may be immediately impacted by a vote to withdraw the UK from the EU and these plans have been enacted since the referendum result.

In the US, the Department of Labor proposal issued in April 2016 to introduce new fiduciary obligations for distributors of investment products to holders of regulated accounts could dramatically reshape the distribution of retirement products. Jackson's strong relationships with distributors, history of product innovation and efficient operations should help mitigate any impacts.

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

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

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

Risk factors
Our disclosures covering risk factors can be found at the end of this document.

Risk Management Cycle and Governance

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

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

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

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

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

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

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

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

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

Risk Appetite and Limits

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

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

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

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

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

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

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

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

Capital requirements:
The limits aim to manage that:

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

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

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

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

Risk policies
Risk policies set out specific requirements for the management of, and articulate the risk appetite for, key risk types. There are core risk policies for credit, market, insurance, liquidity and operational risks and a number of internal control policies covering, internal model risk, underwriting, dealing controls and tax risk management. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we maintain in line with the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices.

Risk Culture

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

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

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

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

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

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

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

Notes:
[1] Representing Solvency II own funds of the UK with-profit funds.
[2] Excludes Group's proportionate share in joint ventures and unit-linked assets and holdings of consolidated unit trust and similar funds.
[3] In the Shareholder Exposure by Rating' ~ 75 per cent of non-rated assets are internally rated, privately held loans.

Corporate governance

The directors confirm that the Company has complied with all relevant provisions set out in the Corporate Governance Code issued by Hong Kong Stock Exchange (HK Code) throughout the accounting period. With respect to Code Provision B.1.2(d) of the HK Code, the responsibilities of the Remuneration Committee do not include making recommendations to the Board on the remuneration of non-executive directors. In line with the principles of the UK Corporate Governance Code, fees for Non-executive Directors are determined by the Board.

The directors also confirm that the financial results contained in this document have been reviewed by the Group Audit Committee.

The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by the Hong Kong Listing Rules and that the directors of the Company have complied with this code of conduct throughout the period.

IFRS Disclosure and Additional Financial Information
Prudential plc Half Year 2016 results
International Financial Reporting Standards (IFRS) basis results

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** The additional financial information is not covered by the KPMG independent review opinion*

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International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED INCOME STATEMENT

		2016 £m	2015 £m	
	Note	Half year	Half year	Full year
Earned premiums, net of reinsurance		**17,394**	17,884	35,506
Investment return		**17,062**	6,110	3,304
Other income		**1,085**	1,285	2,495
Total revenue, net of reinsurance		**35,541**	25,279	41,305
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(30,939)**	(18,618)	(29,656)
Acquisition costs and other expenditure	B3	**(3,563)**	(4,505)	(8,208)
Finance costs: interest on core structural borrowings of shareholder-financed operations		**(169)**	(148)	(312)
Disposal of Japan life business: Cumulative exchange loss recycled from other comprehensive income		**-**	(46)	(46)
Total charges, net of reinsurance		**(34,671)**	(23,317)	(38,222)
Share of profits from joint ventures and associates, net of related tax		**86**	122	238
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**		**956**	2,084	3,321
Less tax charge attributable to policyholders' returns		**(292)**	(202)	(173)
Profit before tax attributable to shareholders	B1.1	**664**	1,882	3,148
Total tax charge attributable to policyholders and shareholders	B5	**(269)**	(646)	(742)
Adjustment to remove tax charge attributable to policyholders' returns		**292**	202	173
Tax credit (charge) attributable to shareholders' returns	B5	**23**	(444)	(569)
Profit for the period attributable to equity holders of the Company		**687**	1,438	2,579

		2016	2015	
Earnings per share (in pence)		Half year	Half year	Full year
Based on profit attributable to the equity holders of the Company:	B6			
Basic		**26.9p**	56.3p	101.0p
Diluted		**26.8p**	56.2p	100.9p

		2016	2015	
Dividends per share (in pence)	Note	Half year	Half year	Full year
Dividends relating to reporting period:	B7			
First interim dividend / Interim dividend for prior year		**12.93p**	12.31p	12.31p
Second interim dividend		**-**	-	26.47p
Special dividend		**-**	-	10.00p
Total		**12.93p**	12.31p	48.78p
Dividends declared and paid in reporting period:	B7			
Current year interim dividend		**-**	-	12.31p
Second interim dividend / Final dividend for prior year		**26.47p**	25.74p	25.74p
Special dividend		**10.00p**	-	-
Total		**36.47p**	25.74p	38.05p

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure (which is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders) is not representative of pre-tax profits attributable to shareholders.

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2016 £m	2015 £m	
	Note	**Half year**	**Half year**	**Full year**
Profit for the period		**687**	1,438	2,579
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		**798**	(165)	68
Cumulative exchange loss of Japan life business recycled through profit or loss		**-**	46	46
Related tax		**8**	(1)	4
		806	(120)	118
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Net unrealised holding gains (losses) arising during the period		**2,023**	(661)	(1,256)
Add back net losses / deduct net gains included in the income statement on disposal and impairment		**95**	(101)	(49)
Total	C3.3(b)	**2,118**	(762)	(1,305)
Related change in amortisation of deferred acquisition costs	C5.1(b)	**(435)**	165	337
Related tax		**(589)**	209	339
		1,094	(388)	(629)
Total		**1,900**	(508)	(511)
Items that will not be reclassified to profit or loss				
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:				
Gross		**11**	(21)	27
Related tax		**(2)**	4	(5)
		9	(17)	22
Other comprehensive income (loss) for the period, net of related tax		**1,909**	(525)	(489)
Total comprehensive income for the period attributable to the equity holders of the Company		**2,596**	913	2,090

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Period ended 30 June 2016 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the period		-	-	687	-	-	687	-	687
Other comprehensive income		-	-	9	806	1,094	1,909	-	1,909
Total comprehensive income for the period		-	-	696	806	1,094	2,596	-	2,596
Dividends	B7	-	-	(935)	-	-	(935)	-	(935)
Reserve movements in respect of share-based payments		-	-	(54)	-	-	(54)	-	(54)
New share capital subscribed	C9	-	6	-	-	-	6	-	6
Movement in own shares in respect of share-based payment plans		-	-	22	-	-	22	-	22
Movement in own shares purchased by funds consolidated under IFRS		-	-	15	-	-	15	-	15
Net increase (decrease) in equity		-	6	(256)	806	1,094	1,650	-	1,650
At beginning of period		128	1,915	10,436	149	327	12,955	1	12,956
At end of period		128	1,921	10,180	955	1,421	14,605	1	14,606

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

		Period ended 30 June 2015 £m							
	Note	**Share capital** note C9	**Share premium** note C9	**Retained earnings**	**Translation reserve**	**Available -for-sale securities reserves**	**Shareholders' equity**	**Non-controlling interests**	**Total equity**
Reserves									
Profit for the period		-	-	1,438	-	-	1,438	-	1,438
Other comprehensive loss		-	-	(17)	(120)	(388)	(525)	-	(525)
Total comprehensive income (loss) for the period		-	-	1,421	(120)	(388)	913	-	913
Dividends	B7	-	-	(659)	-	-	(659)	-	(659)
Reserve movements in respect of share-based payments		-	-	66	-	-	66	-	66
Share capital and share premium									
New share capital subscribed	C9	-	2	-	-	-	2	-	2
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(40)	-	-	(40)	-	(40)
Movement in own shares purchased by funds consolidated under IFRS		-	-	11	-	-	11	-	11
Net increase (decrease) in equity		-	2	799	(120)	(388)	293	-	293
At beginning of period		128	1,908	8,788	31	956	11,811	1	11,812
At end of period		128	1,910	9,587	(89)	568	12,104	1	12,105

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
						Year ended 31 December 2015 £m			
Reserves									
Profit for the year		-	-	2,579	-	-	2,579	-	2,579
Other comprehensive income (loss)		-	-	22	118	(629)	(489)	-	(489)
Total comprehensive income (loss) for the year		-	-	2,601	118	(629)	2,090	-	2,090
Dividends	B7	-	-	(974)	-	-	(974)	-	(974)
Reserve movements in respect of share-based payments		-	-	39	-	-	39	-	39
Share capital and share premium									
New share capital subscribed	C9	-	7	-	-	-	7	-	7
Treasury shares									
Movement in own shares in respect of share-based payment plans		-	-	(38)	-	-	(38)	-	(38)
Movement in own shares purchased by funds consolidated under IFRS		-	-	20	-	-	20	-	20
Net increase (decrease) in equity		-	7	1,648	118	(629)	1,144	-	1,144
At beginning of year		128	1,908	8,788	31	956	11,811	1	11,812
At end of year		128	1,915	10,436	149	327	12,955	1	12,956

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2016 £m	2015 £m	
		30 Jun	**30 Jun**	**31 Dec**
Assets				
Intangible assets attributable to shareholders:				
Goodwill	C5.1(a)	**1,488**	1,461	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	**9,549**	7,310	8,422
Total		**11,037**	8,771	9,885
Intangible assets attributable to with-profits funds:				
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**189**	184	185
Deferred acquisition costs and other intangible assets		**45**	49	50
Total		**234**	233	235
Total intangible assets		**11,271**	9,004	10,120
Other non-investment and non-cash assets:				
Property, plant and equipment	C1.1	**1,214**	984	1,197
Reinsurers' share of insurance contract liabilities		**9,470**	7,259	7,903
Deferred tax assets	C7	**3,771**	2,820	2,819
Current tax recoverable		**554**	220	477
Accrued investment income		**2,764**	2,575	2,751
Other debtors		**3,505**	3,626	1,955
Total		**21,278**	17,484	17,102
Investments of long-term business and other operations:				
Investment properties		**13,940**	13,259	13,422
Investment in joint ventures and associates accounted for using the equity method		**1,135**	962	1,034
Financial investments*:				
Loans	C3.4	**14,215**	12,578	12,958
Equity securities and portfolio holdings in unit trusts		**176,037**	155,253	157,453
Debt securities	C3.3	**168,367**	142,307	147,671
Other investments		**10,340**	7,713	7,353
Deposits		**14,181**	11,043	12,088
Total		**398,215**	343,115	351,979
Assets held for sale		**30**	-	2
Cash and cash equivalents		**8,530**	8,298	7,782
Total assets	C1,C3.1	**439,324**	377,901	386,985

* Included within financial investments are £8,162 million of lent securities as at 30 June 2016 (30 June 2015: £3,599 million; 31 December 2015: £5,995 million).

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2016 £m	2015 £m	
		30 Jun	**30 Jun**	**31 Dec**
Equity and liabilities				
Equity				
Shareholders' equity		**14,605**	12,104	12,955
Non-controlling interests		**1**	1	1
Total equity		**14,606**	12,105	12,956
Liabilities				
Policyholder liabilities and unallocated surplus of with-profits funds:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**362,510**	313,620	322,518
Unallocated surplus of with-profits funds		**13,597**	12,768	13,096
Total	C4.1(a)	**376,107**	326,388	335,614
Core structural borrowings of shareholder-financed operations:				
Subordinated debt		**4,956**	3,897	4,018
Other		**1,010**	983	993
Total	C6.1	**5,966**	4,880	5,011
Other borrowings:				
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**2,798**	2,504	1,960
Borrowings attributable to with-profits operations	C6.2(b)	**1,427**	1,089	1,332
Other non-insurance liabilities:				
Obligations under funding, securities lending and sale and repurchase agreements		**4,963**	3,296	3,765
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**8,770**	10,007	7,873
Deferred tax liabilities	C7	**5,397**	4,325	4,010
Current tax liabilities		**566**	393	325
Accruals and deferred income		**912**	750	952
Other creditors		**6,520**	5,515	4,876
Provisions		**467**	546	604
Derivative liabilities		**5,342**	1,758	3,119
Other liabilities		**5,483**	4,345	4,588
Total		**38,420**	30,935	30,112
Total liabilities	C1,C3.1	**424,718**	365,796	374,029
Total equity and liabilities		**439,324**	377,901	386,985

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016 £m	2015 £m	
		Half year	**Half year**	**Full year**
Cash flows from operating activities				
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*[note (i)]		**956**	2,084	3,321
Non-cash movements in operating assets and liabilities reflected in profit before tax[note (ii)]		**(556)**	704	(49)
Other items[note (iii)]		**403**	(389)	(739)
Net cash flows from operating activities		**803**	2,399	2,533
Cash flows from investing activities				
Net cash outflows from purchases and disposals of property, plant and equipment		**(32)**	(90)	(226)
Net cash (outflows) inflows from corporate transactions[note (iv)]		**(302)**	34	(243)
Net cash flows from investing activities		**(334)**	(56)	(469)
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations:[note (v)]	C6.1			
Issue of subordinated debt, net of costs		**681**	590	590
Interest paid		**(160)**	(144)	(288)
With-profits operations:[note (vi)]	C6.2			
Interest paid		**(4)**	(4)	(9)
Equity capital:				
Issues of ordinary share capital		**6**	2	7
Dividends paid		**(935)**	(659)	(974)
Net cash flows from financing activities		**(412)**	(215)	(674)
Net increase in cash and cash equivalents		**57**	2,128	1,390
Cash and cash equivalents at beginning of period		**7,782**	6,409	6,409
Effect of exchange rate changes on cash and cash equivalents		**691**	(239)	(17)
Cash and cash equivalents at end of period		**8,530**	8,298	7,782

Notes

(i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii) The adjusting items to profit before tax included within non-cash movements in operating assets and liabilities reflected in profit before tax are as follows:

	2016 £m	2015 £m	
	Half year	**Half year**	**Full year**
Other non-investment and non-cash assets	**(2,660)**	(2,004)	(1,063)
Investments	**(21,280)**	(8,431)	(6,814)
Policyholder liabilities (including unallocated surplus)	**19,548**	6,795	6,067
Other liabilities (including operational borrowings)	**3,836**	4,344	1,761
Non-cash movements in operating assets and liabilities reflected in profit before tax	**(556)**	704	(49)

(iii) The adjusting items to profit before tax included within other items are adjustments in respect of non-cash items together with operational interest receipts and payments, dividend receipts and tax paid.

(iv) Net cash flows for corporate transactions are for distribution rights and the acquisition and disposal of businesses.

(v) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(vi) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

International Financial Reporting Standards (IFRS) Basis Results

NOTES

A BACKGROUND

A1 Basis of preparation, audit status and exchange rates

These condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRS that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRS may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 30 June 2016, there were no unendorsed standards effective for the period ended 30 June 2016 affecting the condensed consolidated financial statements of the Group, and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2016 and 2015 half years are unaudited. The 2015 full year IFRS basis results have been derived from the 2015 statutory accounts. The auditors have reported on the 2015 statutory accounts which have been delivered to the Registrar of Companies. The auditors' 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.

The exchange rates applied for balances and transactions in currencies other than the presentational currency of the Group, pounds sterling (GBP), were:

	Closing rate at 30 Jun 2016	**Average for the 6 months to 30 Jun 2016**	**Closing rate at 30 Jun 2015**	**Average for the 6 months to 30 Jun 2015**	**Closing rate at 31 Dec 2015**	**Average for 12 months to 31 Dec 2015**
Local currency: £						
Hong Kong	**10.37**	**11.13**	12.19	11.81	11.42	11.85
Indonesia	**17,662.47**	**19,222.95**	20,968.02	19,760.02	20,317.71	20,476.93
Malaysia	**5.39**	**5.87**	5.93	5.55	6.33	5.97
Singapore	**1.80**	**1.98**	2.12	2.06	2.09	2.1
China	**8.88**	**9.37**	9.75	9.48	9.57	9.61
India	**90.23**	**96.30**	100.15	95.76	97.51	98.08
Vietnam	**29,815.99**	**31,996.45**	34,345.42	32,832.81	33,140.64	33,509.21
Thailand	**46.98**	**50.81**	53.12	50.21	53.04	52.38
US	**1.34**	**1.43**	1.57	1.52	1.47	1.53

Certain notes to the financial statements present half year 2015 comparative information at Constant Exchange Rates (CER), in addition to the reporting at Actual Exchange Rates (AER) used throughout the condensed consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates at the balance sheet date for the balance sheet. CER results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new and amended accounting pronouncements for Group IFRS reporting as described below.

A2 Adoption of new accounting pronouncements in 2016

The Group has adopted the following new accounting pronouncements which were effective in 2016:

- Annual improvements to IFRSs 2012 – 2014 cycle;
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) and;
- Disclosure Initiative (Amendments to IAS 1).

The adoption of these pronouncements has had no impact on these financial statements.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

		2016 £m	2015 £m		%		2015 £m
	Note	Half year	AER Half year note (iv)	CER Half year note (iv)	Half year 2016 vs half year 2015 AER note (iv)	Half year 2016 vs half year 2015 CER note (iv)	AER Full year
Asia operations							
Asia insurance operations	B4(a)	**682**	574	584	19%	17%	1,209
Eastspring Investments		**61**	58	60	5%	2%	115
Total Asia operations		**743**	632	644	18%	15%	1,324
US operations							
Jackson (US insurance operations)		**888**	834	887	6%	0%	1,691
Broker-dealer and asset management		**(12)**	12	12	(200)%	(200)%	11
Total US operations		**876**	846	899	4%	(3)%	1,702
UK operations							
UK insurance operations:	B4(b)						
Long-term business		**473**	436	436	8%	8%	1,167
General insurance commission note (i)		**19**	17	17	12%	12%	28
Total UK insurance operations		**492**	453	453	9%	9%	1,195
M&G		**225**	251	251	(10)%	(10)%	442
Prudential Capital		**13**	7	7	86%	86%	19
Total UK operations		**730**	711	711	3%	3%	1,656
Total segment profit		**2,349**	2,189	2,254	7%	4%	4,682
Other income and expenditure							
Investment return and other income		**6**	11	11	(45)%	(45)%	14
Interest payable on core structural borrowings		**(165)**	(148)	(148)	(11)%	(11)%	(312)
Corporate expenditure note (ii)		**(156)**	(146)	(146)	(7)%	(7)%	(319)
Total		**(315)**	(283)	(283)	(11)%	(11)%	(617)
Solvency II implementation costs		**(11)**	(17)	(17)	35%	35%	(43)
Restructuring costs note (iii)		**(7)**	(8)	(8)	13%	13%	(15)
Interest received from tax settlement		**43**	-	-	n/a	n/a	-
Operating profit based on longer-term investment returns		**2,059**	1,881	1,946	9%	6%	4,007
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(1,360)**	86	97	(1,681)%	(1,502)%	(737)
Amortisation of acquisition accounting adjustments note (v)		**(35)**	(39)	(42)	10%	17%	(76)
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income note (vi)		**-**	(46)	(54)	n/a	n/a	(46)
Profit before tax attributable to shareholders		**664**	1,882	1,947	(65)%	(66)%	3,148
Tax charge attributable to shareholders' returns		**23**	(444)	(461)	105%	105%	(569)
Profit for the period attributable to shareholders		**687**	1,438	1,486	(52)%	(54)%	2,579

		2016	2015		%		2015
Basic earnings per share (in pence)	B6	Half year	AER Half year note (iv)	CER Half year note (iv)	Half year 2016 vs half year 2015 AER note (iv)	Half year 2016 vs half year 2015 CER note (iv)	AER Full year
Based on operating profit based on longer-term investment returns		**61.8p**	57.0p	59.0p	8%	5%	125.8p
Based on profit for the period		**26.9p**	56.3p	58.2p	(52)%	(54)%	101.0p

Notes

(i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement which terminates at the end of 2016.

(ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.

(iii) Restructuring costs are incurred in the UK and represent one-off business development expenses.

(iv) For definitions of AER and CER refer to note A1.

(v) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson.

(vi) On 5 February 2015, the Group completed the sale of its closed book life insurance business in Japan.

B1.2 Short-term fluctuations in investment returns on shareholder-backed business

	2016 £m	2015 £m	
	Half year	**Half year**	**Full year**
Insurance operations:			
Asia note (i)	**26**	(57)	(119)
US note (ii)	**(1,440)**	228	(424)
UK note (iii)	**246**	(96)	(120)
Other operations note (iv)	**(192)**	11	(74)
Total	**(1,360)**	86	(737)

Notes

(i) Asia insurance operations

In Asia, the positive short-term fluctuations of £26 million principally reflect net value movements on shareholders' assets and related liabilities following falls in bond yields across the region during the period (half year 2015: negative £(57) million; full year 2015: negative £(119) million).

(ii) US insurance operations

The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £616 million as shown in note C5.1(b) (half year 2015: charge of £188 million; full year 2015: credit of £93 million) and comprise amounts in respect of the following items:

	2016 £m	2015 £m	
	Half year	**Half year**	**Full year**
Net equity hedge result note (a)	**(1,692)**	214	(504)
Other than equity-related derivatives note (b)	**335**	(71)	29
Debt securities note (c)	**(105)**	66	1
Equity-type investments: actual less longer-term return	**13**	7	19
Other items	**9**	12	31
Total	**(1,440)**	228	(424)

Notes

(a) Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the measured value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described below.

The result comprises the net effect of:

- The accounting value movements on the variable and fixed index annuity guarantee liabilities;
- Adjustments in respect of fee assessments and claim payments;
- Fair value movements on free standing equity derivatives; and
- Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins.

Movements in the accounting values of the variable annuity guarantee liabilities include those for:

- The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are measured under the US GAAP basis applied for IFRS in a way that is substantially insensitive to the effect of current period equity market and interest rate changes.
- The 'not for life' portion of GMWB embedded derivative liabilities which are required to be measured under IAS 39 using a basis under which the projected future growth rate of the account balance is based on current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates.

The free-standing equity derivatives are held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:

- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' GAAP;
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Accounting effects of the Guaranteed Minimum Income Benefit (GMIB) reinsurance; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above.

The direct GMIB liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled, it is deemed a derivative under IAS 39 which requires fair valuation.

The fluctuations for this item therefore include significant accounting mismatches caused by:

– The fair value movements booked in the income statement on the derivative programme being in respect of the management of interest rate exposures of the variable and fixed index annuity business, as well as the fixed annuity business guarantees and durations within the general account;
– Fair value movements on Jackson's debt securities of the general account which are recorded in other comprehensive income rather than the income statement; and
– The mixed measurement model that applies for the GMIB and its reinsurance.

(c) Short-term fluctuations related to debt securities

	2016 £m	2015 £m	
	Half year	Half year	Full year
Short-term fluctuations relating to debt securities			
(Charges) credits in the period:			
Losses on sales of impaired and deteriorating bonds	**(87)**	(13)	(54)
Defaults	**(6)**	-	-
Bond write downs	**(32)**	(3)	(37)
Recoveries/reversals	**4**	15	18
Total credits (charges) in the period	**(121)**	(1)	(73)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns	**42**	41	83
	(79)	40	10
Interest-related realised gains:			
Arising in the period	**20**	95	102
Less: Amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	**(59)**	(61)	(108)
	(39)	34	(6)
Related amortisation of deferred acquisition costs	**13**	(8)	(3)
Total short-term fluctuations related to debt securities	**(105)**	66	1

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit and variations from year to year are included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for half year 2016 is based on an average annual risk margin reserve of 21 basis points (half year 2015: 23 basis points; full year 2015: 23 basis points) on average book values of US$56.4 billion (half year 2015: US$54.3 billion; full year 2015: US$54.6 billion) as shown below:

	Half year 2016				Half year 2015				Full year 2015			
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**	
	US$m	**%**	**US$m**	**£m**	**US$m**	**%**	**US$m**	**£m**	**US$m**	**%**	**US$m**	**£m**
A3 or higher	**29,172**	**0.12**	**(36)**	**(25)**	28,211	0.13	(37)	(24)	28,185	0.13	(37)	(24)
Baa1, 2 or 3	**25,771**	**0.24**	**(63)**	**(44)**	24,317	0.25	(60)	(40)	24,768	0.25	(62)	(40)
Ba1, 2 or 3	**1,065**	**1.08**	**(11)**	**(8)**	1,333	1.18	(16)	(10)	1,257	1.17	(15)	(10)
B1, 2 or 3	**319**	**3.02**	**(10)**	**(7)**	396	3.07	(12)	(8)	388	3.08	(12)	(8)
Below B3	**41**	**3.81**	**(2)**	**(1)**	43	3.69	(2)	(1)	35	3.70	(1)	(1)
Total	**56,368**	**0.21**	**(122)**	**(85)**	54,300	0.23	(127)	(83)	54,633	0.23	(127)	(83)
Related amortisation of deferred acquisition costs (see below)			**22**	**15**			24	16			24	16
Risk margin reserve charge to operating profit for longer-term credit-related losses			**(100)**	**(70)**			(103)	(67)			(103)	(67)

Consistent with the basis of measurement of insurance assets and liabilities for Jackson's IFRS results, the charges and credits to operating profits based on longer-term investment returns are partially offset by related amortisation of deferred acquisition costs.

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs of £1,683 million (half year 2015: charge for net unrealised loss of £(597) million; full year 2015: charge for net unrealised loss of £(968) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.3(b).

(iii) UK insurance operations
The positive short-term fluctuations in investment returns for UK insurance operations of £246 million (half year 2015: negative £(96) million; full year 2015: negative £(120) million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

(iv) Other
The negative short-term fluctuations in investment returns for other operations of £(192) million (half year 2015: positive £11 million; full year 2015: negative £(74) million) include unrealised value movements on financial instruments and foreign exchange items.

(v) Default losses
The Group incurred default losses of £6 million on its shareholder-backed debt securities portfolio for half year 2016 wholly in respect of Jackson's portfolio (half year 2015 and full year 2015: £nil).

B1.3 Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating segments, determined in accordance with IFRS 8 'Operating Segments', are as follows:

Insurance operations:	**Asset management operations:**
– Asia	– Eastspring Investments
– US (Jackson)	– US broker-dealer and asset management
– UK	– M&G
	– Prudential Capital

The Group's operating segments are also its reportable segments for the purposes of internal management reporting.

Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measurement basis distinguishes operating profit based on longer-term investment returns from other constituents of the total profit as follows:

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015.

Segment results that are reported to the Group Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asia Regional Head Office.

The determination of operating profit based on longer-term investment returns for investment and liability movements is as described in note B1.3 of the Group's consolidated financial statements for the year ended 31 December 2015.

For Group debt securities at 30 June 2016, the level of unamortised interest-related realised gains and losses related to previously sold bonds and have yet to be amortised to operating profit was a net gain of £605 million (30 June 2015: net gain of £478 million; 31 December 2015: net gain of £567 million).

For equity-type securities, the longer-term rates of return applied by the non-linked shareholder-financed insurance operations of Asia and the US to determine the amount of investment return included in operating profit are as follows:

- For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £1,035 million as at 30 June 2016 (30 June 2015: £831 million; 31 December 2015: £840 million). The rates of return applied for 2016 ranged from 3.2 per cent to 13.0 per cent (30 June 2015: 3.8 per cent to 13.0 percent, 31 December 2015: 3.5 percent to 13.0 per cent) with the rates applied varying by territory.
- For US insurance operations, at 30 June 2016, the equity-type securities for non-separate account operations amounted to £1,115 million. (30 June 2015: £1,087 million; 31 December 2015: £1,004 million). The longer-term rates of return for income and capital applied in 2016 and 2015, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums, are as follows:

	2016	**2015**	
	Half year	**Half year**	**Full year**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.5% to 5.9%**	5.7% to 6.4%	5.7% to 6.4%
Other equity-type securities such as investments in limited partnerships and private equity funds	**7.5% to 7.9%**	7.7% to 8.4%	7.7% to 8.4%

B1.4 Additional segmental analysis of revenue

The additional segmental analyses of revenue from external customers excluding investment return and net of outward reinsurance premiums are as follows:

	Half year 2016 £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	**5,747**	**6,817**	**4,985**	**-**	**17,549**
Asset management	**179**	**369**	**561**	**(246)**	**863**
Unallocated corporate	**-**	**-**	**67**	**-**	**67**
Intra-group revenue eliminated on consolidation	**(95)**	**(47)**	**(104)**	**246**	**-**
Total revenue from external customers	**5,831**	**7,139**	**5,509**	**-**	**18,479**

	Half year 2015 £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	5,154	8,426	4,518	-	18,098
Asset management	179	451	641	(241)	1,030
Unallocated corporate	-	-	41	-	41
Intra-group revenue eliminated on consolidation	(94)	(45)	(102)	241	-
Total revenue from external customers	5,239	8,832	5,098	-	19,169

	Full year 2015 £m				
	Asia	US	UK	Intra-group	Total
Revenue from external customers:					
Insurance operations	10,514	16,567	8,863	-	35,944
Asset management	349	850	1,246	(487)	1,958
Unallocated corporate	-	-	99	-	99
Intra-group revenue eliminated on consolidation	(178)	(90)	(219)	487	-
Total revenue from external customers	10,685	17,327	9,989	-	38,001

Revenue from external customers comprises:

	2016 £m	2015 £m	
	Half year	Half year	Full year
Earned premiums, net of reinsurance	**17,394**	17,884	35,506
Fee income and investment contract business and asset management (presented as 'Other income')	**1,085**	1,285	2,495
Total revenue from external customers	**18,479**	19,169	38,001

The asset management operations of M&G, Prudential Capital, Eastspring Investments and the US asset management businesses provide services to the Group insurance operations. Intra-group fees included within asset management revenue were earned by the following asset management segments:

	2016 £m	2015 £m	
	Half year	Half year	Full year
Intra-group revenue generated by:			
M&G	**88**	93	194
Prudential Capital	**16**	9	25
Eastspring Investments	**95**	94	178
US broker-dealer and asset management	**47**	45	90
Total intra-group fees included within asset management segment	**246**	241	487

Revenue from external customers of Asia, US and UK insurance operations shown above are net of outwards reinsurance premiums of £401 million, £162 million and £381 million respectively (half year 2015: £228 million, £142 million and £152 million respectively; full year 2015: £364 million, £320 million and £473 million respectively).

Gross premiums earned in Asia including those attributable to joint ventures (that are accounted for on an equity method) were £6,814 million (half year 2015: £6,086 million; full year 2015: £12,136 million).

B2 Profit before tax – asset management operations

The profit included in the income statement in respect of asset management operations for the year is as follows:

	2016 £m					2015 £m	
	M&G	Prudential Capital	US	Eastspring Investments	Half year Total	Half year Total	Full year Total
Revenue (excluding NPH broker-dealer fees)	**557**	**(13)**	**109**	**181**	**834**	1,029	1,964
NPH broker-dealer fees^note (i)^	**-**	**-**	**259**	**-**	**259**	272	522
Gross revenue	**557**	**(13)**	**368**	**181**	**1,093**	1,301	2,486
Charges (excluding NPH broker-dealer fees)	**(339)**	**(48)**	**(121)**	**(141)**	**(649)**	(734)	(1,497)
NPH broker-dealer fees^note (i)^	**-**	**-**	**(259)**	**-**	**(259)**	(272)	(522)
Gross charges	**(339)**	**(48)**	**(380)**	**(141)**	**(908)**	(1,006)	(2,019)
Share of profits from joint ventures and associates, net of related tax	**5**	**-**	**-**	**21**	**26**	27	55
Profit before tax	**223**	**(61)**	**(12)**	**61**	**211**	322	522
Comprising:							
Operating profit based on longer-term investment returns^note (ii)^	**225**	**13**	**(12)**	**61**	**287**	328	587
Short-term fluctuations in investment returns	**(2)**	**(74)**	**-**	**-**	**(76)**	(6)	(65)
Profit before tax	**223**	**(61)**	**(12)**	**61**	**211**	322	522

Notes

(i) NPH broker-dealer fees represent commissions received that are then paid on to the writing brokers on sales of investment products. To reflect their commercial nature, the amounts are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from this item. The presentation in the table above shows the amounts attributable to this item so that the underlying revenue and charges can be seen.

(ii) M&G operating profit based on longer-term investment returns:

	2016 £m	2015 £m	
	Half year	Half year	Full year
Asset management fee income	**431**	489	934
Other income	**9**	2	5
Staff costs	**(133)**	(154)	(293)
Other costs	**(96)**	(94)	(240)
Underlying profit before performance-related fees	**211**	243	406
Share of associate's results	**5**	7	14
Performance-related fees	**9**	1	22
M&G operating profit based on longer-term investment returns	**225**	251	442

The revenue for M&G of £449 million (half year 2015: £492 million; full year 2015: £961 million), comprises the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £557 million shown in the main table of this note. This is because the £449 million (half year 2015: £492 million; full year 2015: £961 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

B3 Acquisition costs and other expenditure

	2016 £m	2015 £m	
	Half year	Half year	Full year
Acquisition costs incurred for insurance policies	**(1,700)**	(1,580)	(3,275)
Acquisition costs deferred less amortisation of acquisition costs	**740**	(15)	431
Administration costs and other expenditure	**(2,451)**	(2,314)	(4,746)
Movements in amounts attributable to external unit holders of consolidated investment funds	**(152)**	(596)	(618)
Total acquisition costs and other expenditure	**(3,563)**	(4,505)	(8,208)

Included in total acquisition costs and other expenditure is depreciation of property, plant and equipment of £(75) million (half year 2015: £(55) million; full year 2015 £(129) million).

B4 Effect of changes and other accounting features on insurance assets and liabilities

The following features are of relevance to the determination of the half year 2016 results:

(a) Asia insurance operations

In half year 2016, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £42 million (half year 2015: £29 million; full year 2015: £62 million) representing a small number of non-recurring items, including a gain resulting from entering into a reinsurance contract in the period.

(b) UK insurance operations

Annuity business: allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest used for discounting projected future annuity payments to policyholders that would have otherwise applied. The credit risk allowance comprises an amount for long-term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short-term defaults.

The IFRS credit risk allowance made for shareholder-backed fixed and linked annuity business for PRIL, the principal company which writes the UK's shareholder-backed business, equated to 43 basis points at 30 June 2016 (30 June 2015: 46 basis points; 31 December 2015: 43 basis points). The allowance represented 23 per cent of the bond spread over swap rates (30 June 2015: 31 per cent; 31 December 2015: 25 per cent).

The reserves for credit risk allowance at 30 June 2016 for the UK shareholder-backed business were as follows:

	2016 £bn	2015 £bn	
	30 Jun	**30 Jun**	**31 Dec**
PRIL	**1.6**	1.5	1.5
PAC shareholder annuity business	**0.2**	0.2	0.1
Total	**1.8**	1.7	1.6

Annuity business: Longevity reinsurance and other management actions

A number of management actions were taken in the first half of 2016 to improve the solvency position of the UK insurance operations and further mitigate market risk, which have generated combined profits of £140 million. Similar actions were also taken in 2015.

Of this amount £66 million related to profit from additional longevity reinsurance transactions covering £1.5 billion of annuity liabilities on an IFRS basis, with the balance of £74 million reflecting the effect of repositioning the fixed income portfolio and other actions.

The contribution to profit from similar longevity reinsurance transactions in 2015 was £61 million for half-year covering £1.6 billion of annuity liabilities (on a Pillar 1 basis) and £231 million for full year covering £6.4 billion of annuity liabilities (on a Pillar 1 basis). Other asset-related management actions generated a further £169 million at full year 2015.

At 30 June 2016, longevity reinsurance covered £10.7 billion of IFRS annuity liabilities equivalent to 32 per cent of total annuity liabilities.

B5 Tax charge

(a) Total tax charge by nature of expense

The total tax charge in the income statement is as follows:

	2016 £m			2015 £m	
Tax charge	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
UK tax	**(162)**	**(67)**	**(229)**	(159)	(149)
Overseas tax	**(340)**	**300**	**(40)**	(487)	(593)
Total tax charge	**(502)**	**233**	**(269)**	(646)	(742)

The current tax charge of £502 million includes £27 million (half year 2015: £16 million; full year 2015: £35 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either: (i) 5 per cent of the net insurance premium; or (ii) the estimated assessable profits, depending on the nature of the business written.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders as shown below:

	2016 £m			2015 £m	
Tax charge	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
Tax charge to policyholders' returns	**(153)**	**(139)**	**(292)**	(202)	(173)
Tax (charge) credit attributable to shareholders	**(349)**	**372**	**23**	(444)	(569)
Total tax (charge) credit	**(502)**	**233**	**(269)**	(646)	(742)

The principal reason for the increase in the tax charge attributable to policyholders' returns compared to half year 2015 is an increase on investment return in the with-profits fund in the UK insurance operations. An explanation of the tax charge attributable to shareholders is shown in note (b) below.

(b) Reconciliation of effective tax rate

Reconciliation of tax charge on profit attributable to shareholders

	Half year 2016 £m				
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Total
Operating profit (loss) based on longer-term investment returns	**682**	**888**	**492**	**(3)**	**2,059**
Non-operating profit (loss)	**22**	**(1,471)**	**246**	**(192)**	**(1,395)**
Profit (loss) before tax attributable to shareholders	**704**	**(583)**	**738**	**(195)**	**664**
Expected tax rate*	**21%**	**35%**	**20%**	**20%**	**8%**
Tax at the expected rate	**148**	**(204)**	**148**	**(39)**	**53**
Effects of recurring tax reconciliation items:					
Income not taxable or taxable at concessionary rates	**(14)**	**(5)**	**(16)**	**(3)**	**(38)**
Deductions not allowable for tax purposes	**8**	**2**	**6**	**2**	**18**
Items related to taxation of life insurance businesses	**(10)**	**(60)**	**(1)**	**-**	**(71)**
Deferred tax adjustments	**(1)**	**-**	**3**	**(3)**	**(1)**
Effect of results of joint ventures and associates	**(10)**	**-**	**-**	**(7)**	**(17)**
Irrecoverable withholding taxes	**-**	**-**	**-**	**20**	**20**
Other	**3**	**-**	**(2)**	**16**	**17**
Total	**(24)**	**(63)**	**(10)**	**25**	**(72)**
Effects of non-recurring tax reconciliation items:					
Adjustments to tax charge in relation to prior years	**1**	**(3)**	**-**	**(2)**	**(4)**
Total	**1**	**(3)**	**-**	**(2)**	**(4)**
Total actual tax charge (credit)	**125**	**(270)**	**138**	**(16)**	**(23)**
Analysed into:					
Tax on operating profit based on longer-term investment returns	**120**	**245**	**101**	**13**	**479**
Tax on non-operating profit	**5**	**(515)**	**37**	**(29)**	**(502)**
Actual tax rate:					
Operating profit based on longer-term investment returns					
Including non-recurring tax reconciling items	**18%**	**28%**	**21%**	**(433)%**	**23%**
Excluding non-recurring tax reconciling items	**17%**	**28%**	**21%**	**(500)%**	**23%**
Total profit	**18%**	**46%**	**19%**	**8%**	**(3)%**

	Half year 2015 £m				
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Total**
Operating profit based on longer-term investment returns	574	834	453	20	1,881
Non-operating (loss) profit	(107)	193	(96)	11	1
Profit before tax attributable to shareholders	467	1,027	357	31	1,882
Expected tax rate*	26%	35%	20%	19%	30%
Tax at the expected rate	121	359	71	6	557
Effects of recurring tax reconciliation items:					
Income not taxable or taxable at concessionary rates	(13)	(3)	(2)	(5)	(23)
Deductions not allowable for tax purposes	4	2	2	11	19
Items related to taxation of life insurance businesses	(2)	(64)	-	-	(66)
Deferred tax adjustments	1	-	(1)	(4)	(4)
Effect of results of joint ventures and associates	(16)	-	-	(6)	(22)
Irrecoverable withholding taxes	-	-	-	14	14
Other	2	-	5	(3)	4
Total	(24)	(65)	4	7	(78)
Effects of non-recurring tax reconciliation items:					
Adjustments to tax charge in relation to prior years	5	(28)	-	4	(19)
Movements in provisions for open tax matters	(9)	-	-	(2)	(11)
Impact of changes in local statutory tax rates	(5)	-	-	-	(5)
Total	(9)	(28)	-	2	(35)
Total actual tax charge	88	266	75	15	444
Analysed into:					
Tax on operating profit based on longer-term investment returns	91	222	94	19	426
Tax on non-operating profit	(3)	44	(19)	(4)	18
Actual tax rate:					
Operating profit based on longer-term investment returns					
Including non-recurring tax reconciling items	16%	27%	21%	95%	23%
Excluding non-recurring tax reconciling items	17%	30%	21%	85%	25%
Total profit	19%	26%	21%	48%	24%

	Full year 2015 £m				
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Total**
Operating profit (loss) based on longer-term investment returns	1,209	1,691	1,195	(88)	4,007
Non-operating loss	(173)	(492)	(120)	(74)	(859)
Profit (loss) before tax attributable to shareholders	1,036	1,199	1,075	(162)	3,148
Expected tax rate*	24%	35%	20%	20%	27%
Tax at the expected rate	249	420	215	(32)	852
Effects of recurring tax reconciliation items:					
Income not taxable or taxable at concessionary rates	(42)	(10)	(2)	(9)	(63)
Deductions not allowable for tax purposes	15	5	7	6	33
Items related to taxation of life insurance businesses	(20)	(113)	-	-	(133)
Deferred tax adjustments	10	-	-	(11)	(1)
Effect of results of joint ventures and associates	(37)	-	-	(13)	(50)
Irrecoverable withholding taxes	-	-	-	28	28
Other	(4)	(1)	6	2	3
Total	(78)	(119)	11	3	(183)
Effects of non-recurring tax reconciliation items:					
Adjustments to tax charge in relation to prior years	5	(65)	(7)	-	(67)
Movements in provisions for open tax matters	(6)	-	-	(5)	(11)
Impact of changes in local statutory tax rates	(5)	-	(16)	(1)	(22)
Total	(6)	(65)	(23)	(6)	(100)
Total actual tax charge (credit)	165	236	203	(35)	569
Analysed into:					
Tax on operating profit based on longer-term investment returns	180	408	227	(19)	796
Tax on non-operating profit	(15)	(172)	(24)	(16)	(227)
Actual tax rate:					
Operating profit based on longer-term investment returns					
Including non-recurring tax reconciling items	15%	24%	19%	22%	20%
Excluding non-recurring tax reconciling items	15%	28%	21%	15%	22%
Total profit	16%	20%	19%	22%	18%

* The expected tax rates (rounded to the nearest whole percentage) reflect the corporation tax rates generally applied to taxable profit of the relevant country jurisdictions. For Asia operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profit of operations contributing to the aggregate business result. The expected tax rate for other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profit.

B6 Earnings per share

		Half year 2016				
	Note	**Before tax** note B1.1 £m	**Tax** note B5 £m	**Net of tax** £m	**Basic earnings per share** pence	**Diluted earnings per share** pence
Based on operating profit based on longer-term investment returns		**2,059**	**(479)**	**1,580**	**61.8p**	**61.7p**
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(1,360)**	**491**	**(869)**	**(34.0)p**	**(34.0)p**
Amortisation of acquisition accounting adjustments		**(35)**	**11**	**(24)**	**(0.9)p**	**(0.9)p**
Based on profit for the period		**664**	**23**	**687**	**26.9p**	**26.8p**

		Half year 2015				
	Note	**Before tax** note B1.1 £m	**Tax** note B5 £m	**Net of tax** £m	**Basic earnings per share** pence	**Diluted earnings per share** pence
Based on operating profit based on longer-term investment returns		1,881	(426)	1,455	57.0p	56.9p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	86	(31)	55	2.1p	2.1p
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income		(46)	-	(46)	(1.8)p	(1.8)p
Amortisation of acquisition accounting adjustments		(39)	13	(26)	(1.0)p	(1.0)p
Based on profit for the period		1,882	(444)	1,438	56.3p	56.2p

		Full year 2015				
	Note	**Before tax** note B1.1 £m	**Tax** note B5 £m	**Net of tax** £m	**Basic earnings per share** pence	**Diluted earnings per share** pence
Based on operating profit based on longer-term investment returns		4,007	(796)	3,211	125.8p	125.6p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(737)	202	(535)	(21.0)p	(20.9)p
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income		(46)	-	(46)	(1.8)p	(1.8)p
Amortisation of acquisition accounting adjustments		(76)	25	(51)	(2.0)p	(2.0)p
Based on profit for the year		3,148	(569)	2,579	101.0p	100.9p

Earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests.

The weighted average number of shares for calculating earnings per share, which excludes those held in employee share trusts and consolidated unit trusts and OEICs, is set out as below:

Weighted average number of shares for calculation of:	**Half year 2016 (millions)**	**Half year 2015 (millions)**	**Full year 2015 (millions)**
Basic earnings per share	**2,558**	2,552	2,553
Diluted earnings per share	**2,559**	2,555	2,556

B7 Dividends

	Half year 2016		Half year 2015		Full year 2015	
	Pence per share	**£m**	**Pence per share**	**£m**	**Pence per share**	**£m**
Dividends relating to reporting period:						
First interim dividend / Interim dividend for prior year	**12.93p**	**333**	12.31p	315	12.31p	315
Second interim dividend	**-**	**-**	-	-	26.47p	681
Special dividend	**-**	**-**	-	-	10.00p	257
Total	**12.93p**	**333**	12.31p	315	48.78p	1,253
Dividends declared and paid in reporting period:						
Current year interim dividend	**-**	**-**	-	-	12.31p	315
Second interim dividend / Final dividend for prior year	**26.47p**	**679**	25.74p	659	25.74p	659
Special dividend	**10.00p**	**256**	-	-	-	-
Total	**36.47p**	**935**	25.74p	659	38.05p	974

Dividend per share

Prudential makes twice-yearly interim dividend payments to replace interim / final dividends that were paid in 2015. The second interim dividend of 26.47 pence per ordinary share and the special dividend of 10.00 pence per ordinary share for the year ended 31 December 2015 were paid to eligible shareholders on 20 May 2016.

The 2016 first interim dividend of 12.93 pence per ordinary share will be paid on 29 September 2016 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 26 August 2016 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 6 October 2016. The first interim dividend will be paid on or about 6 October 2016 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 9 August 2016. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore Dollars, will be determined by CDP.

Shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

C BALANCE SHEET NOTES

C1 Analysis of Group position by segment and business type

To explain the assets, liabilities and capital of the Group's businesses more comprehensively, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

C1.1 Group statement of financial position – analysis by segment

		2016 £m								2015 £m	
		Insurance operations									
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	Total insurance operations	Asset management operations C2.4	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
Assets											
Intangible assets attributable to shareholders:											
Goodwill	C5.1(a)	**258**	**-**	**-**	**258**	**1,230**	**-**	**-**	**1,488**	1,461	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	**2,319**	**7,081**	**81**	**9,481**	**19**	**49**	**-**	**9,549**	7,310	8,422
Total		**2,577**	**7,081**	**81**	**9,739**	**1,249**	**49**	**-**	**11,037**	8,771	9,885
Intangible assets attributable to with-profits funds:											
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		**-**	**-**	**189**	**189**	**-**	**-**	**-**	**189**	184	185
Deferred acquisition costs and other intangible assets		**37**	**-**	**8**	**45**	**-**	**-**	**-**	**45**	49	50
Total		**37**	**-**	**197**	**234**	**-**	**-**	**-**	**234**	233	235
Total		**2,614**	**7,081**	**278**	**9,973**	**1,249**	**49**	**-**	**11,271**	9,004	10,120
Deferred tax assets	C7	**92**	**3,369**	**139**	**3,600**	**145**	**26**	**-**	**3,771**	2,820	2,819
Other non-investment and non-cash assets [note (i)]		**5,489**	**7,864**	**7,780**	**21,133**	**1,635**	**5,603**	**(10,864)**	**17,507**	14,664	14,283
Investments of long-term business and other operations:											
Investment properties		**5**	**5**	**13,930**	**13,940**	**-**	**-**	**-**	**13,940**	13,259	13,422
Investments in joint ventures and associates accounted for using the equity method		**525**	**-**	**462**	**987**	**148**	**-**	**-**	**1,135**	962	1,034
Financial investments:											
Loans	C3.4	**1,278**	**8,504**	**3,616**	**13,398**	**817**	**-**	**-**	**14,215**	12,578	12,958
Equity securities and portfolio holdings in unit trusts		**22,631**	**104,124**	**49,150**	**175,905**	**106**	**26**	**-**	**176,037**	155,253	157,453
Debt securities	C3.3	**35,519**	**41,143**	**89,114**	**165,776**	**2,587**	**4**	**-**	**168,367**	142,307	147,671
Other investments		**79**	**2,503**	**7,489**	**10,071**	**265**	**4**	**-**	**10,340**	7,713	7,353
Deposits		**912**	**-**	**13,184**	**14,096**	**85**	**-**	**-**	**14,181**	11,043	12,088
Total investments		**60,949**	**156,279**	**176,945**	**394,173**	**4,008**	**34**	**-**	**398,215**	343,115	351,979
Assets held for sale		**-**	**-**	**30**	**30**	**-**	**-**	**-**	**30**	-	2
Cash and cash equivalents		**2,010**	**1,056**	**3,445**	**6,511**	**1,693**	**326**	**-**	**8,530**	8,298	7,782
Total assets	C3.1	**71,154**	**175,649**	**188,617**	**435,420**	**8,730**	**6,038**	**(10,864)**	**439,324**	377,901	386,985

		2016 £m								2015 £m	
		Insurance operations									
By operating segment	Note	**Asia**	**US**	**UK**	**Total insurance operations**	**Asset management operations**	**Unallocated to a segment (central operations)**	**Elimination of intra-group debtors and creditors**	**30 Jun Group Total**	**30 Jun Group Total**	**31 Dec Group Total**
Equity and liabilities											
Equity											
Shareholders' equity		**4,873**	**5,056**	**6,163**	**16,092**	**2,422**	**(3,909)**	**-**	**14,605**	12,104	12,955
Non-controlling interests		**1**	**-**	**-**	**1**	**-**	**-**	**-**	**1**	1	1
Total equity		**4,874**	**5,056**	**6,163**	**16,093**	**2,422**	**(3,909)**	**-**	**14,606**	12,105	12,956
Liabilities											
Policyholder liabilities and unallocated surplus of with-profits funds:											
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**53,437**	**159,155**	**151,233**	**363,825**	**-**	**-**	**(1,315)**	**362,510**	313,620	322,518
Unallocated surplus of with-profits funds		**2,351**	**-**	**11,246**	**13,597**	**-**	**-**	**-**	**13,597**	12,768	13,096
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	**55,788**	**159,155**	**162,479**	**377,422**	**-**	**-**	**(1,315)**	**376,107**	326,388	335,614
Core structural borrowings of shareholder-financed operations:											
Subordinated debt		**-**	**-**	**-**	**-**	**-**	**4,956**	**-**	**4,956**	3,897	4,018
Other		**-**	**186**	**-**	**186**	**275**	**549**	**-**	**1,010**	983	993
Total	C6.1	**-**	**186**	**-**	**186**	**275**	**5,505**	**-**	**5,966**	4,880	5,011
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**11**	**70**	**163**	**244**	**-**	**2,554**	**-**	**2,798**	2,504	1,960
Borrowings attributable to with-profits operations	C6.2(b)	**6**	**-**	**1,421**	**1,427**	**-**	**-**	**-**	**1,427**	1,089	1,332
Deferred tax liabilities	C7	**905**	**3,204**	**1,253**	**5,362**	**23**	**12**	**-**	**5,397**	4,325	4,010
Other non-insurance liabilities[note (ii)]		**9,570**	**7,978**	**17,138**	**34,686**	**6,010**	**1,876**	**(9,549)**	**33,023**	26,610	26,102
Total liabilities	C3.1	**66,280**	**170,593**	**182,454**	**419,327**	**6,308**	**9,947**	**(10,864)**	**424,718**	365,796	374,029
Total equity and liabilities		**71,154**	**175,649**	**188,617**	**435,420**	**8,730**	**6,038**	**(10,864)**	**439,324**	377,901	386,985

Notes

(i) The largest component of the other non-investment and non-cash assets of £17,507 million (30 June 2015: £14,664 million; 31 December 2015: £14,283 million) is the reinsurers' share of contract liabilities of £9,470 million (30 June 2015: £7,259 million; 31 December 2015; £7,903 million). As set out in note C2.2 these amounts relate primarily to the reinsurance ceded in respect of the acquired REALIC business by the Group's US insurance operations.
Within other non-investment and non-cash assets are premiums receivable of £467 million (30 June 2015: £884 million; 31 December 2015: £428 million) of which 73 per cent are due within one year. The remaining 27 per cent is due after one year.
Also included within other non-investment and non-cash assets are property, plant and equipment of £1,214 million (30 June 2015: £984 million; 31 December 2015: £1,197 million) of which £910 million (30 June 2015: £659 million; 31 December 2015: £833 million) was held by the Group's with-profits operations, primarily by the consolidated subsidiaries for venture funds and other investment purposes of the PAC with-profits fund. The Group made additions to property, plant and equipment of £128 million (30 June 2015: £105 million; 31 December 2015: £256 million).

(ii) Within other non-insurance liabilities are other creditors of £6,520 million (30 June 2015: £5,515 million; 31 December 2015: £4,876 million) of which £6,147 million (30 June 2015: £5,193 million; 31 December 2015: £4,554 million) is due within one year.

C1.2 Group statement of financial position – analysis by business type

		2016 £m							2015 £m	
		Policyholder	Shareholder-backed business							
	Note	Participating funds*	Unit-linked and variable annuity	Non -linked business	Asset management operations	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	30 Jun Group Total	30 Jun Group Total	31 Dec Group Total
Assets										
Intangible assets attributable to shareholders:										
Goodwill	C5.1(a)	**-**	**-**	**258**	**1,230**	**-**	**-**	**1,488**	1,461	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	**-**	**-**	**9,481**	**19**	**49**	**-**	**9,549**	7,310	8,422
Total		**-**	**-**	**9,739**	**1,249**	**49**	**-**	**11,037**	8,771	9,885
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes		**189**	**-**	**-**	**-**	**-**	**-**	**189**	184	185
Deferred acquisition costs and other intangible assets		**45**	**-**	**-**	**-**	**-**	**-**	**45**	49	50
Total		**234**	**-**	**-**	**-**	**-**	**-**	**234**	233	235
Total		**234**	**-**	**9,739**	**1,249**	**49**	**-**	**11,271**	9,004	10,120
Deferred tax assets	C7	**88**	**-**	**3,512**	**145**	**26**	**-**	**3,771**	2,820	2,819
Other non-investment and non-cash assets		**4,947**	**892**	**12,546**	**1,635**	**5,603**	**(8,116)**	**17,507**	14,664	14,283
Investments of long-term business and other operations:										
Investment properties		**11,655**	**694**	**1,591**	**-**	**-**	**-**	**13,940**	13,259	13,422
Investments in joint ventures and associates accounted for using the equity method		**462**	**-**	**525**	**148**	**-**	**-**	**1,135**	962	1,034
Financial investments:										
Loans	C3.4	**2,716**	**-**	**10,682**	**817**	**-**	**-**	**14,215**	12,578	12,958
Equity securities and portfolio holdings in unit trusts		**43,195**	**131,405**	**1,305**	**106**	**26**	**-**	**176,037**	155,253	157,453
Debt securities	C3.3	**67,833**	**10,015**	**87,928**	**2,587**	**4**	**-**	**168,367**	142,307	147,671
Other investments		**6,934**	**54**	**3,083**	**265**	**4**	**-**	**10,340**	7,713	7,353
Deposits		**11,289**	**1,078**	**1,729**	**85**	**-**	**-**	**14,181**	11,043	12,088
Total investments		**144,084**	**143,246**	**106,843**	**4,008**	**34**	**-**	**398,215**	343,115	351,979
Assets held for sale		**30**	**-**	**-**	**-**	**-**	**-**	**30**	-	2
Cash and cash equivalents		**2,499**	**1,082**	**2,930**	**1,693**	**326**	**-**	**8,530**	8,298	7,782
Total assets	C3.1	**151,882**	**145,220**	**135,570**	**8,730**	**6,038**	**(8,116)**	**439,324**	377,901	386,985
Equity and liabilities										
Equity										
Shareholders' equity		**-**	**-**	**16,092**	**2,422**	**(3,909)**	**-**	**14,605**	12,104	12,955
Non-controlling interests		**-**	**-**	**1**	**-**	**-**	**-**	**1**	1	1
Total equity		**-**	**-**	**16,093**	**2,422**	**(3,909)**	**-**	**14,606**	12,105	12,956
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**120,311**	**141,157**	**101,042**	**-**	**-**	**-**	**362,510**	313,620	322,518
Unallocated surplus of with-profits funds		**13,597**	**-**	**-**	**-**	**-**	**-**	**13,597**	12,768	13,096
Total policyholder liabilities and unallocated surplus of with-profits funds	C4	**133,908**	**141,157**	**101,042**	**-**	**-**	**-**	**376,107**	326,388	335,614
Core structural borrowings of shareholder-financed operations:										
Subordinated debt		**-**	**-**	**-**	**-**	**4,956**	**-**	**4,956**	3,897	4,018
Other		**-**	**-**	**186**	**275**	**549**	**-**	**1,010**	983	993
Total	C6.1	**-**	**-**	**186**	**275**	**5,505**	**-**	**5,966**	4,880	5,011
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**-**	**11**	**233**	**-**	**2,554**	**-**	**2,798**	2,504	1,960
Borrowings attributable to with-profits operations	C6.2(b)	**1,427**	**-**	**-**	**-**	**-**	**-**	**1,427**	1,089	1,332
Deferred tax liabilities	C7	**1,559**	**30**	**3,773**	**23**	**12**	**-**	**5,397**	4,325	4,010
Other non-insurance liabilities		**14,988**	**4,022**	**14,243**	**6,010**	**1,876**	**(8,116)**	**33,023**	26,610	26,102
Total liabilities	C3.1	**151,882**	**145,220**	**119,477**	**6,308**	**9,947**	**(8,116)**	**424,718**	365,796	374,029
Total equity and liabilities		**151,882**	**145,220**	**135,570**	**8,730**	**6,038**	**(8,116)**	**439,324**	377,901	386,985

* Participating funds business in the table above is presented after the elimination on consolidation of the balances relating to an intra-group reinsurance contract entered into during the period between the UK with-profits and Asia with-profits operations. In the segmental analysis presented in note C1.1, the balances are presented before elimination in the individual insurance operations segment, with the adjustment presented separately under intra-group eliminations.

C2 Analysis of segment position by business type

To show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business, the analysis below is structured to show the assets and liabilities of each segment by business type.

C2.1 Asia insurance operations

		2016 £m				2015 £m	
	Note	With-profits business note	Unit-linked assets and liabilities	Other business	30 Jun Total	30 Jun Total	31 Dec Total
Assets							
Intangible assets attributable to shareholders:							
Goodwill		**-**	**-**	**258**	**258**	231	233
Deferred acquisition costs and other intangible assets		**-**	**-**	**2,319**	**2,319**	1,918	2,103
Total		**-**	**-**	**2,577**	**2,577**	2,149	2,336
Intangible assets attributable to with-profits funds:							
Deferred acquisition costs and other intangible assets		**37**	**-**	**-**	**37**	44	42
Deferred tax assets		**-**	**-**	**92**	**92**	95	66
Other non-investment and non-cash assets		**2,756**	**325**	**2,408**	**5,489**	3,367	3,621
Investments of long-term business and other operations:							
Investment properties		**-**	**-**	**5**	**5**	5	5
Investments in joint ventures and associates accounted for using the equity method		**-**	**-**	**525**	**525**	415	475
Financial investments:							
Loans	C3.4	**652**	**-**	**626**	**1,278**	1,009	1,084
Equity securities and portfolio holdings in unit trusts		**8,898**	**12,698**	**1,035**	**22,631**	20,190	18,532
Debt securities	C3.3	**20,578**	**3,427**	**11,514**	**35,519**	24,366	28,292
Other investments		**41**	**20**	**18**	**79**	71	57
Deposits		**169**	**284**	**459**	**912**	696	773
Total investments		**30,338**	**16,429**	**14,182**	**60,949**	46,752	49,218
Cash and cash equivalents		**785**	**360**	**865**	**2,010**	1,672	2,064
Total assets		**33,916**	**17,114**	**20,124**	**71,154**	54,079	57,347
Equity and liabilities							
Equity							
Shareholders' equity		**-**	**-**	**4,873**	**4,873**	3,620	3,956
Non-controlling interests		**-**	**-**	**1**	**1**	1	1
Total equity		**-**	**-**	**4,874**	**4,874**	3,621	3,957
Liabilities							
Policyholder liabilities and unallocated surplus of with-profits funds:							
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**25,804**	**15,705**	**11,928**	**53,437**	40,832	42,516
Unallocated surplus of with-profits funds		**2,351**	**-**	**-**	**2,351**	2,127	2,553
Total	C4.1(b)	**28,155**	**15,705**	**11,928**	**55,788**	42,959	45,069
Operational borrowings attributable to shareholder-financed operations		**-**	**7**	**4**	**11**	-	-
Borrowings attributable to with-profits operations		**6**	**-**	**-**	**6**	-	-
Deferred tax liabilities		**584**	**30**	**291**	**905**	760	734
Other non-insurance liabilities		**5,171**	**1,372**	**3,027**	**9,570**	6,739	7,587
Total liabilities		**33,916**	**17,114**	**15,250**	**66,280**	50,458	53,390
Total equity and liabilities		**33,916**	**17,114**	**20,124**	**71,154**	54,079	57,347

Note
The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. Assets and liabilities of other participating businesses are included in the column for 'Other business'.

C2.2 US insurance operations

		2016 £m			2015 £m	
	Note	Variable annuity separate account assets and liabilities note (i)	Fixed annuity, GIC and other business note (i)	30 Jun Total	30 Jun Total	31 Dec Total
Assets						
Intangible assets attributable to shareholders:						
Deferred acquisition costs and other intangibles		-	**7,081**	**7,081**	5,240	6,168
Total		-	**7,081**	**7,081**	5,240	6,168
Deferred tax assets		-	**3,369**	**3,369**	2,389	2,448
Other non-investment and non-cash assets[note (iv)]		-	**7,864**	**7,864**	6,562	7,205
Investments of long-term business and other operations:						
Investment properties		-	**5**	**5**	19	5
Financial investments:						
Loans	C3.4	-	**8,504**	**8,504**	6,798	7,418
Equity securities and portfolio holdings in unit trusts[note (iii)]		**103,904**	**220**	**104,124**	86,283	91,216
Debt securities	C3.3	-	**41,143**	**41,143**	32,117	34,071
Other investments[note (ii)]		-	**2,503**	**2,503**	1,515	1,715
Total investments		**103,904**	**52,375**	**156,279**	126,732	134,425
Cash and cash equivalents		-	**1,056**	**1,056**	713	1,405
Total assets		**103,904**	**71,745**	**175,649**	141,636	151,651
Equity and liabilities						
Equity						
Shareholders' equity[note (v)]		-	**5,056**	**5,056**	4,004	4,154
Total equity		-	**5,056**	**5,056**	4,004	4,154
Liabilities						
Policyholder liabilities:						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**103,904**	**55,251**	**159,155**	129,667	138,913
Total	C4.1 (c)	**103,904**	**55,251**	**159,155**	129,667	138,913
Core structural borrowings of shareholder-financed operations		-	**186**	**186**	159	169
Operational borrowings attributable to shareholder-financed operations		-	**70**	**70**	221	66
Deferred tax liabilities		-	**3,204**	**3,204**	2,309	2,086
Other non-insurance liabilities		-	**7,978**	**7,978**	5,276	6,263
Total liabilities		**103,904**	**66,689**	**170,593**	137,632	147,497
Total equity and liabilities		**103,904**	**71,745**	**175,649**	141,636	151,651

Notes

(i) These amounts are for separate account assets and liabilities for all variable annuity products comprising those with and without guarantees. Assets and liabilities attaching to variable annuity business that are not held in the separate account, eg in respect of guarantees, are shown within other business.

(ii) Other investments comprise:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Derivative assets*	**1,608**	765	905
Partnerships in investment pools and other**	**895**	750	810
	2,503	1,515	1,715

* After taking account of the derivative liabilities of £421 million (30 June 2015: £258 million; 31 December 2015: £249 million), which are included in other non-insurance liabilities, the derivative position for US operations is a net asset of £1,187 million (30 June 2015: net asset of £507 million; 31 December 2015: net asset of £656 million).

** Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(iii) Equity securities and portfolio holdings in unit trusts include investments in mutual funds, the majority of which are equity-based.

(iv) Included within other non-investment and non-cash assets of £7,864 million (30 June 2015: £6,562 million; 31 December 2015: £7,205 million) were balances of £6,859 million (30 June 2015: £5,817 million; 31 December 2015: £6,211 million) for reinsurers' share of insurance contract liabilities. Of the £6,859 million as at 30 June 2016, £5,870 million (30 June 2015: £5,057 million; 31 December 2015: £5,388 million) related to the reinsurance ceded in respect of the acquired REALIC business. Jackson holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 30 June 2016, the funds withheld liability of £2,616 million (30 June 2015: £2,204 million; 31 December 2015: £2,347 million) was recorded within other non-insurance liabilities.

(v) Changes in shareholders' equity

	2016 £m	2015 £m	
	Half year	Half year	Full year
Operating profit based on longer-term investment returns B1.1	**888**	834	1,691
Short-term fluctuations in investment returns B1.2	**(1,440)**	228	(424)
Amortisation of acquisition accounting adjustments arising on the purchase of REALIC	**(31)**	(35)	(68)
Profit before shareholder tax	**(583)**	1027	1,199
Tax B5	**270**	(266)	(236)
Profit for the period	**(313)**	761	963
Profit for the period (as above)	**(313)**	761	963
Items recognised in other comprehensive income:			
Exchange movements	**445**	(34)	230
Unrealised valuation movements on securities classified as available-for-sale:			
Unrealised holding gains (losses) arising during the period	**2,023**	(661)	(1,256)
Add back net losses / deduct net gains included in the income statement on disposal and impairment	**95**	(101)	(49)
Total unrealised valuation movements	**2,118**	(762)	(1,305)
Related amortisation of deferred acquisition costs C5.1(b)	**(435)**	165	337
Related tax	**(589)**	209	339
Total other comprehensive income (loss)	**1,539**	(422)	(399)
Total comprehensive income for the period	**1,226**	339	564
Dividends, interest payments to central companies and other movements	**(324)**	(402)	(477)
Net increase (decrease) in equity	**902**	(63)	87
Shareholders' equity at beginning of period	**4,154**	4,067	4,067
Shareholders' equity at end of period	**5,056**	4,004	4,154

C2.3 UK insurance operations

Of the total investments of £177 billion in UK insurance operations, £114 billion of investments are held by Scottish Amicable Insurance Fund and the PAC with-profits sub-fund. Shareholders are exposed only indirectly to value movements on these assets.

		2016 £m						2015 £m	
				Other funds and subsidiaries					
By operating segment	Note	Scottish Amicable Insurance Fund note (ii)	PAC with-profits sub-fund note (i)	Unit-linked assets and liabilities	Annuity and other long-term business	Total	30 Jun Total	30 Jun Total	31 Dec Total
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs and other intangible assets		**-**	**-**	**-**	**81**	**81**	**81**	85	83
Total		**-**	**-**	**-**	**81**	**81**	**81**	85	83
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes		**-**	**189**	**-**	**-**	**-**	**189**	184	185
Deferred acquisition costs		**-**	**8**	**-**	**-**	**-**	**8**	5	8
Total		**-**	**197**	**-**	**-**	**-**	**197**	189	193
Total		**-**	**197**	**-**	**81**	**81**	**278**	274	276
Deferred tax assets		**-**	**88**	**-**	**51**	**51**	**139**	140	132
Other non-investment and non-cash assets		**179**	**4,760**	**567**	**2,274**	**2,841**	**7,780**	8,161	7,209
Investments of long-term business and other operations:									
Investment properties		**346**	**11,309**	**694**	**1,581**	**2,275**	**13,930**	13,235	13,412
Investments in joint ventures and associates accounted for using the equity method (principally property fund joint ventures)		**-**	**462**	**-**	**-**	**-**	**462**	433	434
Financial investments:									
Loans	C3.4	**55**	**2,009**	**-**	**1,552**	**1,552**	**3,616**	3,845	3,571
Equity securities and portfolio holdings in unit trusts		**2,614**	**31,683**	**14,803**	**50**	**14,853**	**49,150**	48,662	47,593
Debt securities	C3.3	**2,127**	**45,128**	**6,588**	**35,271**	**41,859**	**89,114**	83,876	83,101
Other investments note (iii)		**300**	**6,593**	**34**	**562**	**596**	**7,489**	6,006	5,486
Deposits		**517**	**10,603**	**794**	**1,270**	**2,064**	**13,184**	10,295	11,226
Total investments		**5,959**	**107,787**	**22,913**	**40,286**	**63,199**	**176,945**	166,352	164,823
Properties held for sale		**-**	**30**	**-**	**-**	**-**	**30**	-	2
Cash and cash equivalents		**144**	**1,570**	**722**	**1,009**	**1,731**	**3,445**	3,673	2,880
Total assets		**6,282**	**114,432**	**24,202**	**43,701**	**67,903**	**188,617**	178,600	175,322

	Note	2016 £m Scottish Amicable Insurance Fund note (ii)	PAC with-profits sub-fund note (i)	Other funds and subsidiaries: Unit-linked assets and liabilities	Annuity and other long-term business	Total	30 Jun Total	2015 £m 30 Jun Total	31 Dec Total
Equity and liabilities									
Equity									
Shareholders' equity		**-**	**-**	**-**	**6,163**	**6,163**	**6,163**	3,972	5,140
Total equity		**-**	**-**	**-**	**6,163**	**6,163**	**6,163**	3,972	5,140
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		**5,906**	**89,916**	**21,548**	**33,863**	**55,411**	**151,233**	144,431	142,350
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)		**-**	**11,246**	**-**	**-**	**-**	**11,246**	10,641	10,543
Total	C4.1(d)	**5,906**	**101,162**	**21,548**	**33,863**	**55,411**	**162,479**	155,072	152,893
Operational borrowings attributable to shareholder-financed operations		**-**	**-**	**4**	**159**	**163**	**163**	96	179
Borrowings attributable to with-profits funds		**12**	**1,409**	**-**	**-**	**-**	**1,421**	1,089	1,332
Deferred tax liabilities		**25**	**950**	**-**	**278**	**278**	**1,253**	1,226	1,162
Other non-insurance liabilities		**339**	**10,911**	**2,650**	**3,238**	**5,888**	**17,138**	17,145	14,616
Total liabilities		**6,282**	**114,432**	**24,202**	**37,538**	**61,740**	**182,454**	174,628	170,182
Total equity and liabilities		**6,282**	**114,432**	**24,202**	**43,701**	**67,903**	**188,617**	178,600	175,322

Notes

(i) The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). Included in the PAC with-profits fund is £11.3 billion (30 June 2015: £11.3 billion; 31 December 2015: £10.8 billion) of non-profit annuities liabilities. The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 4 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

(ii) The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. SAIF is a separate sub-fund within the PAC long-term business fund.

(iii) Other investments comprise:

	2016 £m 30 Jun	2015 £m 30 Jun	31 Dec
Derivative assets*	**3,563**	2,555	1,930
Partnerships in investment pools and other**	**3,926**	3,451	3,556
	7,489	6,006	5,486

* After including derivative liabilities of £3,736 million (30 June 2015: £841 million; 31 December 2015: £2,125 million), which are also included in the statement of financial position, the overall derivative position was a net liability of £173 million (30 June 2015: net asset of £1,714 million; 31 December 2015: net liability of £195 million).

** Partnerships in investment pools and other comprise mainly investments held by the PAC with-profits fund. These investments are primarily investments in limited partnerships and additionally, investments in property funds.

C2.4 Asset management operations

		2016 £m					2015 £m	
	Note	M&G	Prudential Capital	US	Eastspring Investments	30 Jun Total	30 Jun Total	31 Dec Total
Assets								
Intangible assets:								
Goodwill		**1,153**	**-**	**16**	**61**	**1,230**	1,230	1,230
Deferred acquisition costs and other intangible assets		**13**	**-**	**4**	**2**	**19**	19	21
Total		**1,166**	**-**	**20**	**63**	**1,249**	1,249	1,251
Other non-investment and non-cash assets		**905**	**536**	**263**	**76**	**1,780**	2,292	1,644
Investments in joint ventures and associates accounted for using the equity method		**33**	**-**	**-**	**115**	**148**	114	125
Financial investments:								
Loans	C3.4	**-**	**817**	**-**	**-**	**817**	926	885
Equity securities and portfolio holdings in unit trusts		**89**	**-**	**-**	**17**	**106**	89	85
Debt securities	C3.3	**-**	**2,587**	**-**	**-**	**2,587**	1,948	2,204
Other investments		**19**	**242**	**4**	**-**	**265**	118	94
Deposits		**-**	**-**	**36**	**49**	**85**	52	89
Total investments		**141**	**3,646**	**40**	**181**	**4,008**	3,247	3,482
Cash and cash equivalents		**330**	**1,145**	**84**	**134**	**1,693**	1,390	1,054
Total assets		**2,542**	**5,327**	**407**	**454**	**8,730**	8,178	7,431
Equity and liabilities								
Equity								
Shareholders' equity		**1,838**	**31**	**201**	**352**	**2,422**	2,172	2,332
Total equity		**1,838**	**31**	**201**	**352**	**2,422**	2,172	2,332
Liabilities								
Core structural borrowing of shareholder-financed operations		**-**	**275**	**-**	**-**	**275**	275	275
Operational borrowing attributable to shareholder-financed operations		**-**	**-**	**-**	**-**	**-**	11	10
Intra-group debt represented by operational borrowings at Group level[note (i)]		**-**	**2,554**	**-**	**-**	**2,554**	2,176	1,705
Other non-insurance liabilities[note (ii)]		**704**	**2,467**	**206**	**102**	**3,479**	3,544	3,109
Total liabilities		**704**	**5,296**	**206**	**102**	**6,308**	6,006	5,099
Total equity and liabilities		**2,542**	**5,327**	**407**	**454**	**8,730**	8,178	7,431

Notes

(i) Intra-group debt represented by operational borrowings at Group level, which are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Commercial paper	**1,956**	1,577	1,107
Medium Term Notes	**598**	599	598
Total intra-group debt represented by operational borrowings at Group level	**2,554**	2,176	1,705

(ii) Other non-insurance liabilities consist primarily of intra-group balances, derivative liabilities and other creditors.

C3 Assets and liabilities - classification and measurement

C3.1 Group assets and liabilities – classification

The classification of the Group's assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Group has followed the principles under IFRS 13 'Fair value measurement'. The basis applied is summarised below:

	30 Jun 2016 £m				
	At fair value		Cost/ amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale			
Assets					
Intangible assets attributable to shareholders:					
Goodwill	-	-	1,488	1,488	
Deferred acquisition costs and other intangible assets	-	-	9,549	9,549	
Total	-	-	11,037	11,037	
Intangible assets attributable to with-profits funds:					
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	189	189	
Deferred acquisition costs and other intangible assets	-	-	45	45	
Total	-	-	234	234	
Total intangible assets	-	-	11,271	11,271	
Other non-investment and non-cash assets:					
Property, plant and equipment	-	-	1,214	1,214	
Reinsurers' share of insurance contract liabilities	-	-	9,470	9,470	
Deferred tax assets	-	-	3,771	3,771	
Current tax recoverable	-	-	554	554	
Accrued investment income	-	-	2,764	2,764	2,764
Other debtors	-	-	3,505	3,505	3,505
Total	-	-	21,278	21,278	
Investments of long-term business and other operations: note (ii)					
Investment properties	13,940	-	-	13,940	13,940
Investments accounted for using the equity method	-	-	1,135	1,135	
Loans	2,707	-	11,508	14,215	15,018
Equity securities and portfolio holdings in unit trusts	176,037	-	-	176,037	176,037
Debt securities	127,322	41,045	-	168,367	168,367
Other investments	10,340	-	-	10,340	10,340
Deposits	-	-	14,181	14,181	14,181
Total investments	330,346	41,045	26,824	398,215	
Assets held for sale	30	-	-	30	30
Cash and cash equivalents	-	-	8,530	8,530	8,530
Total assets	330,376	41,045	67,903	439,324	
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Insurance contract liabilities	-	-	296,873	296,873	
Investment contract liabilities with discretionary participation features note (iii)	-	-	46,286	46,286	
Investment contract liabilities without discretionary participation features	16,178	-	3,173	19,351	19,421
Unallocated surplus of with-profits funds	-	-	13,597	13,597	
Total	16,178	-	359,929	376,107	
Core structural borrowings of shareholder-financed operations	-	-	5,966	5,966	6,392
Other borrowings:					
Operational borrowings attributable to shareholder-financed operations	-	-	2,798	2,798	2,798
Borrowings attributable to with-profits operations	-	-	1,427	1,427	1,430
Other non-insurance liabilities:					
Obligations under funding, securities lending and sale and repurchase agreements	-	-	4,963	4,963	5,006
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	8,770	-	-	8,770	8,770
Deferred tax liabilities	-	-	5,397	5,397	
Current tax liabilities	-	-	566	566	
Accruals and deferred income	-	-	912	912	
Other creditors	375	-	6,145	6,520	6,520
Provisions	-	-	467	467	
Derivative liabilities	5,342	-	-	5,342	5,342
Other liabilities	2,616	-	2,867	5,483	5,483
Total	17,103	-	21,317	38,420	
Total liabilities	33,281	-	391,437	424,718	

	30 Jun 2015 £m				
	At fair value		Cost/ amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale			
Assets					
Intangible assets attributable to shareholders:					
Goodwill	-	-	1,461	1,461	
Deferred acquisition costs and other intangible assets	-	-	7,310	7,310	
Total	-	-	8,771	8,771	
Intangible assets attributable to with-profits funds:					
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	184	184	
Deferred acquisition costs and other intangible assets	-	-	49	49	
Total	-	-	233	233	
Total intangible assets	-	-	9,004	9,004	
Other non-investment and non-cash assets:					
Property, plant and equipment	-	-	984	984	
Reinsurers' share of insurance contract liabilities	-	-	7,259	7,259	
Deferred tax assets	-	-	2,820	2,820	
Current tax recoverable	-	-	220	220	
Accrued investment income	-	-	2,575	2,575	2,575
Other debtors	-	-	3,626	3,626	3,626
Total	-	-	17,484	17,484	
Investments of long-term business and other operations: note (ii)					
Investment properties	13,259	-	-	13,259	13,259
Investments accounted for using the equity method		-	962	962	
Loans	2,306	-	10,272	12,578	13,189
Equity securities and portfolio holdings in unit trusts	155,253	-	-	155,253	155,253
Debt securities	110,273	32,034	-	142,307	142,307
Other investments	7,713	-	-	7,713	7,713
Deposits	-	-	11,043	11,043	11,043
Total investments	288,804	32,034	22,277	343,115	
Cash and cash equivalents	-		8,298	8,298	8,298
Total assets	288,804	32,034	57,063	377,901	
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Insurance contract liabilities	-	-	254,417	254,417	
Investment contract liabilities with discretionary participation features note (iii)	-	-	39,795	39,795	
Investment contract liabilities without discretionary participation features	16,741	-	2,667	19,408	19,426
Unallocated surplus of with-profits funds	-	-	12,768	12,768	
Total	16,741	-	309,647	326,388	
Core structural borrowings of shareholder-financed operations	-	-	4,880	4,880	5,373
Other borrowings:					
Operational borrowings attributable to shareholder-financed operations	-	-	2,504	2,504	2,504
Borrowings attributable to with-profits operations	-	-	1,089	1,089	1,102
Other non-insurance liabilities:					
Obligations under funding, securities lending and sale and repurchase agreements	-	-	3,296	3,296	3,305
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	10,007	-	-	10,007	10,007
Deferred tax liabilities	-	-	4,325	4,325	
Current tax liabilities	-	-	393	393	
Accruals and deferred income	-	-	750	750	
Other creditors	322	-	5,193	5,515	5,515
Provisions	-	-	546	546	
Derivative liabilities	1,758	-	-	1,758	1,758
Other liabilities	2,204	-	2,141	4,345	4,345
Total	14,291	-	16,644	30,935	
Total liabilities	31,032	-	334,764	365,796	

	31 Dec 2015 £m				
	At fair value		**Cost/ amortised cost/ IFRS 4 basis value** note (i)	**Total carrying value**	**Fair value, where applicable**
	Through profit or loss	**Available-for-sale**			
Assets					
Intangible assets attributable to shareholders:					
Goodwill	-	-	1,463	1,463	
Deferred acquisition costs and other intangible assets	-	-	8,422	8,422	
Total	-	-	9,885	9,885	
Intangible assets attributable to with-profits funds:					
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	185	185	
Deferred acquisition costs and other intangible assets	-	-	50	50	
Total	-	-	235	235	
Total intangible assets	-	-	10,120	10,120	
Other non-investment and non-cash assets:					
Property, plant and equipment	-	-	1,197	1,197	
Reinsurers' share of insurance contract liabilities	-	-	7,903	7,903	
Deferred tax assets	-	-	2,819	2,819	
Current tax recoverable	-	-	477	477	
Accrued investment income	-	-	2,751	2,751	2,751
Other debtors	-	-	1,955	1,955	1,955
Total	-	-	17,102	17,102	
Investments of long-term business and other operations:note (ii)					
Investment properties	13,422	-	-	13,422	13,422
Investments accounted for using the equity method	-	-	1,034	1,034	
Loans	2,438	-	10,520	12,958	13,482
Equity securities and portfolio holdings in unit trusts	157,453	-	-	157,453	157,453
Debt securities	113,687	33,984	-	147,671	147,671
Other investments	7,353	-	-	7,353	7,353
Deposits	-	-	12,088	12,088	12,088
Total investments	294,353	33,984	23,642	351,979	
Assets held for sale	2	-	-	2	2
Cash and cash equivalents	-	-	7,782	7,782	7,782
Total assets	294,355	33,984	58,646	386,985	
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Insurance contract liabilities	-	-	260,622	260,622	
Investment contract liabilities with discretionary participation features note (iii)	-	-	42,959	42,959	
Investment contract liabilities without discretionary participation features	16,022	-	2,784	18,806	18,842
Unallocated surplus of with-profits funds	-	-	13,227	13,227	
Total	16,022	-	319,592	335,614	
Core structural borrowings of shareholder-financed operations	-	-	5,011	5,011	5,419
Other borrowings:					
Operational borrowings attributable to shareholder-financed operations	-	-	1,960	1,960	1,960
Borrowings attributable to with-profits operations	-	-	1,332	1,332	1,344
Other non-insurance liabilities:					
Obligations under funding, securities lending and sale and repurchase agreements	-	-	3,765	3,765	3,775
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	7,873	-	-	7,873	7,873
Deferred tax liabilities	-	-	4,010	4,010	
Current tax liabilities	-	-	325	325	
Accruals and deferred income	-	-	952	952	
Other creditors	322	-	4,554	4,876	4,876
Provisions	-	-	604	604	
Derivative liabilities	3,119	-	-	3,119	3,119
Other liabilities	2,347	-	2,241	4,588	4,588
Total	13,661	-	16,451	30,112	
Total liabilities	29,683	-	344,346	374,029	

Notes

(i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.

(ii) Realised gains and losses on the Group's investments for half year 2016 recognised in the income statement amounted to a net loss of £1.2 billion (30 June 2015: net gain of £1.8 billion; 31 December 2015: net gain of £3.0 billion).

(iii) The carrying value of investment contracts with discretionary participation features is determined on an IFRS 4 basis. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis on which to measure the participation features.

C3.2 Group assets and liabilities – measurement

(a) Determination of fair value

The fair values of the assets and liabilities of the Group have been determined on the following bases.

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third parties, such as brokers and pricing services or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third parties or valued internally using standard market practices.

The loans and receivables have been shown net of provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest where applicable.

The fair value of investment properties is based on market values as assessed by professionally qualified external valuers or by the Group's qualified surveyors.

The fair value of the subordinated and senior debt issued by the parent company is determined using the quoted prices from independent third parties.

The fair value of financial liabilities (other than derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

(b) Fair value hierarchy of financial instruments measured at fair value on recurring basis

The table below shows the financial instruments carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

	30 Jun 2016 £m			
	Level 1	**Level 2**	**Level 3**	
Analysis of financial investments, net of derivative liabilities by business type	**Quoted prices (unadjusted) in active markets**	**Valuation based on significant observable market inputs**	**Valuation based on significant unobservable market inputs**	**Total**
With-profits				
Equity securities and portfolio holdings in unit trusts	**38,596**	**3,969**	**630**	**43,195**
Debt securities	**24,430**	**42,741**	**662**	**67,833**
Other investments (including derivative assets)	**103**	**3,157**	**3,674**	**6,934**
Derivative liabilities	**(192)**	**(2,536)**	**-**	**(2,728)**
Total financial investments, net of derivative liabilities	**62,937**	**47,331**	**4,966**	**115,234**
Percentage of total	**55%**	**41%**	**4%**	**100%**
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	**130,977**	**401**	**27**	**131,405**
Debt securities	**4,956**	**5,059**	**-**	**10,015**
Other investments (including derivative assets)	**11**	**38**	**5**	**54**
Derivative liabilities	**(19)**	**(51)**	**-**	**(70)**
Total financial investments, net of derivative liabilities	**135,925**	**5,447**	**32**	**141,404**
Percentage of total	**96%**	**4%**	**0%**	**100%**
Non-linked shareholder-backed				
Loans	**-**	**259**	**2,448**	**2,707**
Equity securities and portfolio holdings in unit trusts	**1,402**	**1**	**34**	**1,437**
Debt securities	**23,379**	**66,823**	**317**	**90,519**
Other investments (including derivative assets)	**-**	**2,369**	**983**	**3,352**
Derivative liabilities	**-**	**(2,064)**	**(480)**	**(2,544)**
Total financial investments, net of derivative liabilities	**24,781**	**67,388**	**3,302**	**95,471**
Percentage of total	**26%**	**71%**	**3%**	**100%**
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	**-**	**259**	**2,448**	**2,707**
Equity securities and portfolio holdings in unit trusts	**170,975**	**4,371**	**691**	**176,037**
Debt securities	**52,765**	**114,623**	**979**	**168,367**
Other investments (including derivative assets)	**114**	**5,564**	**4,662**	**10,340**
Derivative liabilities	**(211)**	**(4,651)**	**(480)**	**(5,342)**
Total financial investments, net of derivative liabilities	**223,643**	**120,166**	**8,300**	**352,109**
Investment contracts liabilities without discretionary participation features held at fair value	**-**	**(16,178)**	**-**	**(16,178)**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(5,275)**	**(2,427)**	**(1,068)**	**(8,770)**
Other financial liabilities held at fair value	**-**	**(375)**	**(2,616)**	**(2,991)**
Total financial instruments at fair value	**218,368**	**101,186**	**4,616**	**324,170**
Percentage of total	**67%**	**31%**	**2%**	**100%**

* Loans in the table above are those classified as fair value through profit and loss in note C3.1.

Analysis of financial investments, net of derivative liabilities by business type	30 Jun 2015 £m Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Total
With-profits				
Equity securities and portfolio holdings in unit trusts	36,488	2,650	623	39,761
Debt securities	16,988	41,635	361	58,984
Other investments (including derivative assets)	26	2,255	3,269	5,550
Derivative liabilities	(29)	(565)	-	(594)
Total financial investments, net of derivative liabilities	53,473	45,975	4,253	103,701
Percentage of total	52%	44%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	113,797	344	9	114,150
Debt securities	4,300	5,558	-	9,858
Other investments (including derivative assets)	1	70	4	75
Derivative liabilities	-	(18)	-	(18)
Total financial investments, net of derivative liabilities	118,098	5,954	13	124,065
Percentage of total	95%	5%	0%	100%
Non-linked shareholder-backed				
Loans	-	267	2,039	2,306
Equity securities and portfolio holdings in unit trusts	1,182	125	35	1,342
Debt securities	15,170	58,099	196	73,465
Other investments (including derivative assets)	-	1,310	778	2,088
Derivative liabilities	-	(810)	(336)	(1,146)
Total financial investments, net of derivative liabilities	16,352	58,991	2,712	78,055
Percentage of total	21%	76%	3%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	-	267	2,039	2,306
Equity securities and portfolio holdings in unit trusts	151,467	3,119	667	155,253
Debt securities	36,458	105,292	557	142,307
Other investments (including derivative assets)	27	3,635	4,051	7,713
Derivative liabilities	(29)	(1,393)	(336)	(1,758)
Total financial investments, net of derivative liabilities	187,923	110,920	6,978	305,821
Investment contracts liabilities without discretionary participation features held at fair value	(22)	(16,719)	-	(16,741)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(8,559)	(45)	(1,403)	(10,007)
Other financial liabilities held at fair value	-	(322)	(2,204)	(2,526)
Total financial instruments at fair value	179,342	93,834	3,371	276,547
Percentage of total	65%	34%	1%	100%

* Loans in the table above are those classified as fair value through profit and loss in note C3.1.

Analysis of financial investments, net of derivative liabilities by business type	31 Dec 2015 £m Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Total
With-profits				
Equity securities and portfolio holdings in unit trusts	35,441	3,200	554	39,195
Debt securities	20,312	40,033	525	60,870
Other investments (including derivative assets)	85	1,589	3,371	5,045
Derivative liabilities	(110)	(1,526)	-	(1,636)
Total financial investments, net of derivative liabilities	55,728	43,296	4,450	103,474
Percentage of total	54%	42%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	116,691	354	22	117,067
Debt securities	4,350	4,940	-	9,290
Other investments (including derivative assets)	5	20	4	29
Derivative liabilities	(2)	(16)	-	(18)
Total financial investments, net of derivative liabilities	121,044	5,298	26	126,368
Percentage of total	96%	4%	0%	100%
Non-linked shareholder-backed				
Loans	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	1,150	10	31	1,191
Debt securities	17,767	59,491	253	77,511
Other investments (including derivative assets)	-	1,378	901	2,279
Derivative liabilities	-	(1,112)	(353)	(1,465)
Total financial investments, net of derivative liabilities	18,917	60,022	3,015	81,954
Percentage of total	23%	73%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans*	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	153,282	3,564	607	157,453
Debt securities	42,429	104,464	778	147,671
Other investments (including derivative assets)	90	2,987	4,276	7,353
Derivative liabilities	(112)	(2,654)	(353)	(3,119)
Total financial investments, net of derivative liabilities	195,689	108,616	7,491	311,796
Investment contracts liabilities without discretionary participation features held at fair value	-	(16,022)	-	(16,022)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,782)	(1,055)	(1,036)	(7,873)
Other financial liabilities held at fair value	-	(322)	(2,347)	(2,669)
Total financial instruments at fair value	189,907	91,217	4,108	285,232
Percentage of total	67%	32%	1%	100%

* Loans in the table above are those classified as fair value through profit and loss in note C3.1.

(c) Valuation approach for level 2 fair valued financial instruments

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades. For further detail on the valuation approach for level 2 fair valued financial instruments please refer to note C3.2 of the Group's consolidated financial statements for the year ended 31 December 2015.

Of the total level 2 debt securities of £114,623 million at 30 June 2016 (30 June 2015: £105,292 million; 31 December 2015: £104,464 million), £11,867 million are valued internally (30 June 2015: £10,190 million; 31 December 2015: £10,331 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d) Fair value measurements for level 3 fair valued financial instruments

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 fair valued financial instruments at 1 January 2016 to that presented at 30 June 2016.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments.

Total gains and losses recorded in other comprehensive income includes unrealised gains and losses on debt securities held as available-for-sale within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

Half year 2016	£m At 1 Jan 2016	Total gains (losses) in income statement	Total gains (losses) recorded in other compre-hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun 2016
Loans	**2,183**	**79**	**227**	**-**	**-**	**(64)**	**23**	**-**	**-**	**2,448**
Equity securities and portfolio holdings in unit trusts	**607**	**(13)**	**11**	**81**	**(4)**	**-**	**-**	**9**	**-**	**691**
Debt securities	**778**	**66**	**7**	**120**	**(17)**	**-**	**-**	**30**	**(5)**	**979**
Other investments (including derivative assets)	**4,276**	**184**	**265**	**377**	**(473)**	**-**	**-**	**33**	**-**	**4,662**
Derivative liabilities	**(353)**	**(127)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(480)**
Total financial investments, net of derivative liabilities	**7,491**	**189**	**510**	**578**	**(494)**	**(64)**	**23**	**72**	**(5)**	**8,300**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**(1,036)**	**24**	**(2)**	**-**	**1**	**62**	**(117)**	**-**	**-**	**(1,068)**
Other financial liabilities	**(2,347)**	**(84)**	**(243)**	**-**	**-**	**99**	**(41)**	**-**	**-**	**(2,616)**
Total financial instruments at fair value	**4,108**	**129**	**265**	**578**	**(493)**	**97**	**(135)**	**72**	**(5)**	**4,616**

Half year 2015	At 1 Jan 2015	Total gains (losses) in income statement	Total gains (losses) recorded in other compre-hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun 2015
Loans	2,025	72	(18)	-	-	(64)	24	-	-	2,039
Equity securities and portfolio holdings in unit trusts	747	45	(1)	23	(148)	-	-	1	-	667
Debt securities	790	(66)	-	33	(245)	-	-	46	(1)	557
Other investments (including derivative assets)	4,028	114	(77)	271	(285)	-	-	-	-	4,051
Derivative liabilities	(338)	2	-	-	-	-	-	-	-	(336)
Total financial investments, net of derivative liabilities	7,252	167	(96)	327	(678)	(64)	24	47	(1)	6,978
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,291)	(32)	-	(4)	22	24	(122)	-	-	(1,403)
Other financial liabilities	(2,201)	(85)	19	-	-	113	(50)	-	-	(2,204)
Total financial instruments at fair value	3,760	50	(77)	323	(656)	73	(148)	47	(1)	3,371

Full year 2015	At 1 Jan 2015	Total gains (losses) in income statement	Total gains (losses) recorded in other compre-hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 Dec 2015
Loans	2,025	2	119	-	-	(168)	205	-	-	2,183
Equity securities and portfolio holdings in unit trusts	747	52	3	32	(143)	-	-	4	(88)	607
Debt securities	790	(75)	1	243	(259)	-	-	82	(4)	778
Other investments (including derivative assets)	4,028	213	68	547	(700)	-	-	120	-	4,276
Derivative liabilities	(338)	(15)	-	-	-	-	-	-	-	(353)
Total financial investments, net of derivative liabilities	7,252	177	191	822	(1,102)	(168)	205	206	(92)	7,491
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,291)	(160)	(1)	(5)	9	412	-	-	-	(1,036)
Other financial liabilities	(2,201)	(3)	(128)	-	-	218	(233)	-	-	(2,347)
Total financial instruments at fair value	3,760	14	62	817	(1,093)	462	(28)	206	(92)	4,108

Of the total net gains and losses in the income statement of £129 million (30 June 2015: £50 million; 31 December 2015: £14 million), £92 million (30 June 2015: £131 million; 31 December 2015: £67 million) relates to net unrealised gains relating to financial instruments still held at the end of the period, which can be analysed as follows:

	2016 £m	2015 £m	
	30 Jun	**30 Jun**	**31 Dec**
Equity securities	**(14)**	38	94
Debt securities	**65**	(2)	(12)
Other investments	**149**	125	160
Derivative liabilities	**(127)**	2	(15)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**23**	(32)	(160)
Other financial liabilities	**(4)**	-	-
Total	**92**	131	67

Valuation approach for level 3 fair valued financial instruments

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions eg market illiquidity. The valuation techniques used include comparison to recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation. For further detail on the valuation approach for level 3 fair valued financial instruments, please refer to note C3.2 of the Group's consolidated financial statements for the year ended 31 December 2015.

At 30 June 2016 the Group held £4,616 million (30 June 2015: £3,371 million; 31 December 2015: £4,108 million) of net financial instruments at fair value within level 3. This represents 1 per cent (30 June 2015: 1 per cent; 31 December 2015: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

Included within these amounts were loans of £2,448 million at 30 June 2016 (30 June 2015: £2,039 million; 31 December 2015: £2,183 million), measured as the loan outstanding balance attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,616 million at 30 June 2016 (30 June 2015: £2,204 million; 31 December 2015: £2,347 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(168) million (30 June 2015: £(165) million; 31 December 2015: £(164) million), the level 3 fair valued financial assets net of financial liabilities were £4,784 million (30 June 2015: £3,536 million; 31 December 2015: £4,272 million). Of this amount, a net asset of £47 million (30 June 2015: net liability of £(378) million; 31 December 2015: net liability of £(77) million) was internally valued, representing 0.0 per cent of the total fair valued financial assets net of financial liabilities (30 June 2015: 0.1 per cent; 31 December 2015: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net liabilities were:

(a) Debt securities of £463 million (30 June 2015: £251 million; 31 December 2015: £381 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
(b) Private equity and venture investments of £1,038 million (30 June 2015: £715 million; 31 December 2015: £852 million) which were valued internally based on management information available for these investments. These investments, in the form of debt and equity securities, were principally held by consolidated investment funds which are managed on behalf of third parties.
(c) Liabilities of £(1,045) million (30 June 2015: £(1,379) million; 31 December 2015: £(1,013) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
(d) Derivative liabilities of £(480) million (30 June 2015: £(28) million; 31 December 2015: £(353) million) which are valued internally using standard market practices but are subject to independent assessment against counterparties' valuations.
(e) Other sundry individual financial investments of £71 million (30 June 2015: £63 million; 31 December 2015: £56 million).

Of the internally valued net asset referred to above of £47 million (30 June 2015: net liability of £(378) million; 31 December 2015: net liability of £(77) million):

(a) A net asset of £303 million (30 June 2015: net liability of £(525) million; 31 December 2015: net asset of £29 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.
(b) A net liability of £(256) million (30 June 2015: net asset of £147 million; 31 December 2015: net liability of £(106) million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £26 million (30 June 2015: £(15) million; 31 December 2015: £(11) million), which would increase / (reduce) shareholders' equity by this amount before tax. Of this amount, an increase of £26 million (30 June 2015: a decrease of £14 million; 31 December 2015: a decrease of £10 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £nil (30 June 2015: a decrease of £1 million; 31 December 2015: a decrease of £1 million) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

(e) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

During half year 2016, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £425 million and transfers from level 2 to level 1 of £155 million. These transfers, which primarily relate to debt securities, arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, the transfers into and out of level 3 in half year 2016 were £72 million and £5 million, respectively. These transfers were primarily between levels 3 and 2 for debt securities and other investments.

(f) Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by business unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions.

C3.3 Debt securities

This note provides analysis of the Group's debt securities, including asset-backed securities and sovereign debt securities, by segment.

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 30 June 2016 provided in the notes below.

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Insurance operations:			
Asia note (a)	**35,519**	24,366	28,292
US note (b)	**41,143**	32,117	34,071
UK note (c)	**89,114**	83,876	83,101
Other operations note (d)	**2,591**	1,948	2,207
Total	**168,367**	142,307	147,671

In the tables below, with the exception of some mortgage-backed securities, Standard & Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

(a) Asia insurance operations

	2016 £m				2015 £m	
	With-profits business	Unit-linked assets	Other business	30 Jun Total	30 Jun Total	31 Dec Total
S&P – AAA	**1,472**	**38**	**307**	**1,817**	1,060	1,039
S&P – AA+ to AA-	**7,586**	**449**	**1,517**	**9,552**	6,111	7,620
S&P – A+ to A-	**2,601**	**418**	**2,731**	**5,750**	4,308	3,914
S&P – BBB+ to BBB-	**2,649**	**656**	**1,595**	**4,900**	3,881	4,133
S&P – Other	**1,848**	**241**	**1,447**	**3,536**	1,926	3,183
	16,156	**1,802**	**7,597**	**25,555**	17,286	19,889
Moody's – Aaa	**839**	**238**	**436**	**1,513**	1,367	1,032
Moody's – Aa1 to Aa3	**150**	**18**	**1,483**	**1,651**	1,224	1,492
Moody's – A1 to A3	**461**	**83**	**179**	**723**	414	743
Moody's – Baa1 to Baa3	**295**	**595**	**330**	**1,220**	560	790
Moody's – Other	**63**	**5**	**3**	**71**	85	98
	1,808	**939**	**2,431**	**5,178**	3,650	4,155
Fitch	**725**	**186**	**466**	**1,377**	836	1,412
Other	**1,889**	**500**	**1,020**	**3,409**	2,594	2,836
Total debt securities	**20,578**	**3,427**	**11,514**	**35,519**	24,366	28,292

The following table analyses other debt securities within other business which are not externally rated by S&P, Moody's or Fitch.

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Government bonds*	**207**	208	162
Corporate bonds*	**582**	578	481
Other	**231**	155	301
	1,020	941	944

* Rated as investment grade by local external ratings agencies.

(b) US insurance operations
(i) Overview

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Corporate and government security and commercial loans:			
Government	**7,151**	3,885	4,242
Publicly traded and SEC Rule 144A securities*	**24,894**	20,511	21,776
Non-SEC Rule 144A securities	**4,302**	3,548	3,733
Total	**36,347**	27,944	29,751
Residential mortgage-backed securities (RMBS)	**1,267**	1,370	1,284
Commercial mortgage-backed securities (CMBS)	**2,635**	2,212	2,403
Other debt securities	**894**	591	633
Total US debt securities**	**41,143**	32,117	34,071

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.

** Debt securities for US operations included in the statement of financial position comprise:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Available-for-sale	**41,045**	32,034	33,984
Fair value through profit and loss:			
Securities held to back liabilities for funds withheld under reinsurance arrangement	**98**	83	87
	41,143	32,117	34,071

(ii) Valuation basis, presentation of gains and losses and securities in an unrealised loss position

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables', debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally-quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 13 requires classification of the fair values applied by the Group into a three-level hierarchy. At 30 June 2016, less than 0.1 per cent of Jackson's debt securities were classified as level 3 (30 June 2015: 0.1 per cent; 31 December 2015: 0.1 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

Except for certain assets covering liabilities that are measured at fair value, the debt securities of the US insurance operations are classified as 'available-for-sale'. Unless impaired, fair value movements are recognised in other comprehensive income. Realised gains and losses, including impairments, recorded in the income statement are as shown in note B1.2 of this report.

Movements in unrealised gains and losses

There was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £592 million to a net unrealised gain of £2,923 million as analysed in the table below. This increase reflects the effects of lower market interest rates.

	30 Jun 2016 £m	Changes in unrealised appreciation	Foreign exchange translation**	31 Dec 2015 £m
		Reflected as part of movement in other comprehensive income		
Assets fair valued at below book value				
Book value*	**2,307**			13,163
Unrealised (loss) gain	**(119)**	**581**	**(27)**	(673)
Fair value (as included in statement of financial position)	**2,188**			12,490
Assets fair valued at or above book value				
Book value*	**35,815**			20,229
Unrealised gain	**3,042**	**1,537**	**240**	1,265
Fair value (as included in statement of financial position)	**38,857**			21,494
Total				
Book value*	**38,122**			33,392
Net unrealised gain	**2,923**	**2,118**	**213**	592
Fair value (as included in statement of financial position)	**41,045**			33,984

The available-for-sale debt securities of Jackson are analysed into US Treasuries and other debt securities as follows:

US Treasuries				
Book value*	**5,562**			3,477
Net unrealised gain	**732**	**627**	**51**	54
Fair value	**6,294**			3,531
Other debt securities				
Book value*	**32,560**			29,915
Net unrealised gain	**2,191**	**1,491**	**162**	538
Fair value	**34,751**			30,453
Total debt securities				
Book value*	**38,122**			33,392
Net unrealised gain	**2,923**	**2,118**	**213**	592
Fair value	**41,045**			33,984

* Book value represents cost/amortised cost of the debt securities.
** Translated at the average rate of US$1.4329: £1.00.

Debt securities classified as available-for-sale in an unrealised loss position

(a) Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	30 Jun 2016 £m		30 Jun 2015 £m		31 Dec 2015 £m	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
Between 90% and 100%	**1,848**	**(51)**	8,998	(294)	11,058	(320)
Between 80% and 90%	**304**	**(52)**	796	(109)	902	(144)
Below 80%:						
Residential mortgage-backed securities (sub-prime)	**-**	**-**	4	(1)	4	(1)
Commercial mortgage-backed securities	**8**	**(3)**	10	(3)	-	-
Other asset-backed securities	**9**	**(7)**	9	(6)	9	(7)
Corporates	**19**	**(6)**	38	(11)	517	(201)
	36	**(16)**	61	(21)	530	(209)
Total	**2,188**	**(119)**	9,855	(424)	12,490	(673)

(b) Unrealised losses by maturity of security

	2016 £m	2015 £m	
	30 Jun	**30 Jun**	**31 Dec**
1 year to 5 years	**(10)**	(8)	(51)
5 years to 10 years	**(38)**	(139)	(334)
More than 10 years	**(42)**	(245)	(247)
Mortgage-backed and other debt securities	**(29)**	(32)	(41)
Total	**(119)**	(424)	(673)

(c) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	30 Jun 2016 £m			30 Jun 2015 £m			31 Dec 2015 £m		
	Non-investment grade	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	**(2)**	**(5)**	**(7)**	(9)	(314)	(323)	(13)	(148)	(161)
6 months to 1 year	**(4)**	**(8)**	**(12)**	(14)	(25)	(39)	(17)	(332)	(349)
1 year to 2 years	**(14)**	**(46)**	**(60)**	(2)	(1)	(3)	(16)	(63)	(79)
2 years to 3 years	**-**	**-**	**-**	(2)	(39)	(41)	(3)	(38)	(41)
More than 3 years	**(3)**	**(37)**	**(40)**	(7)	(11)	(18)	(3)	(40)	(43)
Total	**(23)**	**(96)**	**(119)**	(34)	(390)	(424)	(52)	(621)	(673)

The following table shows the age analysis as at 30 June 2016 of the securities whose fair values were below 80 per cent of the book value:

	30 Jun 2016 £m		30 Jun 2015 £m		31 Dec 2015 £m	
Age analysis	Fair value	Unrealised loss	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	**2**	**-**	35	(9)	450	(165)
3 months to 6 months	**19**	**(6)**	4	(2)	64	(34)
More than 6 months	**15**	**(10)**	22	(10)	16	(10)
	36	**(16)**	61	(21)	530	(209)

(iii) Ratings

The following table summarises the ratings of securities detailed above by using S&P, Moody's, Fitch and implicit ratings of mortgage-backed securities based on National Association of Insurance Commissioners (NAIC) valuations:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
S&P – AAA	**251**	145	196
S&P – AA+ to AA-	**6,124**	5,216	5,512
S&P – A+ to A-	**9,958**	8,462	8,592
S&P – BBB+ to BBB-	**13,067**	10,345	11,378
S&P – Other	**877**	876	817
	30,277	25,044	26,495
Moody's – Aaa	**3,455**	218	963
Moody's – Aa1 to Aa3	**54**	30	41
Moody's – A1 to A3	**51**	35	49
Moody's – Baa1 to Baa3	**83**	72	88
Moody's – Other	**9**	7	13
	3,652	362	1,154
Implicit ratings of MBS based on NAIC* valuations (see below)			
NAIC 1	**2,851**	2,416	2,746
NAIC 2	**39**	57	45
NAIC 3-6	**10**	46	17
	2,900	2,519	2,808
Fitch	**426**	300	345
Other **	**3,888**	3,892	3,269
Total debt securities	**41,143**	32,117	34,071

* The Securities Valuation Office of the NAIC classifies debt securities into six quality categories range from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.

**The amounts within 'Other' which are neither rated by S&P, Moody's nor Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
NAIC 1	**1,925**	2,177	1,588
NAIC 2	**1,829**	1,601	1,549
NAIC 3-6	**134**	114	132
	3,888	3,892	3,269

For some mortgage-backed securities within Jackson, the table above includes these securities using the regulatory ratings detail issued by the NAIC. These regulatory ratings levels were established by external third parties (PIMCO for residential mortgage-backed securities and BlackRock Solutions for commercial mortgage-backed securities).

(c) UK insurance operations

	£m							
			Other funds and subsidiaries			UK insurance operations		
	Scottish Amicable Insurance Fund	PAC with-profits fund	Unit-linked assets	PRIL	Other annuity and long-term business	30 Jun 2016 Total	30 Jun 2015 Total	31 Dec 2015 Total
S&P – AAA	**141**	**3,343**	**308**	**3,160**	**493**	**7,445**	9,302	9,577
S&P – AA+ to AA-	**406**	**6,139**	**1,478**	**5,619**	**710**	**14,352**	10,686	11,442
S&P – A+ to A-	**496**	**8,705**	**1,117**	**7,003**	**807**	**18,128**	19,428	16,439
S&P – BBB+ to BBB-	**582**	**11,794**	**1,927**	**3,488**	**684**	**18,475**	17,059	18,088
S&P – Other	**137**	**2,615**	**324**	**333**	**60**	**3,469**	2,905	2,990
	1,762	**32,596**	**5,154**	**19,603**	**2,754**	**61,869**	59,380	58,536
Moody's – Aaa	**33**	**1,382**	**96**	**477**	**60**	**2,048**	2,169	1,817
Moody's – Aa1 to Aa3	**58**	**2,805**	**1,008**	**4,070**	**998**	**8,939**	6,589	7,727
Moody's – A1 to A3	**50**	**934**	**101**	**1,590**	**198**	**2,873**	2,698	2,738
Moody's – Baa1 to Baa3	**28**	**606**	**108**	**329**	**40**	**1,111**	1,356	1,031
Moody's – Other	**2**	**213**	**-**	**23**	**1**	**239**	650	318
	171	**5,940**	**1,313**	**6,489**	**1,297**	**15,210**	13,462	13,631
Fitch	**13**	**294**	**24**	**160**	**14**	**505**	744	552
Other	**181**	**6,298**	**97**	**4,520**	**434**	**11,530**	10,290	10,382
Total debt securities*	**2,127**	**45,128**	**6,588**	**30,772**	**4,499**	**89,114**	83,876	83,101

* In the table above, Moody's ratings have been used for the UK sovereign debt securities.

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £11,530 million total debt securities held at 30 June 2016 (30 June 2015: £10,290 million; 31 December 2015: £10,382 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Internal ratings or unrated:			
AAA to A-	**6,584**	5,306	5,570
BBB to B-	**3,284**	3,592	3,234
Below B- or unrated	**1,662**	1,392	1,578
Total	**11,530**	10,290	10,382

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £4,954 million for PRIL and other annuity and long-term business investments for non-linked shareholder-backed business which are not externally rated, £1,571 million were internally rated AA+ to AA-, £2,152 million A+ to A-, £1,077 million BBB+ to BBB-, £44 million BB+ to BB- and £110 million were internally rated B+ and below or unrated.

(d) Other operations

The total debt securities shown in the table below are principally held by Prudential Capital.

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
AAA to A- by S&P or equivalent ratings	**2,475**	1,821	2,090
Other	**116**	127	117
Total	**2,591**	1,948	2,207

(e) Asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, at 30 June 2016 are as follows:

	2016 £m	2015 £m	
	30 Jun	**30 Jun**	**31 Dec**
Shareholder-backed operations:			
Asia insurance operations note (i)	**151**	115	111
US insurance operations note (ii)	**4,796**	4,173	4,320
UK insurance operations (2016: 25% AAA, 39% AA) note (iii)	**1,445**	1,938	1,531
Asset management operations note (iv)	**963**	712	911
	7,355	6,938	6,873
With-profits operations:			
Asia insurance operations note (i)	**310**	286	262
UK insurance operations (2016: 50% AAA, 19% AA) note (iii)	**4,558**	5,019	4,600
	4,868	5,305	4,862
Total	**12,223**	12,243	11,735

Notes

(i) Asia insurance operations

The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £310 million, 99 per cent (30 June 2015: 100 per cent; 31 December 2015: 84 per cent) are investment grade.

(ii) US insurance operations

US insurance operations' exposure to asset-backed securities at 30 June 2016 comprises:

	2016 £m	2015 £m	
	30 Jun	**30 Jun**	**31 Dec**
RMBS			
Sub-prime (2016: 3% AAA, 14% AA, 4% A)	**185**	201	191
Alt-A (2016: 0% AA, 3% A)	**178**	216	191
Prime including agency (2016: 78% AA, 2% A)	**904**	953	902
CMBS (2016: 63% AAA, 30% AA, 6% A)	**2,635**	2,212	2,403
CDO funds (2016: 44% AAA, 4% AA, 20% A), including £nil exposure to sub-prime	**55**	45	52
Other ABS (2016: 20% AAA, 16% AA, 55% A), including £116 million exposure to sub-prime	**839**	546	581
Total	**4,796**	4,173	4,320

(iii) UK insurance operations

The majority of holdings of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. Of the holdings of the with-profits operations, £1,332 million (30 June 2015: £1,358 million; 31 December 2015: £1,140 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(iv) Asset management operations

Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £963 million, 95 per cent (30 June 2015: 90 per cent; 31 December 2015: 95 per cent) are graded AAA.

(f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 30 June 2016:

Exposure to sovereign debts

	£m					
	30 Jun 2016		30 Jun 2015		31 Dec 2015	
	Shareholder-backed business	**With-profits funds**	**Shareholder-backed business**	**With-profits funds**	**Shareholder-backed business**	**With-profits funds**
Italy	**58**	**63**	55	60	55	60
Spain	**35**	**18**	1	17	1	17
France	**22**	**-**	18	-	19	-
Germany*	**546**	**348**	347	330	409	358
Other Europe (principally Belgium)	**84**	**32**	5	28	62	44
Total Eurozone	**745**	**461**	426	435	546	479
United Kingdom	**5,720**	**2,431**	3,735	1,963	4,997	1,802
United States**	**6,881**	**8,354**	3,522	5,429	3,911	6,893
Other, predominantly Asia	**4,081**	**2,073**	2,890	1,682	3,368	1,737
Total	**17,427**	**13,319**	10,573	9,509	12,822	10,911

* Including bonds guaranteed by the federal government.

** The exposure to the United States sovereign debt comprises holdings of Jackson, the UK and Asia insurance operations. Jackson accounts for £6,294 million of this total (30 June 2015: £3,227 million, 31 December 2015: £3,531 million)

Exposure to bank debt securities

	2016 £m							2015 £m	
	Senior debt			Subordinated debt					
Shareholder-backed business	**Covered**	**Senior**	**Total senior debt**	**Tier 1**	**Tier 2**	**Total subordinated debt**	**30 Jun Total**	**30 Jun Total**	**31 Dec Total**
Italy	**-**	**31**	**31**	**-**	**-**	**-**	**31**	29	30
Spain	**148**	**11**	**159**	**-**	**-**	**-**	**159**	155	154
France	**28**	**122**	**150**	**-**	**74**	**74**	**224**	245	226
Germany	**46**	**4**	**50**	**-**	**74**	**74**	**124**	124	130
Netherlands	**-**	**28**	**28**	**-**	**11**	**11**	**39**	108	31
Other Eurozone	**-**	**20**	**20**	**-**	**12**	**12**	**32**	35	31
Total Eurozone	**222**	**216**	**438**	**-**	**171**	**171**	**609**	696	602
United Kingdom	**518**	**280**	**798**	**9**	**311**	**320**	**1,118**	1,131	957
United States	**-**	**2,420**	**2,420**	**5**	**226**	**231**	**2,651**	2,423	2,457
Other, predominantly Asia	**17**	**481**	**498**	**78**	**465**	**543**	**1,041**	712	718
Total	**757**	**3,397**	**4,154**	**92**	**1,173**	**1,265**	**5,419**	4,962	4,734
With-profits funds									
Italy	**-**	**64**	**64**	**-**	**-**	**-**	**64**	62	57
Spain	**154**	**65**	**219**	**-**	**-**	**-**	**219**	203	182
France	**7**	**161**	**168**	**41**	**65**	**106**	**274**	242	250
Germany	**96**	**16**	**112**	**-**	**-**	**-**	**112**	128	111
Netherlands	**-**	**187**	**187**	**6**	**7**	**13**	**200**	217	205
Other Eurozone	**-**	**30**	**30**	**-**	**-**	**-**	**30**	35	35
Total Eurozone	**257**	**523**	**780**	**47**	**72**	**119**	**899**	887	840
United Kingdom	**528**	**464**	**992**	**65**	**475**	**540**	**1,532**	1,575	1,351
United States	**-**	**1,582**	**1,582**	**124**	**272**	**396**	**1,978**	1,963	1,796
Other, predominantly Asia	**282**	**845**	**1,127**	**235**	**413**	**648**	**1,775**	1,545	1,656
Total	**1,067**	**3,414**	**4,481**	**471**	**1,232**	**1,703**	**6,184**	5,970	5,643

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

C3.4 Loans portfolio

Loans are principally accounted for at amortised cost, net of impairment. The exceptions include:
- Certain mortgage loans which have been designated at fair value through profit or loss of the UK insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and
- Certain policy loans of the US insurance operations which are held to back liabilities for funds withheld under a reinsurance arrangement and are also accounted on a fair value basis.

The amounts included in the statement of financial position are analysed as follows:

	2016 £m	2015 £m	
	30 Jun	**30 Jun**	**31 Dec**
Insurance operations:			
Asia[note (a)]	**1,278**	1,009	1,084
US[note (b)]	**8,504**	6,798	7,418
UK[note (c)]	**3,616**	3,845	3,571
Asset management operations[note (d)]	**817**	926	885
Total	**14,215**	12,578	12,958

(a) Asia insurance operations

The loans of the Group's Asia insurance operations comprise:

	2016 £m	2015 £m	
	30 Jun	**30 Jun**	**31 Dec**
Mortgage loans[‡]	**156**	105	130
Policy loans[‡]	**833**	676	721
Other loans[‡‡]	**289**	228	233
Total	**1,278**	1,009	1,084

‡ The mortgage and policy loans are secured by properties and life insurance policies respectively.
‡‡ Other loans include commercial loans held by the Malaysia operation and which are all rated as investment grade by two local rating agencies.

(b) US insurance operations

The loans of the Group's US insurance operations comprise:

	30 Jun 2016 £m			30 Jun 2015 £m			31 Dec 2015 £m		
	Loans backing liabilities for funds withheld	**Other loans**	**Total**	**Loans backing liabilities for funds withheld**	**Other loans**	**Total**	**Loans backing liabilities for funds withheld**	**Other loans**	**Total**
Mortgage loans[†]	**-**	**5,109**	**5,109**	-	3,933	3,933	-	4,367	4,367
Policy loans[††]	**2,448**	**947**	**3,395**	2,039	826	2,865	2,183	868	3,051
Total	**2,448**	**6,056**	**8,504**	2,039	4,759	6,798	2,183	5,235	7,418

† All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are industrial, multi-family residential, suburban office, retail and hotel.
†† The policy loans are secured by individual life insurance policies or annuity policies. Included within the policy loans are those accounted for at fair value through profit and loss to back liabilities for funds withheld under reinsurance. All other policy loans are accounted for at amortised cost, less any impairment.

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £10.2 million (30 June 2015: £7.7 million; 31 December 2015: £8.6 million). The portfolio has a current estimated average loan to value of 59 per cent (30 June 2015: 57 per cent; 31 December 2015: 59 per cent).

At 30 June 2016, Jackson had no mortgage loans where the contractual terms of the agreements had been restructured (30 June 2015 and 31 December 2015: none).

(c) UK insurance operations

The loans of the Group's UK insurance operations comprise:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
SAIF and PAC WPSF			
Mortgage loans†	**719**	807	727
Policy loans	**6**	9	8
Other loans‡	**1,339**	1,467	1,324
Total SAIF and PAC WPSF loans	**2,064**	2,283	2,059
Shareholder-backed operations			
Mortgage loans†	**1,548**	1,558	1,508
Other loans	**4**	4	4
Total loans of shareholder-backed operations	**1,552**	1,562	1,512
Total	**3,616**	3,845	3,571

† The mortgage loans are collateralised by properties. By carrying value, 76 per cent of the £1,548 million (30 June 2015: 76 per cent of £1,558 million; 31 December 2015: 78 per cent of £1,508 million) held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 29 per cent (30 June 2015: 30 per cent; 31 December 2015: 30 per cent).

‡ Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

(d) Asset management operations

The loans of the asset management operations relate to loans and receivables managed by Prudential Capital. These assets are generally secured but most have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Loans and receivables internal ratings:			
AAA	**-**	92	-
AA+ to AA-	**31**	32	-
A+ to A-	**120**	222	157
BBB+ to BBB-	**442**	224	607
BB+ to BB-	**223**	83	119
B and other	**1**	273	2
Total	**817**	926	885

C4 Policyholder liabilities and unallocated surplus of with-profits funds

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position:

C4.1 Movement of liabilities

C4.1(a) Group overview

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Insurance operations £m			
Half year 2016 movements	**Asia** note C4.1(b)	**US** note C4.1(c)	**UK** note C4.1(d)	**Total**
At 1 January 2016	**48,778**	**138,913**	**152,893**	**340,584**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position‡	**41,255**	**138,913**	**142,350**	**322,518**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,553**	**-**	**10,543**	**13,096**
- Group's share of policyholder liabilities of joint ventures†	**4,970**	**-**	**-**	**4,970**
Net flows:				
Premiums	**4,428**	**7,101**	**5,561**	**17,090**
Surrenders	**(1,200)**	**(3,437)**	**(3,208)**	**(7,845)**
Maturities/Deaths	**(676)**	**(809)**	**(3,470)**	**(4,955)**
Net flows	**2,552**	**2,855**	**(1,117)**	**4,290**
Shareholders' transfers post tax	**(22)**	**-**	**(110)**	**(132)**
Investment-related items and other movements	**2,251**	**2,737**	**10,092**	**15,080**
Foreign exchange translation differences	**6,629**	**14,650**	**721**	**22,000**
As at 30 June 2016	**60,188**	**159,155**	**162,479**	**381,822**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position‡	**52,122**	**159,155**	**151,233**	**362,510**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,351**	**-**	**11,246**	**13,597**
- Group's share of policyholder liabilities of joint ventures†	**5,715**	**-**	**-**	**5,715**
Half year 2015 movements				
At 1 January 2015	45,022	126,746	154,436	326,204
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position‡	38,705	126,746	144,088	309,539
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	-	10,348	12,450
- Group's share of policyholder liabilities of joint ventures†	4,215	-	-	4,215
Net flows:				
Premiums	3,910	8,493	4,895	17,298
Surrenders	(1,437)	(3,406)	(3,012)	(7,855)
Maturities/Deaths	(625)	(736)	(3,248)	(4,609)
Net flows	1,848	4,351	(1,365)	4,834
Shareholders' transfers post tax	(36)	-	(106)	(142)
Investment-related items and other movements	837	(221)	2,316	2,932
Foreign exchange translation differences	(1,197)	(1,209)	(209)	(2,615)
At 30 June 2015	46,474	129,667	155,072	331,213
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position‡	39,522	129,667	144,431	313,620
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,127	-	10,641	12,768
- Group's share of policyholder liabilities of joint ventures†	4,825	-	-	4,825
Average policyholder liability balances*				
Half year 2016	**52,031**	**149,034**	**146,792**	**347,857**
Half year 2015	43,634	128,207	144,260	316,101

* Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the period and exclude unallocated surplus of with-profits funds.

† The Group's investment in joint ventures are accounted for on the equity method in the Group's statement of financial position. The Group's share of the policyholder liabilities as shown above relates to the joint venture life businesses in China, India and of the Takaful business in Malaysia.

‡ The policyholder liabilities of the Asia insurance operations of £52,122 million as shown in the table above is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,315 million to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £53,437 million.

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the period. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above are after any deductions for fees/charges and claims, represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Half year 2016 £m			
	Asia	**US**	**UK**	**Total** note (b)
At 1 January 2016	**27,844**	**138,913**	**52,824**	**219,581**
Net flows:				
Premiums	**2,327**	**7,101**	**869**	**10,297**
Surrenders	**(1,037)**	**(3,437)**	**(1,311)**	**(5,785)**
Maturities/Deaths	**(289)**	**(809)**	**(1,257)**	**(2,355)**
Net flows[note]	**1,001**	**2,855**	**(1,699)**	**2,157**
Investment-related items and other movements	**860**	**2,737**	**4,285**	**7,882**
Foreign exchange translation differences	**3,643**	**14,650**	**1**	**18,294**
At 30 June 2016	**33,348**	**159,155**	**55,411**	**247,914**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**27,633**	**159,155**	**55,411**	**242,199**
- Group's share of policyholder liabilities relating to joint ventures	**5,715**	**-**	**-**	**5,715**

	Half year 2015 £m			
	Asia	**US**	**UK**	**Total**
At 1 January 2015	26,410	126,746	55,009	208,165
Net flows:				
Premiums	2,456	8,493	2,016	12,965
Surrenders	(1,317)	(3,406)	(1,623)	(6,346)
Maturities/Deaths	(305)	(736)	(1,249)	(2,290)
Net flows[note]	834	4,351	(856)	4,329
Investment-related items and other movements	860	(221)	503	1,142
Foreign exchange translation differences	(803)	(1,209)	-	(2,012)
At 30 June 2015	27,301	129,667	54,656	211,624
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	22,476	129,667	54,656	206,799
- Group's share of policyholder liabilities relating to joint ventures	4,825	-	-	4,825

Note

Including net flows of the Group's insurance joint ventures.

C4.1(b) Asia insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asia insurance operations from the beginning of the period to 30 June is as follows:

	£m			
Half year 2016 movements	**With-profits business**	**Unit-linked liabilities**	**Other business**	**Total**
At 1 January 2016	**20,934**	**15,966**	**11,878**	**48,778**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	**18,381**	**13,355**	**9,519**	**41,255**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,553**	**-**	**-**	**2,553**
- Group's share of policyholder liabilities relating to joint ventures‡	**-**	**2,611**	**2,359**	**4,970**
Premiums:				
New business	**706**	**413**	**337**	**1,456**
In-force	**1,395**	**851**	**726**	**2,972**
	2,101	**1,264**	**1,063**	**4,428**
Surrenders[note (c)]	**(163)**	**(870)**	**(167)**	**(1,200)**
Maturities/Deaths	**(387)**	**(28)**	**(261)**	**(676)**
Net flows [note (b)]	**1,551**	**366**	**635**	**2,552**
Shareholders' transfers post tax	**(22)**	**-**	**-**	**(22)**
Investment-related items and other movements [note (d)]	**1,391**	**101**	**759**	**2,251**
Foreign exchange translation differences [note (a)]	**2,986**	**2,172**	**1,471**	**6,629**
At 30 June 2016	**26,840**	**18,605**	**14,743**	**60,188**
Comprising:				
*- Policyholder liabilities on the consolidated statement of financial position**	**24,489**	**15,705**	**11,928**	**52,122**
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	**2,351**	**-**	**-**	**2,351**
- Group's share of policyholder liabilities relating to joint ventures‡	**-**	**2,900**	**2,815**	**5,715**
Half year 2015 movements				
At 1 January 2015	18,612	16,209	10,201	45,022
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	16,510	13,874	8,321	38,705
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	-	-	2,102
- Group's share of policyholder liabilities relating to joint ventures‡	-	2,335	1,880	4,215
Premiums:				
New business	385	692	474	1,551
In-force	1,069	761	529	2,359
	1,454	1,453	1,003	3,910
Surrenders[note (c)]	(120)	(1,158)	(159)	(1,437)
Maturities/Deaths	(320)	(44)	(261)	(625)
Net flows [note (b)]	1,014	251	583	1,848
Shareholders' transfers post tax	(36)	-	-	(36)
Investment-related items and other movements [note (d)]	(23)	637	223	837
Foreign exchange translation differences[note (a)]	(394)	(623)	(180)	(1,197)
At 30 June 2015	19,173	16,474	10,827	46,474
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	17,046	13,845	8,631	39,522
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,127	-	-	2,127
- Group's share of policyholder liabilities relating to joint ventures‡	-	2,629	2,196	4,825
Average policyholder liability balances†				
Half year 2016	**21,435**	**17,286**	**13,310**	**52,031**
Half year 2015	16,778	16,342	10,514	43,634

* The policyholder liabilities of the with-profits business of £24,489 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,315 million to the Hong Kong with-profits business. Including this amount the Asia with-profits policyholder liabilities are £25,804 million.

† Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the period and exclude unallocated surplus of with-profits funds.

‡ The Group's investment in joint ventures are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the joint venture life business in China, India and of the Takaful business in Malaysia.

Notes

(a) Movements in the period have been translated at the average exchange rates for the period ended 30 June 2016. The closing balance has been translated at the closing spot rates as at 30 June 2016. Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows increased by 38 per cent from £1,848 million in half year 2015 to £2,552 million in half year 2016 predominantly reflecting continued growth of the in-force book.

(c) Surrenders and maturities/deaths have decreased from £2,062 million in the first half of 2015 to £1,876 million in the first half of 2016. The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 3.7 per cent in the first half of 2016 (half year 2015: 5.0 per cent).

(d) Investment-related items and other movements in the first half of 2016 primarily represent gains from bonds following falls in yields in the period.

C4.1(c) US insurance operations

(i) Analysis of movements in policyholder liabilities

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the period to 30 June is as follows:

US insurance operations

	£m		
Half year 2016 movements	**Variable annuity separate account liabilities**	**Fixed annuity, GIC and other business**	**Total**
At 1 January 2016	**91,022**	**47,891**	**138,913**
Premiums	**4,848**	**2,253**	**7,101**
Surrenders	**(2,168)**	**(1,269)**	**(3,437)**
Maturities/Deaths	**(384)**	**(425)**	**(809)**
Net flows note (b)	**2,296**	**559**	**2,855**
Transfers from general to separate account	**169**	**(169)**	**-**
Investment-related items and other movements note (c)	**843**	**1,894**	**2,737**
Foreign exchange translation differences note (a)	**9,574**	**5,076**	**14,650**
At 30 June 2016	**103,904**	**55,251**	**159,155**
Half year 2015 movements			
At 1 January 2015	81,741	45,005	126,746
Premiums	6,697	1,796	8,493
Surrenders	(2,237)	(1,169)	(3,406)
Maturities/Deaths	(344)	(392)	(736)
Net flows note (b)	4,116	235	4,351
Transfers from general to separate account	560	(560)	-
Investment-related items and other movements	383	(604)	(221)
Foreign exchange translation differences note (a)	(854)	(355)	(1,209)
At 30 June 2015	85,946	43,721	129,667
Average policyholder liability balances*			
Half year 2016	**97,463**	**51,571**	**149,034**
Half year 2015	83,844	44,363	128,207

* Averages have been based on opening and closing balances, and adjusted for any acquisitions, disposals and corporate transactions in the period.

Notes

(a) Movements in the period have been translated at an average rate of US$1.43:£1.00 (30 June 2015: US$1.52:£1.00). The closing balance has been translated at closing rate of US$1.34:£1.00 (30 June 2015: US$1.57:£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows in the first half of 2016 were £2,855 million compared with £4,351 million in the first half of 2015.

(c) Positive investment-related items and other movements in variable annuity separate account liabilities of £843 million for the first six months in 2016 represents positive separate account return mainly following the increase in the US equity market in the period. The positive movement of £1,894 million in fixed annuity, GIC and other business primarily reflect the increase in guarantee reserves, following the fall in interest rates, and the interest credited to the policyholder accounts in the period.

C4.1(d) UK insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations from the beginning of the period to 30 June is as follows:

	£m			
		Shareholder-backed funds and subsidiaries		
Half year 2016 movements	**SAIF and PAC with-profits sub-fund**	**Unit-linked liabilities**	**Annuity and other long-term business**	**Total**
At 1 January 2016	**100,069**	**21,442**	**31,382**	**152,893**
Comprising:				
- Policyholder liabilities	**89,526**	**21,442**	**31,382**	**142,350**
- Unallocated surplus of with-profits funds	**10,543**	**-**	**-**	**10,543**
Premiums	**4,692**	**527**	**342**	**5,561**
Surrenders	**(1,897)**	**(1,285)**	**(26)**	**(3,208)**
Maturities/Deaths	**(2,213)**	**(271)**	**(986)**	**(3,470)**
Net flows note (a)	**582**	**(1,029)**	**(670)**	**(1,117)**
Shareholders' transfers post tax	**(110)**	**-**	**-**	**(110)**
Switches	**(84)**	**84**	**-**	**-**
Investment-related items and other movements note (b)	**5,891**	**1,050**	**3,151**	**10,092**
Foreign exchange translation differences	**720**	**1**	**-**	**721**
At 30 June 2016	**107,068**	**21,548**	**33,863**	**162,479**
Comprising:				
- Policyholder liabilities	**95,822**	**21,548**	**33,863**	**151,233**
- Unallocated surplus of with-profits funds	**11,246**	**-**	**-**	**11,246**
Half year 2015 movements				
At 1 January 2015	99,427	23,300	31,709	154,436
Comprising:				
- Policyholder liabilities	89,079	23,300	31,709	144,088
- Unallocated surplus of with-profits funds	10,348	-	-	10,348
Premiums	2,879	618	1,398	4,895
Surrenders	(1,389)	(1,601)	(22)	(3,012)
Maturities/Deaths	(1,999)	(329)	(920)	(3,248)
Net flows note (a)	(509)	(1,312)	456	(1,365)
Shareholders' transfers post tax	(106)	-	-	(106)
Switches	(103)	103	-	-
Investment-related items and other movements note (b)	1,916	552	(152)	2,316
Foreign exchange translation differences	(209)	-	-	(209)
At 30 June 2015	100,416	22,643	32,013	155,072
Comprising:				
- Policyholder liabilities	89,775	22,643	32,013	144,431
- Unallocated surplus of with-profits funds	10,641	-	-	10,641
Average policyholder liability balances*				
Half year 2016	**92,674**	**21,495**	**32,623**	**146,792**
Half year 2015	89,427	22,972	31,861	144,260

* Averages have been based on opening and closing balances, and adjusted for any acquisitions, disposals and corporate transactions in the period, and exclude unallocated surplus of with-profits funds.

Notes

(a) Net outflows have decreased from £1,365 million in the first half of 2015 to £1,117 million in the same period of 2016 due primarily to higher premium flows, up by £666 million to £5,561 million, following increased sales of with-profits savings and retirement products. This has been partially offset by lower premiums into our annuity business due to our reduced appetite for annuities post-Solvency II which meant that no bulk annuities transactions were undertaken in the first half of 2016. The level of inflows/outflows for unit-linked business remains subject to annual variation as it is driven by corporate pension schemes with transfers in or out from a small number of schemes influencing the level of flows in the period.

(b) Investment-related items and other movements of £10,092 million includes investment return and realised gains attributable to policyholders in the period.

C5 Intangible assets

C5.1 Intangible assets attributable to shareholders

(a) Goodwill attributable to shareholders

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Cost			
At beginning of period	**1,463**	1,583	1,583
Disposal of Japan life business	**-**	(120)	(120)
Additional consideration paid on previously acquired business	**-**	2	2
Exchange differences	**25**	(4)	(2)
Cost / Net book amount at end of period	**1,488**	1,461	1,463

Goodwill attributable to shareholders comprises:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
M&G	**1,153**	1,153	1,153
Other	**335**	308	310
	1,488	1,461	1,463

Other goodwill represents amounts arising from the purchase of entities by the Asia and US operations. These goodwill amounts relating to acquired operations are not individually material.

(b) Deferred acquisition costs and other intangible assets attributable to shareholders

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	**8,010**	5,937	6,948
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**68**	80	74
	8,078	6,017	7,022
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**48**	51	45
Distribution rights and other intangibles	**1,423**	1,242	1,355
	1,471	1,293	1,400
Total of deferred acquisition costs and other intangible assets	**9,549**	7,310	8,422

	2016 £m						2015 £m	
	Deferred acquisition costs							
	Asia	US	UK	Asset management	Other intangibles† note	30 Jun Total	30 Jun Total	31 Dec Total
Balance at beginning of period:	**781**	**6,148**	**81**	**12**	**1,400**	**8,422**	7,261	7,261
Additions and acquisition of subsidiaries	**125**	**320**	**5**	**-**	**66**	**516**	532	1,190
Amortisation to the income statement*:								
Operating profit	**(80)**	**(237)**	**(7)**	**(2)**	**(43)**	**(369)**	(381)	(762)
Non-operating profit	**-**	**616**	**-**	**-**	**-**	**616**	(192)	93
	(80)	**379**	**(7)**	**(2)**	**(43)**	**247**	(573)	(669)
Disposals and transfers	**-**	**-**	**-**	**-**	**(2)**	**(2)**	-	(8)
Exchange differences and other movements	**102**	**649**	**-**	**-**	**50**	**801**	(75)	311
Amortisation of DAC related to net unrealised valuation movements on Jackson's available-for-sale securities recognised within other comprehensive income*	**-**	**(435)**	**-**	**-**	**-**	**(435)**	165	337
Balance at end of period	**928**	**7,061**	**79**	**10**	**1,471**	**9,549**	7,310	8,422

* Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of Jackson's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby deferred acquisition costs are amortised in line with the emergence of actual and expected gross profits. The amounts included in the income statements and Other Comprehensive Income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items.

† Other intangibles includes amounts in relation to software rights with additions of £21 million, amortisation of £15 million, disposals of £2 million and exchange gains of £6 million and a balance at 30 June 2016 of £81 million.

Note
Other intangibles comprise PVIF, distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time.

US insurance operations

The DAC amount in respect of US insurance operations comprises amounts in respect of:

	2016 £m	2015 £m	
	30 Jun	**30 Jun**	**31 Dec**
Variable annuity business	**7,782**	4,931	5,713
Other business	**42**	710	703
Cumulative shadow DAC (for unrealised gains/losses booked in Other Comprehensive Income)*	**(763)**	(420)	(268)
Total DAC for US operations	**7,061**	5,221	6,148

* Consequent upon the positive unrealised valuation movement for half year 2016 of £2,118 million (30 June 2015: negative unrealised valuation movement of £762 million; 31 December 2015: negative unrealised valuation movement of £1,305 million), there is a charge of £435 million (30 June 2015: a gain of £165 million; 31 December 2015: a gain of £337 million) for altered 'shadow' DAC amortisation booked within other comprehensive income. These adjustments reflect the movement from period to period, in the changes to the pattern of reported gross profits that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market.

For further detail on the deferral and amortisation of acquisition costs for Jackson, including the mean reversion technique, please refer to note C5.1 of the Group's consolidated financial statements for the year ended 31 December 2015.

<u>Sensitivity of amortisation charge</u>

The amortisation charge to the income statement is reflected in both operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises:

(i) A core amount that reflects a relatively stable proportion of underlying premiums or profit; and

(ii) An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor feature of the mean reversion technique are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In the first half of 2016, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £29 million (half year 2015: credit for decelerated amortisation of £20 million; full year 2015: charge for accelerated amortisation of £2 million). The first half of 2016 amount reflects the separate account performance of 3 per cent, which is higher than the assumed level for the year (under the 8 year mean reversion technique applied).

As noted above, the application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. It would take a significant movement in separate account values for the mean reversion assumption to move outside the corridor. Based on a pro-forma instantaneous movement at 1 July 2016, it would need to be outside the approximate range of negative 25 per cent to positive 50 per cent for this to apply.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Holding company operations:			
Perpetual subordinated notes (Tier 1)[note (i)]	**823**	698	746
Perpetual subordinated notes (Tier 2)[notes (i),(iv)]	**2,007**	1,077	1,149
Subordinated notes (Tier 2)[note (i)]	**2,126**	2,122	2,123
Subordinated debt total	**4,956**	3,897	4,018
Senior debt:[note (ii)]			
£300m 6.875% Bonds 2023	**300**	300	300
£250m 5.875% Bonds 2029	**249**	249	249
Holding company total	**5,505**	4,446	4,567
Prudential Capital bank loan[note (iii)]	**275**	275	275
Jackson US$250m 8.15% Surplus Notes 2027	**186**	159	169
Total (per condensed consolidated statement of financial position)[note (v)]	**5,966**	4,880	5,011

Notes

(i) These debt tier classifications (including those noted for the comparative balances) are consistent with the treatment of capital for regulatory purposes under the Solvency II regime.
The perpetual subordinated capital securities are entirely US$ denominated. The Group has designated US$2.80 billion (30 Jun 2015: US$2.80 billion; 31 December 2015: US$2.80 billion) of its perpetual subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the investment in Jackson.

(ii) The senior debt ranks above subordinated debt in the event of liquidation.

(iii) The Prudential Capital bank loan of £275 million has been made in two tranches: a £160 million loan and a £115 million loan both drawn at a cost of 12 month GBP LIBOR plus 0.4 per cent and maturing on 20 December 2017.

(iv) In June 2016, the Company issued core structural borrowings of US$1,000 million 5.25 per cent Tier 2 perpetual subordinated notes. The proceeds net of costs, were £681 million.

(v) The maturity profile, currency and interest rates applicable to all other core structural borrowings of shareholder-financed operations of the Group are as detailed in note C6.1 of the Group's consolidated financial statements for the year ended 31 December 2015.

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Borrowings in respect of short-term fixed income securities programmes	**2,554**	2,176	1,705
Non-recourse borrowings of US operations [note (ii)]	**-**	10	-
Other borrowings [note (iii)]	**244**	318	255
Total[note (i)]	**2,798**	2,504	1,960

Notes

(i) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2015 which will mature in October 2016. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These Notes were originally issued in October 2008 and have been reissued upon their maturity.

(ii) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

(iii) Other borrowings mainly include amounts whose repayment to the lender is contingent upon future surplus 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. In addition, other borrowings include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

(b) Borrowings attributable to with-profits operations

	2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec
Non-recourse borrowings of consolidated investment funds*	**1,248**	911	1,158
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc**	**100**	100	100
Other borrowings (predominantly obligations under finance leases)	**79**	78	74
Total	**1,427**	1,089	1,332

* In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

** The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

C7 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	Deferred tax assets			Deferred tax liabilities		
	2016 £m	2015 £m		2016 £m	2015 £m	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
Unrealised losses or gains on investments	**22**	331	21	**(1,815)**	(1,673)	(1,036)
Balances relating to investment and insurance contracts	**1**	8	1	**(655)**	(544)	(543)
Short-term temporary differences	**3,690**	2,407	2,752	**(2,893)**	(2,076)	(2,400)
Capital allowances	**12**	9	10	**(34)**	(32)	(31)
Unused tax losses	**46**	65	35	**-**	-	
Total	**3,771**	2,820	2,819	**(5,397)**	(4,325)	(4,010)

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2016 half year results and financial position at 30 June 2016, the possible tax benefit of approximately £94 million (30 June 2015: £106 million; 31 December 2015: £98 million), which may arise from capital losses valued at approximately £0.5 billion (30 June 2015: £0.5 billion; 31 December 2015: £0.5 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £60 million (30 June 2015: £42 million; 31 December 2015: £52 million), which may arise from trading tax losses and other potential temporary differences totalling £0.3 billion (30 June 2015: £0.2 billion; 31 December 2015 £0.3 billion) is sufficiently uncertain that it has not been recognised. Of the deferred tax asset recognised for unused tax losses, £39 million will expire if not utilised within the next seven years, £1 million if not utilised within 20 years and the rest has no expiry date.

The table that follows provides a breakdown of the recognised deferred tax assets set out in the table above for the short-term temporary differences. The table also shows the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits is not significantly impacted by any current proposed changes to future accounting standards.

	Short-term temporary differences	
	30 Jun 2016 £m	Expected period of recoverability
Asia insurance operations	**49**	**1 to 3 years**
US insurance operations	**3,353**	**With run-off of in-force book**
UK insurance operations	**136**	**1 to 10 years**
Other operations	**152**	**1 to 10 years**
Total	**3,690**	

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods. For UK companies the UK corporation tax rate is currently 20 per cent, reducing to 19 per cent from 1 April 2017 and further to 18 per cent from 1 April 2020.

As part of the Finance Bill 2016, the UK government proposed a reduction in the UK corporation tax rate to 17 per cent effective 1 April 2020. As these changes have not been substantively enacted as at 30 June 2016 they have not been reflected in the balances at that date. The changes, once substantively enacted, are expected to have the effect of reducing the UK with-profits and shareholder-backed business element of the overall net deferred tax liabilities by £9 million.

C8 Defined benefit pension schemes

(a) IAS 19 financial positions

The Group operates a number of pension schemes. The largest defined benefit scheme is the Prudential Staff Pension Scheme (PSPS), which is the principal scheme in the UK. The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

The Group asset/liability in respect of defined benefit pension schemes is as follows:

	2016 £m					2015 £m					2015 £m				
	30 Jun					30 Jun					31 Dec				
	PSPS	SASPS	M&GGPS	Other schemes	Total	PSPS	SASPS	M&GGPS	Other schemes	Total	PSPS	SASPS	M&GGPS	Other schemes	Total
Underlying economic surplus (deficit)	**1,270**	**(123)**	**115**	**(1)**	**1,261**	915	(140)	53	(1)	827	969	(82)	75	(1)	961
Less: unrecognised surplus	**(1,100)**	**-**	**-**	**-**	**(1,100)**	(790)	-	-	-	(790)	(800)	-	-	-	(800)
Economic surplus (deficit) (including investment in Prudential insurance policies)	**170**	**(123)**	**115**	**(1)**	**161**	125	(140)	53	(1)	37	169	(82)	75	(1)	161
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	**-**	**-**	**(81)**	**-**	**(81)**	-	-	(85)	-	(85)	-	-	(77)	-	(77)
Attributable to:															
PAC with-profits fund	**119**	**(49)**	**-**	**-**	**70**	88	(70)	-	-	18	118	(33)	-	-	85
Shareholder-backed operations	**51**	**(74)**	**34**	**(1)**	**10**	37	(70)	(32)	(1)	(66)	51	(49)	(2)	(1)	(1)
IAS 19 pension asset (liability) on the Group statement of financial position*	**170**	**(123)**	**34**	**(1)**	**80**	125	(140)	(32)	(1)	(48)	169	(82)	(2)	(1)	84

* At 30 June 2016, the PSPS pension asset of £170 million (30 June 2015: £125 million; 31 December 2015: £169 million) and the other schemes' pension liabilities of £90 million (30 June 2015: £173 million; 31 December 2015: £85 million) are included within 'Other debtors' and 'Provisions' respectively in the consolidated statement of financial position.

(b) Estimated pension scheme surpluses and deficits (on an economic basis)

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on consolidation in the Group financial statements) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. In principle, on consolidation the investments are eliminated against policyholder liabilities of UK insurance operations, so that the formal IAS 19 position for the scheme in isolation excludes these items. This treatment applies to the M&GGPS investments. However, as a substantial portion of the Company's interest in the underlying surplus of PSPS is not recognised, the adjustment is not necessary for the PSPS investments.

Movements on the pension scheme deficit determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

	Half year 2016 £m				
	Surplus (deficit) in schemes at 1 Jan 2016	**(Charge) credit to income statement**	**Actuarial gains and losses in other comprehensive income**	**Contributions paid**	**Surplus (deficit) in schemes at 30 Jun 2016**
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	**961**	**-**	**277**	**23**	**1,261**
Less: amount attributable to PAC with-profits fund	**(658)**	**(6)**	**(178)**	**(9)**	**(851)**
Shareholders' share:					
Gross of tax surplus (deficit)	**303**	**(6)**	**99**	**14**	**410**
Related tax	**(60)**	**1**	**(17)**	**(3)**	**(79)**
Net of shareholders' tax	**243**	**(5)**	**82**	**11**	**331**
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	**(800)**	**(18)**	**(282)**	**-**	**(1,100)**
Less: amount attributable to PAC with-profits fund	**573**	**12**	**195**	**1**	**781**
Shareholders' share:					
Gross of tax	**(227)**	**(6)**	**(87)**	**1**	**(319)**
Related tax	**45**	**1**	**15**	**-**	**61**
Net of shareholders' tax	**(182)**	**(5)**	**(72)**	**1**	**(258)**
With the effect of IFRIC 14					
Surplus (deficit)	**161**	**(18)**	**(5)**	**23**	**161**
Less: amount attributable to PAC with-profits fund	**(85)**	**6**	**17**	**(8)**	**(70)**
Shareholders' share:					
Gross of tax surplus (deficit)	**76**	**(12)**	**12**	**15**	**91**
Related tax	**(15)**	**2**	**(2)**	**(3)**	**(18)**
Net of shareholders' tax	**61**	**(10)**	**10**	**12**	**73**

C9 Share capital, share premium and own shares

	30 Jun 2016			30 Jun 2015			31 Dec 2015		
	Number of ordinary shares	Share capital £m	Share premium £m	Number of ordinary shares	Share capital £m	Share premium £m	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:									
At 1 January	**2,572,454,958**	**128**	**1,915**	2,567,779,950	128	1,908	2,567,779,950	128	1,908
Shares issued under share-based schemes	**6,579,190**	**-**	**6**	3,284,119	-	2	4,675,008	-	7
At end of period	**2,579,034,148**	**128**	**1,921**	2,571,064,069	128	1,910	2,572,454,958	128	1,915

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 30 June 2016, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range from	to	Exercisable by year
30 June 2016	**7,128,449**	**288p**	**1,155p**	**2021**
30 June 2015	8,007,928	288p	1,155p	2020
31 December 2015	8,795,617	288p	1,155p	2021

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £185 million at 30 June 2016 (30 June 2015: £227 million; 31 December 2015: £219 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 30 June 2016, 11.2 million (30 June 2015: 10.8 million; 31 December 2015: 10.5 million) Prudential plc shares with a market value of £141 million (30 June 2015: £165 million; 31 December 2015: £161 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the period was 11.2 million which was in June 2016.

The Company purchased the following number of shares in respect of employee incentive plans:

	Number of shares purchased (in millions)	Cost £m
Half year 2016	**3.8**	**49.5**
Half year 2015	5.1	86.3
Full year 2015	5.6	92.9

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 30 June 2016 was 4.8 million (30 June 2015: 6.8 million; 31 December 2015: 6.1 million) and the cost of acquiring these shares of £39 million (30 June 2015: £59 million; 31 December 2015: £54 million) is included in the cost of own shares. The market value of these shares as at 30 June 2016 was £61 million (30 June 2015: £105 million; 31 December 2015: £94 million). During 2016, these funds made a net disposal of 1,280,258 Prudential shares (30 June 2015: net disposal of 724,186; 31 December 2015: net disposal of 1,402,697) for a net decrease of £14.1 million to book cost (30 June 2015: net decrease of £8.0 million; 31 December 2015: net decrease of £13 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during half year 2016 or 2015.

D Other notes

D1 Contingencies and related obligations

The Group is involved in various litigation and regulatory issues. While the outcome of such matters cannot be predicted with certainty, Prudential believes that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

There have been no material changes to the Group's contingencies and related obligations in the six month period ended 30 June 2016.

D2 Post balance sheet events

First interim dividend

The 2016 first interim dividend approved by the Board of Directors after 30 June 2016 is as described in note B7.

D3 Related party transactions

There were no transactions with related parties during the six months ended 30 June 2016 which have had a material effect on the results or financial position of the Group.

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2015.

Statement of directors' responsibilities

The directors (who are listed below) are responsible for preparing the Half Year Financial Report in accordance with applicable law and regulations.

Accordingly, the directors confirm that to the best of their knowledge:

– the condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union;

– the Half Year Financial Report includes a fair review of information required by:
  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2016, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2016 and that have materially affected the financial position or the performance of the Group during the period and changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2015.

Prudential plc Board of Directors:

Chairman
Paul Manduca

Executive Directors
Michael Wells
Nicolaos Nicandrou ACA
Penelope James ACA
John Foley
Anne Richards
Barry Stowe
Tony Wilkey

Independent Non-executive Directors
The Hon. Philip Remnant CBE FCA
Sir Howard Davies
Ann Godbehere FCPA FCGA
David Law ACA
Kaikhushru Nargolwala FCA
Anthony Nightingale CMG SBS JP
Alice Schroeder
Lord Turner

Independent review report to Prudential plc

Introduction
We have been engaged by the company to review the International Financial Reporting Standards (IFRS) basis financial information in the Half Year Financial Report for the six months ended 30 June 2016 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

We have also been engaged by the company to review the European Embedded Value (EEV) basis supplementary financial information for the six months ended 30 June 2016 which comprises the Post-tax Operating Profit Based on Longer-Term Investment Returns, the Post-tax Summarised Consolidated Income Statement, the Movement in Shareholders' Equity, the Summary Statement of Financial Position and the related explanatory notes and Total Insurance and Investment Products New Business information.

We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the IFRS basis financial information or the EEV basis supplementary financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA") and also to provide a review conclusion to the company on the EEV basis supplementary financial information. Our review of the IFRS basis financial information has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. Our review of the EEV basis supplementary financial information has been undertaken so that we might state to the company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The Half Year Financial Report, including the IFRS basis financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Year Financial Report in accordance with the DTR of the UK FCA. The directors have accepted responsibility for preparing the EEV basis supplementary financial information in accordance with the European Embedded Value Principles dated April 2016 by the European CFO Forum ('the EEV Principles') and for determining the methodology and assumptions used in the application of those principles.

The annual IFRS basis financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union ('EU'). The IFRS basis financial information included in this Half Year Financial Report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The EEV basis supplementary financial information has been prepared in accordance with the EEV Principles using the methodology and assumptions set out in the Notes to the EEV basis supplementary financial information. The EEV basis supplementary financial information should be read in conjunction with the IFRS basis financial information.

Our responsibility
Our responsibility is to express to the company a conclusion on the IFRS basis financial information in the Half Year Financial Report and the EEV basis supplementary financial information based on our reviews, as set out in our engagement letter with you dated 10 June 2016.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information and supplementary information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the IFRS basis financial information in the Half Year Financial Report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary financial information for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in the Notes to the EEV basis supplementary financial information.

Rees Aronson
For and on behalf of KPMG LLP
Chartered Accountants
London
9 August 2016

Additional IFRS financial information*

I IFRS profit and loss information

I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

i **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment returns on shareholder net assets, which has been separately disclosed as **expected return on shareholder assets**.

ii **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

iii **With-profits** business represents the gross of tax shareholders' transfer from the with-profits fund for the period.

iv **Insurance margin** primarily represents profits derived from the insurance risks of mortality and morbidity.

v **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.

vi **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other source of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).

vii **DAC adjustments** comprises DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source and margin analysis of Group long-term insurance business
The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details on the calculation of the Group's average policyholder liability balances are given in note (iv) at the end of this section.

	Half year 2016					
	Asia £m	**US £m**	**UK £m**	**Total £m**	**Average liability £m** note (iv)	**Margin bps** note(ii)
Spread income	**82**	**379**	**96**	**557**	**80,819**	**138**
Fee income	**86**	**878**	**29**	**993**	**131,389**	**151**
With-profits	**24**	**-**	**138**	**162**	**114,109**	**28**
Insurance margin	**488**	**401**	**25**	**914**		
Margin on revenues	**904**	**-**	**86**	**990**		
Expenses:						
Acquisition costs[note (i)]	**(613)**	**(412)**	**(42)**	**(1,067)**	**3,030**	**(35)%**
Administration expenses	**(388)**	**(452)**	**(58)**	**(898)**	**219,083**	**(82)**
DAC adjustments[note (v)]	**59**	**83**	**(2)**	**140**		
Expected return on shareholder assets	**40**	**11**	**61**	**112**		
	682	**888**	**333**	**1,903**		
Longevity reinsurance and other management actions to improve solvency	**-**	**-**	**140**	**140**		
Long-term business operating profit	**682**	**888**	**473**	**2,043**		

See notes at the end of this section.

	Half year 2015 AER					
	Asia £m	**US £m**	**UK £m**	**Total £m**	**Average liability £m** note (iv)	**Margin bps** note (ii)
Spread income	65	372	137	574	72,890	157
Fee income	86	832	33	951	125,581	151
With-profits	21	-	133	154	106,205	29
Insurance margin	387	383	26	796		
Margin on revenues	832	-	88	920		
Expenses:						
Acquisition costs[note (i)]	(573)	(479)	(43)	(1,095)	2,733	(40)%
Administration expenses	(355)	(408)	(66)	(829)	206,167	(80)
DAC adjustments[note (v)]	78	114	-	192		
Expected return on shareholder assets	33	20	67	120		
	574	834	375	1,783		
Longevity reinsurance and other management actions to improve solvency	-	-	61	61		
Long-term business operating profit	574	834	436	1,844		

See notes at the end of this section.

* *The additional financial information is not covered by the KPMG independent review opinion.*

	Half year 2015 CER note (iii)					
	Asia £m	US £m	UK £m note (v)	Total £m	Average liability £m note (iv)	Margin bps note (ii)
Spread income	66	400	137	603	75,983	159
Fee income	87	884	33	1,004	133,147	151
With-profits	21	-	133	154	107,797	29
Insurance margin	393	408	26	827		
Margin on revenues	845	-	88	933		
Expenses:						
Acquisition costs[note (i)]	(582)	(509)	(43)	(1,134)	2,826	(40)%
Administration expenses	(359)	(434)	(66)	(859)	217,404	(79)
DAC adjustments[note (v)]	79	121	-	200		
Expected return on shareholder assets	34	17	67	118		
	584	887	375	1,846		
Longevity reinsurance and other management actions to improve solvency	-	-	61	61		
Long-term business operating profit	584	887	436	1,907		

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

	Asia								
	Half year 2016			Half year 2015 AER			Half year 2015 CER note (iii)		
Long-term business	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps
Spread income	**82**	**13,310**	**123**	65	10,514	124	66	11,302	117
Fee income	**86**	**17,286**	**100**	86	16,342	105	87	17,373	100
With-profits	**24**	**21,435**	**22**	21	16,778	25	21	18,370	23
Insurance margin	**488**			387			393		
Margin on revenues	**904**			832			845		
Expenses:									
Acquisition costs[note (i)]	**(613)**	**1,655**	**(37)%**	(573)	1,366	(42)%	(582)	1,404	(41)%
Administration expenses	**(388)**	**30,596**	**(254)**	(355)	26,856	(264)	(359)	28,675	(250)
DAC adjustments[note (v)]	**59**			78			79		
Expected return on shareholder assets	**40**			33			34		
Operating profit	**682**			574			584		

See notes at the end of this section.

Analysis of Asia operating profit drivers

– Spread income has increased on a constant exchange rate basis by 24 per cent (AER: 26 per cent) to £82 million in half year 2016, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
– The half year 2016 fee income of £86 million is in line with the prior period.
– On a constant exchange rate basis, insurance margin has increased by 24 per cent to £488 million in half year 2016 (AER: 26 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. Insurance margin includes non-recurring items of £42 million (half year 2015: £29 million at AER and CER)
– Margin on revenue has increased by £59 million on a constant exchange rate basis from £845 million in half year 2015 to £904 million in half year 2016, primarily reflecting higher regular premium income recognised in the period.
– Acquisition costs have increased by 5 per cent on a constant exchange rate basis (AER: 7 per cent) in half year 2016 to £613 million, compared to the 18 per cent increase in APE sales (AER 21 per cent), resulting in a decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 73 per cent (2015: 66 per cent at CER), the increase being the result of changes in country and product mix.
– Administration expenses have increased by 8 per cent at a constant exchange rate basis (AER: 9 per cent increase) in half year 2016 as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has increased from 250 basis points in half year 2015 to 254 basis points in half year 2016, the result of changes in country and product mix.

Margin analysis of long-term insurance business – US

	US								
	Half year 2016			**Half year 2015 AER**			**Half year 2015 CER** note (iii)		
Long-term business	**Profit** **£m**	**Average liability** note (iv) **£m**	**Margin** note (ii) **bps**	**Profit** **£m**	**Average liability** note (iv) **£m**	**Margin** note (ii) **bps**	**Profit** **£m**	**Average liability** note (iv) **£m**	**Margin** note (ii) **bps**
Spread income	**379**	**34,886**	**217**	372	30,515	244	400	32,820	244
Fee income	**878**	**92,608**	**190**	832	86,267	193	884	92,802	191
Insurance margin	**401**			383			408		
Expenses									
Acquisition costs[note (i)]	**(412)**	**782**	**(53)%**	(479)	857	(56)%	(509)	912	(56)%
Administration expenses	**(452)**	**134,369**	**(67)**	(408)	124,478	(66)	(434)	133,896	(65)
DAC adjustments	**83**			114			121		
Expected return on shareholder assets	**11**			20			17		
Operating profit	**888**			834			887		

See notes at the end of this section.

Analysis of US operating profit drivers:

- Spread income has decreased by 5 per cent on a constant exchange rate basis (AER increased by 2 per cent) to £379 million in half year 2016. The reported spread margin decreased to 217 basis points from 244 basis points in half year 2015, primarily due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 151 basis points (half year 2015 CER: 168 basis points and AER: 167 basis points).
- Fee income has decreased by 1 per cent on a constant exchange rate basis (AER increased by 6 per cent) to £878 million in half year 2016. Weak equity market performance in the first quarter curbed the growth of average separate account values in the first six months of 2016 and dampened overall fee income level. Fee income margin has remained broadly in line with the prior year at 190 basis points (half year 2015 CER: 191 basis points and AER: 193 basis points).
- Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin of £401 million in half year 2016 was in line with last year on a constant exchange rate basis, with higher income from the variable annuity guarantees offset by a decline in the contribution from the closed books of term business acquired.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 19 per cent at a constant exchange rate basis, largely due to the decline in sales in half year 2016.
- Administration expenses increased to £452 million in half year 2016, compared to £434 million for half year 2015 on a constant exchange rate basis (AER £408 million), primarily as a result of higher asset-based commissions. These are paid on policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would remain relatively flat at 36 basis points (half year 2015: 35 basis points at CER and 36 basis points at AER).
- DAC adjustments decreased to £83 million in half year 2016, compared to £121 million on a constant exchange rate basis (AER £114 million) in half year 2015, primarily due to a decline in DAC deferrals due to reduced sales in half year 2016, offset by lower amortisation.

Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

	Half year 2016 £m				Half year 2015 AER £m				Half year 2015 CER £m note (iii)			
		Acquisition costs				Acquisition costs				Acquisition costs		
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	**1,217**			**1,217**	1,199			1,199	1,275			1,275
Less new business strain		**(412)**	**320**	**(92)**		(479)	369	(110)		(509)	392	(117)
Other DAC adjustments - amortisation of previously deferred acquisition costs:												
Normal			**(266)**	**(266)**			(275)	(275)			(292)	(292)
Deceleration			**29**	**29**			20	20			21	21
Total	**1,217**	**(412)**	**83**	**888**	1,199	(479)	114	834	1,275	(509)	121	887

Analysis of operating profit based on longer-term investment returns for US operations by product

	2016 £m	2015 £m		%	
	Half year	AER Half year	CER Half year	Half year 2016 vs half year 2015 AER	Half year 2016 vs half year 2015 CER
Spread business[note (a)]	**154**	180	191	(14)%	(19)%
Fee business[note (b)]	**642**	552	587	16%	9%
Life and other business[note (c)]	**92**	102	109	(9)%	(16)%
Total insurance operations	**888**	834	887	6%	0%
US asset management and broker-dealer	**(12)**	12	12	n/a	n/a
Total US operations	**876**	846	899	4%	(2)%

The analysis of operating profit based on longer-term investment returns for US operations by product represents the net profit generated by each line of business after allocation of costs. Broadly:

a) Spread business is the net operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.
b) Fee business represents profits from variable annuity products. As well as fee income revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.
c) Life and other business includes the profits from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs. Insurance margin forms the vast majority of revenue.

Margin analysis of long-term insurance business – UK

	UK					
	Half year 2016			Half year 2015 note (v)		
	Profit	Average liability note (iv)	Margin note (ii)	Profit	Average liability note (iv)	Margin note (ii)
Long-term business	£m	£m	bps	£m	£m	bps
Spread income	**96**	**32,623**	**59**	137	31,861	86
Fee income	**29**	**21,495**	**27**	33	22,972	29
With-profits	**138**	**92,674**	**30**	133	89,427	30
Insurance margin	**25**			26		
Margin on revenues	**86**			88		
Expenses:						
Acquisition costs[note (i)]	**(42)**	**593**	**(7)%**	(43)	510	(8)%
Administration expenses	**(58)**	**54,118**	**(21)**	(66)	54,833	(24)
DAC adjustments	**(2)**			-		
Expected return on shareholders' assets	**61**			67		
	333			375		
Longevity reinsurance and other management actions to improve solvency	**140**			61		
Operating profit	**473**			436		

Analysis of UK operating profit drivers

- Spread income has decreased from £137 million in half year 2015 to £96 million in half year 2016 mainly due to lower annuity sales. Spread income has two components:
  - A contribution from new annuity business which was lower at £27 million in half year 2016 compared to £66 million in half year 2015, as we withdrew our participation from this business. IFRS accounting (based on grandfathered GAAP) permits upfront recognition of a considerable proportion of the spread to be earned over the entire term of the new contracts.
  - A contribution from in-force annuity and other business, which was broadly in line with last year at £69 million (2015: £71 million), equivalent to 42 basis points of average reserves (2015: 45 basis points).
- Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arise within our UK asset management business. Excluding these schemes, the fee margin on the remaining balance was 40 basis points (2015: 43 basis points).
- Margin on revenues represents premium charges for expenses of shareholder-backed business and other sundry net income. The half year 2016 margin is broadly consistent with half year 2015.
- Acquisition costs incurred were £42 million, equivalent to 7 per cent of total APE sales in half year 2016 (2015: 8 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. The ratio is also distorted by bulk annuities transactions as acquisition costs are comparatively lower. Acquisition costs as a percentage of shareholder-backed new business sales, excluding the bulk annuities transactions, were 33 per cent in half year 2016 (2015: 37 per cent).
- Expected return on shareholders' assets includes the longer-term return on assets held to back capital and surplus.
- The contribution from longevity reinsurance and other management actions to improve solvency during half year 2016 was £140 million (2015: £61 million). Further explanation and analysis is provided in Additional IFRS Financial Information section I(d).

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

(ii) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. The margin is on an annualised basis in which half year profits are annualised by multiplying by two.

(iii) The half year 2015 comparative information has been presented at Actual Exchange Rates (AER) and Constant Exchange Rates (CER) so as to eliminate the impact of exchange translation. CER results are calculated by translating prior period results using the current period foreign exchange rates. All CER profit figures have been translated at current period average rates. For Asia CER average liability calculations the policyholder liabilities have been translated using current period opening and closing exchange rates. For the US CER average liability calculations the policyholder liabilities have been translated at the current period month end closing exchange rates. See also note A1.

(iv) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the period, as a proxy for average balances throughout the period. The calculation of average liabilities for Jackson is generally derived from month end balances throughout the period as opposed to opening and closing balances only. In half year 2016, given the significant equity market fluctuations in certain months during the period, average liabilities for fee income in Jackson have been calculated using daily balances instead of month end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. The half year 2015 average liabilities for fee income in Jackson have been calculated based on average of month end balances. The alternative use of the daily balances to calculate the average would have resulted in no change to the margin on the CER basis. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(v) The DAC adjustment contains £14 million in respect of joint ventures in half year 2016 (half year 2015: £16 million).

I(b) Asia operations – analysis of IFRS operating profit by territory

Operating profit based on longer-term investment returns for Asia operations are analysed below. The table below presents the half year 2015 results on both actual exchange rates (AER) and constant exchange rates (CER) bases so as to eliminate the impact of exchange translation.

	2016 £m	2015 £m		%		2015 £m
	Half year	AER Half year	CER Half year	Half year 2016 vs half year 2015 AER	Half year 2016 vs half year 2015 CER	AER Full year
Hong Kong	**96**	69	73	39%	32%	150
Indonesia	**193**	167	172	16%	12%	356
Malaysia	**71**	61	58	16%	22%	120
Philippines	**17**	14	14	21%	21%	32
Singapore	**111**	105	109	6%	2%	204
Thailand	**39**	39	39	0%	0%	70
Vietnam	**44**	34	35	29%	26%	86
South-east Asia Operations inc. Hong Kong	**571**	489	500	17%	14%	1,018
China	**20**	12	12	67%	67%	32
India	**22**	22	21	0%	5%	42
Korea	**15**	19	18	(21)%	(17)%	38
Taiwan	**13**	8	8	63%	63%	25
Other	**1**	(3)	(2)	133%	150%	(4)
Non-recurrent items[note (ii)]	**42**	29	29	45%	45%	62
Total insurance operations[note (i)]	**684**	576	586	19%	17%	1,213
Development expenses	**(2)**	(2)	(2)	0%	0%	(4)
Total long-term business operating profit	**682**	574	584	19%	17%	1,209
Eastspring Investments	**61**	58	60	5%	2%	115
Total Asia operations	**743**	632	644	18%	15%	1,324

Notes

(i) Analysis of operating profit between new and in-force business

The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

	2016 £m	2015 £m		
	Half year	AER Half year	CER Half year	AER Full year
New business strain[†]	**(24)**	(33)	(34)	(4)
Business in force	**666**	580	591	1,155
Non-recurrent items[note (ii)]	**42**	29	29	62
Total	**684**	576	586	1,213

[†] The IFRS new business strain corresponds to approximately 1 per cent of new business APE sales for half year 2016 (half year 2015: approximately 2 per cent; full year 2015: approximately 0.1 per cent).

The strain represents the pre-tax regulatory basis strain to net worth after IFRS adjustments; for deferral of acquisition costs and deferred income where appropriate.

(ii) Other non-recurrent items of £42 million in 2016 (half year 2015: £29 million; full year 2015: £62 million) represent a small number of items, including a gain from entering into a reinsurance contract in the period.

I(c) Analysis of asset management operating profit based on longer-term investment returns

	Half year 2016 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	**440**	**155**	**61**	**109**	**765**
Performance-related fees	**9**	**1**	**-**	**-**	**10**
Operating income(net of commission)[note (i)]	**449**	**156**	**61**	**109**	**775**
Operating expense[note (i)]	**(229)**	**(87)**	**(48)**	**(121)**	**(485)**
Share of associate's results	**5**	**-**	**-**	**-**	**5**
Group's share of tax on joint ventures' operating profit	**-**	**(8)**	**-**	**-**	**(8)**
Operating profit/(loss) based on longer-term investment returns	**225**	**61**	**13**	**(12)**	**287**
Average funds under management	**£243.2bn**	**£102.2bn**			
Margin based on operating income*	**36bps**	**30bps**			
Cost / income ratio**	**52%**	**56%**			

	Half year 2015 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	491	149	47	175	862
Performance-related fees	1	2	-	-	3
Operating income(net of commission)[note (i)]	492	151	47	175	865
Operating expense[note (i)]	(248)	(86)	(40)	(163)	(537)
Share of associate's results	7	-	-	-	7
Group's share of tax on joint ventures' operating profit	-	(7)	-	-	(7)
Operating profit based on longer-term investment returns	251	58	7	12	328
Average funds under management	£260.1bn	£81.6bn			
Margin based on operating income*	38bps	37bps			
Cost / income ratio**	51%	58%			

	Full year 2015 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	939	304	118	321	1,682
Performance-related fees	22	3	-	-	25
Operating income(net of commission)[note (i)]	961	307	118	321	1,707
Operating expense[note (i)]	(533)	(176)	(99)	(310)	(1,118)
Share of associate's results	14	-	-	-	14
Group's share of tax on joint ventures' operating profit	-	(16)	-	-	(16)
Operating profit based on longer-term investment returns	442	115	19	11	587
Average funds under management	£252.5bn	£85.1bn			
Margin based on operating income*	37bps	36bps			
Cost / income ratio**	57%	58%			

Notes

(i) Operating income and expense include the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in note B2 of the IFRS financial statements, the net post-tax income of the joint ventures and associates is shown as a single item.

(ii) M&G and Eastspring Investments can be further analysed as follows:

	M&G					
	Operating income before performance-related fees					
	Retail £m	Margin of FUM* bps	Institutional[†] £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
30 Jun 2016	**247**	**87**	**193**	**21**	**440**	**36**
30 Jun 2015	309	86	182	19	491	38
31 Dec 2015	582	87	357	19	939	37

	Eastspring Investments					
	Operating income before performance-related fees					
	Retail £m	Margin of FUM* bps	Institutional[†] £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
30 Jun 2016	**91**	**53**	**64**	**19**	**155**	**30**
30 Jun 2015	93	63	56	23	149	37
31 Dec 2015	188	61	116	21	304	36

* Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM). Half year figures have been annualised by multiplying by two. Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

** Cost/income ratio represents cost as a percentage of operating income before performance related fees.

† Institutional includes internal funds.

I(d) Contribution to UK life financial metrics from specific management actions undertaken to position the balance sheet more efficiently under the new Solvency II regime

In the first half of 2016 management actions were taken to improve the solvency of UK insurance operations and to mitigate market risks. These actions included extending the reinsurance of longevity risk to cover a further £1.5 billion of IFRS annuity liabilities. As at 30 June 2016 the total IFRS annuity liabilities subject to longevity reinsurance were £10.7 billion. Management actions also repositioned the fixed income asset portfolio to improve the trade-off between yield and credit risk and to increase the proportion of the annuity business that benefits from the matching adjustment under Solvency II.

During 2015, the longevity risk of £6.4 billion on a Pillar 1 basis was reinsured, of which £1.6 billion was carried out in the first half. Further, a number of other management actions were also taken to reposition the fixed income portfolio and improve matching adjustment efficiency.

The effect of these actions on the UK's long term IFRS operating profit, underlying free surplus generation and EEV operating profit is shown in the tables below.

	IFRS operating profit of UK long-term business		
	Half year 2016	**Half year 2015**	**Full year 2015**
Shareholder-backed annuity new business:			
Retail	**27**	17	34
Bulks	**-**	49	89
	27	66	123
In-force business:			
Longevity reinsurance transactions	**66**	61	231
Impact of specific management actions to improve solvency	**74**	-	169
	140	61	400
With-profits and other in-force	**306**	309	644
Total Life IFRS operating profit	**473**	436	1,167

	Underlying free surplus generation of UK long-term business*		
	Half year 2016	**Half year 2015**	**Full year 2015**
Expected in-force and return on net worth	**334**	310	620
Longevity reinsurance transactions	**53**	52	200
Impact of specific management actions to improve solvency	**137**	-	75
	190	52	275
Changes in operating assumptions, experience variances and solvency II and other restructuring costs	**31**	(10)	(17)
Underlying free surplus generated from in-force business	**555**	352	878
New business strain:			
Shareholder-backed annuity	**(69)**	(39)	(25)
Other products	**13**	(18)	(40)
	(56)	(57)	(65)
Total underlying free surplus generation	**499**	295	813

	EEV post-tax operating profit of UK long-term business*		
	Half year 2016	**Half year 2015**	**Full year 2015**
Unwind of discount and other expected return	**205**	245	488
Longevity reinsurance transactions	**(10)**	(46)	(134)
Impact of specific management actions to improve solvency	**41**	-	75
	31	(46)	(59)
Changes in operating assumptions and experience variances	**23**	57	116
Operating profit from in-force business	**259**	256	545
New business profit:			
Shareholder-backed annuity	**17**	89	148
Other products	**108**	66	170
	125	155	318
Total post-tax Life EEV operating profit	**384**	411	863

* The half year 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. The half year 2015 and full year 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for those periods.

II Other information

II(a) Holding company cash flow*

	2016 £m	2015 £m	
	Half year	**Half year**	**Full year**
Net cash remitted by business units:			
UK life net remittances to the Group			
With-profits remittance	**215**	201	201
Shareholder-backed business remittance	**-**	-	100
	215	201	301
Other UK paid to Group	**131**	30	30
Total UK net remittances to the Group	**346**	231	331
US remittances to the Group	**339**	403	470
Asia net remittances to the Group			
Asia paid to the Group:			
Long-term business	**285**	280	494
Other operations	**36**	40	74
	321	320	568
Group invested in Asia:			
Long-term business	**(9)**	(4)	(5)
Other operations (including funding of Regional Head Office costs)	**(54)**	(58)	(96)
	(63)	(62)	(101)
Total Asia net remittances to the Group	**258**	258	467
M&G remittances to the Group	**150**	151	302
Prudential Capital remittances to the Group	**25**	25	55
Net remittances to the Group from Business Units**	**1,118**	1,068	1,625
Net interest paid	**(157)**	(137)	(290)
Tax received	**67**	72	145
Corporate activities	**(103)**	(93)	(193)
Solvency II costs	**(6)**	(10)	(16)
Total central outflows	**(199)**	(168)	(354)
Net operating holding company cash flow before dividend	**919**	900	1,271
Dividend paid	**(935)**	(659)	(974)
Operating holding company cash flow after dividend	**(16)**	241	297
Non-operating net cash flow†	**382**	380	376
Total holding company cash flow	**366**	621	673
Cash and short-term investments at beginning of period	**2,173**	1,480	1,480
Foreign exchange movements	**7**	(7)	20
Cash and short-term investments at end of period	**2,546**	2,094	2,173

* The holding company cash flow differs from the IFRS cash flow statement, which includes all cash flows in the period including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

** Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.

† Non-operating net cash flow is principally for corporate transactions for distribution rights and acquired subsidiaries, and issue or repayment of subordinated debt.

II(b) Funds under management

For our asset management businesses the level of funds managed on behalf of third parties, which are not therefore recorded on the balance sheet, is a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing on those which are external to the Group and those held by the insurance businesses and included on the Group balance sheet. This is analysed below.

(a) Summary

	2016 £bn	2015 £bn	
	30 Jun	**30 Jun**	**31 Dec**
Business area:			
Asia operations	**66.3**	51.4	54.0
US operations	**156.5**	126.9	134.6
UK operations	**180.9**	169.6	168.4
Prudential Group funds under management note (i)	**403.7**	347.9	357.0
External funds note (ii)	**158.6**	157.0	151.6
Total funds under management	**562.3**	504.9	508.6

Notes

(i) Prudential Group funds under management of £403.7 billion (30 June 2015: £347.9 billion; 31 December 2015: £357.0 billion) comprise:

	2016 £bn	2015 £bn	
	30 Jun	**30 Jun**	**31 Dec**
Total investments per the consolidated statement of financial position	**398.2**	343.1	352.0
Less: investments in joint ventures and associates accounted for using the equity method	**(1.1)**	(1.0)	(1.0)
Internally managed funds held in joint ventures	**6.2**	5.4	5.6
Investment properties which are held for sale or occupied by the Group (included in other IFRS captions)	**0.4**	0.4	0.4
Prudential Group funds under management	**403.7**	347.9	357.0

(ii) External funds shown above as at 30 June 2016 of £158.6 billion (30 June 2015: £157.0 billion; 31 December 2015: £151.6 billion) comprise £169.8 billion (30 June 2015: £168.9 billion; 31 December 2015: £162.7 billion) of funds managed by M&G and Eastspring Investments as shown in note (b) below less £11.2 billion (30 June 2015: £11.9 billion; 31 December 2015: £11.1 billion) that are classified within Prudential Group's funds.

(b) Investment products – external funds under management

	Half year 2016 £m			Half year 2015 £m			Full year 2015 £m		
	Eastspring Investments note	**M&G**	**Group total** note	**Eastspring Investments** note	**M&G**	**Group total** note	**Eastspring Investments** note	**M&G**	**Group total** note
At beginning of period	**36,287**	**126,405**	**162,692**	30,133	137,047	167,180	30,133	137,047	167,180
Market gross inflows	**68,465**	**9,731**	**78,196**	56,725	20,425	77,150	110,396	33,626	144,022
Redemptions	**(68,221)**	**(16,697)**	**(84,918)**	(51,555)	(22,800)	(74,355)	(103,360)	(40,634)	(143,994)
Market exchange translation and other movements	**3,618**	**10,217**	**13,835**	212	(1,272)	(1,060)	(882)	(3,634)	(4,516)
At end of period	**40,149**	**129,656**	**169,805**	35,515	133,400	168,915	36,287	126,405	162,692

Note

The £169.8 billion (30 June 2015: £168.9 billion; 31 December 2015: £162.7 billion) investment products comprise £162.4 billion (30 June 2015: £163.5 billion; 31 December 2015: £156.7 billion) plus Asia Money Market Funds of £7.4 billion (30 June 2015: £5.4 billion; 31 December 2015: £6.0 billion).

(c) M&G and Eastspring Investments - total funds under management

	Eastspring Investments note			M&G		
	2016 £bn	**2015 £bn**	**2015 £bn**	**2016 £bn**	**2015 £bn**	**2015 £bn**
	30 Jun	**30 Jun**	**31 Dec**	**30 Jun**	**30 Jun**	**31 Dec**
External funds under management	**40.1**	35.5	36.3	**129.7**	133.4	126.4
Internal funds under management	**64.8**	49.8	52.8	**125.7**	123.1	119.7
Total funds under management	**104.9**	85.3	89.1	**255.4**	256.5	246.1

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 30 June 2016 of £7.4 billion (30 June 2015: £5.4 billion; 31 December 2015: £6.0 billion).

II(c) Solvency II capital position at 30 June 2016

The estimated Group shareholder Solvency II surplus at 30 June 2016 was £9.1billion, before allowing for payment of the 2016 first interim dividend and after allowing for recalculation of transitional measures as at 30 June 2016.

Estimated Group shareholder Solvency II capital position[1]	30 Jun 2016 £bn	30 Jun 2015 £bn	31 Dec 2015 £bn
Own funds	21.1	19.4	20.1
Solvency capital requirement	12.0	10.2	10.4
Surplus	**9.1**	**9.2**	**9.7**
Solvency ratio	175%	190%	193%

1 The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced With-Profit Funds and staff pension schemes in surplus

In accordance with Solvency II requirements, these results allow for:

- Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital requirement. As agreed with the Prudential Regulation Authority, this is incorporated in the result above as follows:

  - Own funds: represents Jackson's local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level);
  - Solvency Capital Requirement: represents 150 per cent of Jackson's local US Risk Based Capital requirement (Company Action Level); and
  - no diversification benefits are taken into account between Jackson and the rest of the Group.

- Matching adjustment for UK annuities, based on the calibrations published by the European Insurance and Occupational Pensions Authority; and
- UK transitional measures, which have been recalculated at the valuation date in line with our regulatory approvals.

The Group shareholder Solvency II capital position excludes:

- A portion of Solvency II surplus capital (£1.6 billion at 30 June 2016) relating to the Group's Asian life operations, including due to "contract boundaries";
- The contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds in surplus (representing £3.5 billion of surplus capital from UK with-profits funds at 30 June 2016) and from the shareholders' share of the estate of with-profits funds; and
- The contribution to Own Funds and the Solvency Capital Requirement from pension funds in surplus.

It also excludes unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates. At Jackson's request, the Department of Insurance Financial Services renewed its approval to carry these instruments at book value in the local statutory returns for the period 31 December 2015 to 30 September 2016. At 30 June 2016, this approval had the effect of decreasing local statutory capital and surplus (and by extension Solvency II Own Funds and Solvency II surplus) by £0.7 billion, net of tax. This arrangement reflects an elective longstanding practice first put in place in 2009, which can be unwound at Jackson's discretion.

Analysis of movement in Group capital position
A summary of the estimated movement in Group Solvency II surplus from £9.7 billion at year end 2015 to £9.1 billion at half year 2016 is set out in the table below.

We previously reported our economic capital results at year end 2014 before there was certainty in the final outcome of Solvency II and before we received internal model approval. The Solvency II results for 30 June 2016 and 31 December 2015 reflect the output from our approved internal model under the final Solvency II rules. The movement from the previously reported economic capital basis solvency surplus at 31 December 2014 to the Solvency II surplus at 30 June 2015 and 31 December 2015 is included for comparison.

Analysis of movement in Group shareholder surplus	Half year 2016 £bn	Half year 2015 £bn	Full year 2015 £bn
	Surplus	Surplus	Surplus
Estimated Solvency II surplus at 1 January 2016 / economic capital surplus at 1 January 2015	**9.7**	**9.7**	**9.7**
Underlying operating experience	1.0	0.8	2.0
Management actions	0.2	-	0.4
Operating experience	1.2	0.8	2.4
Non-operating experience (including market movements)	(2.4)	0.5	(0.6)
Other capital movements			
Subordinated debt issuance	0.7	0.6	0.6
Foreign currency translation impacts	0.9	(0.1)	0.2
Dividends paid	(0.9)	(0.7)	(1.0)
Methodology and calibration changes			
Changes to Own Funds (net of transitionals) and SCR calibration strengthening	(0.1)	(0.2)	(0.2)
Effect of partial derecognition of Asia Solvency II surplus	-	(1.4)	(1.4)
Estimated Solvency II surplus at end period	**9.1**	**9.2**	**9.7**

The estimated movement in Group Solvency II surplus in the first half of 2016 is driven by:

– *Operating experience of £1.2 billion:* generated by in-force business and new business written in 2016 and also the impact of one-off management optimisations implemented in the first half of 2016;
– *Non-operating experience of (£2.4) billion:* mainly arising from negative market experience during the first half of 2016, after allowing for the recalculation of UK transitional measures;
– *Other capital movements:* comprising a gain from foreign currency translation effects and the issuance of debt in the first half of 2016 offset by a reduction in surplus from payment of dividends.

The methodology and calibration changes in the first half of 2016 reduce the Group surplus by £0.1 billion, which relates to finalisation of the full-year 2015 regulatory templates in May 2016. In addition, the methodology and calibration changes arising from Solvency II in 2015 relate to:

– A £0.2 billion reduction in surplus due to an increase in the Solvency Capital Requirement from strengthening of internal model calibrations, mainly relating to longevity risk, operational risk, credit risk and correlations, and a corresponding increase in the risk margin, which is partially offset by UK transitionals; and

– A £1.4 billion reduction in surplus due to the negative impact of Solvency II rules for “contract boundaries” and a reduction in the capital surplus of the Group’s Asian life operations, as agreed with the Prudential Regulation Authority.

Analysis of Group Solvency Capital Requirements

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

	30 Jun 2016		31 Dec 2015	
Split of the Group’s estimated Solvency Capital Requirements	**% of undiversified Solvency Capital Requirements**	**% of diversified Solvency Capital Requirements**	**% of undiversified Solvency Capital Requirements**	**% of diversified Solvency Capital Requirements**
Market	**55%**	**72%**	**55%**	**72%**
Equity	11%	16%	11%	16%
Credit	27%	45%	28%	47%
Yields (interest rates)	13%	8%	13%	6%
Other	4%	3%	3%	3%
Insurance	**28%**	**20%**	**27%**	**20%**
Mortality/morbidity	5%	2%	5%	2%
Lapse	15%	14%	14%	14%
Longevity	8%	4%	8%	4%
Operational/expense	**12%**	**7%**	**11%**	**7%**
FX translation	**5%**	**1%**	**7%**	**1%**

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds	30 Jun 2016 £bn	30 Jun 2015 £bn	31 Dec 2015 £bn
IFRS shareholders' equity	**14.6**	**12.1**	**13.0**
Restate US insurance entities from IFRS onto local US statutory basis	(3.1)	(1.8)	(1.5)
Remove DAC, goodwill & intangibles	(3.9)	(3.6)	(3.7)
Add subordinated-debt	5.7	4.3	4.4
Impact of risk margin (net of transitionals)	(3.3)	(2.8)	(2.5)
Add value of shareholder-transfers	3.1	3.4	3.1
Liability valuation differences	9.7	9.0	8.6
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	(1.2)	(1.1)	(0.9)
Other	(0.5)	(0.1)	(0.4)
Estimated Solvency II Shareholder Own Funds	21.1	19.4	20.1

The key items of the reconciliation as at 30 June 2016 are:

- £3.1 billion represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis. This item also reflects a derecognition of Own Funds of £0.8 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;
- £3.9 billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;
- £5.7 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;
- £3.3 billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of transitionals, all of which are not applicable under IFRS;
- £3.1 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholder's share of the with-profits estate, for which no credit is given under Solvency II), which is excluded from the determination of the Group's IFRS shareholders' funds;
- £9.7 billion due to differences in insurance valuation requirements between Solvency II and IFRS, with Solvency II Own Funds partially capturing the value of in-force business which is excluded from IFRS;
- £1.2 billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above; and
- £0.5 billion due to other items, including the impact of revaluing loans, borrowings and debt from IFRS to Solvency II.

Sensitivity analysis

The estimated sensitivity of the Group shareholder Solvency II capital position to significant changes in market conditions is as follows:

Impact of market sensitivities[1]	30 Jun 2016		31 Dec 2015	
	Surplus £bn	Ratio	Surplus £bn	Ratio
Base position	**9.1**	**175%**	**9.7**	**193%**
Impact of:				
20% instantaneous fall in equity markets	(0.9)	(6)%	(1.0)	(7)%
40% fall in equity markets(1)	(1.1)	(7)%	(1.8)	(14)%
50 basis points reduction in interest rates(2),(3)	(0.8)	(7)%	(1.1)	(14)%
100 basis points increase in interest rates(3)	2.4	27%	1.1	17%
100 basis points increase in credit spreads	(1.4)	(7)%	(1.2)	(6)%

(1) where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period
(2) subject to a floor of zero
(3) allowing for further transitional recalculation after the interest rate stress

The Group's risk strategy is positioned to withstand significant deteriorations in market conditions and we continue to use market hedges to manage some of this exposure across the Group, where we believe the benefit of the protection outweighs the cost. The sensitivity analysis above allows for predetermined management actions and those taken to date, but does not reflect all possible management actions which could be taken in the future.

UK Solvency II capital position[1, 2]

On the same basis as above, the estimated UK shareholder Solvency II surplus at 30 June 2016 was £2.9 billion, after allowing for recalculation of transitional measures as at 30 June 2016. This relates to shareholder-backed business including future with-profits shareholder transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements.

Estimated UK shareholder Solvency II capital position[1]	30 Jun 2016 £bn	30 Jun 2015 £bn	31 Dec 2015 £bn
Own funds	10.6	10.1	10.5
Solvency capital requirement	7.7	6.7	7.2
Surplus	**2.9**	**3.4**	**3.3**
Solvency ratio	138%	152%	146%

[1] The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced With-Profit Funds and staff pension schemes in surplus

While the surplus position of the UK with-profits funds remains strong on a Solvency II basis, it is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK shareholder Solvency II surplus results. The estimated UK with-profits funds Solvency II surplus at 30 June 2016 was £3.5 billion, after allowing for recalculation of transitional measures as at 30 June 2016.

Estimated UK with-profits Solvency II capital position	30 Jun 2016 £bn	30 Jun 2015 £bn	31 Dec 2015 £bn
Own funds	8.2	7.2	7.6
Solvency capital requirement	4.7	3.5	4.4
Surplus	**3.5**	**3.7**	**3.2**
Solvency ratio	176%	210%	175%

Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II Own Funds [2]

Reconciliation of UK with-profits funds	30 Jun 2016 £bn	30 Jun 2015 £bn	31 Dec 2015 £bn
IFRS unallocated surplus of UK with-profits funds	11.2	10.6	10.5
Adjustments from IFRS basis to Solvency II :			
Value of shareholder transfers	(1.9)	(2.3)	(2.1)
Risk margin (net of transitional)	(0.7)	(0.4)	(0.7)
Other valuation differences	(0.4)	(0.7)	(0.1)
Estimated Solvency II Own Funds	**8.2**	**7.2**	**7.6**

A reconciliation from IFRS to Solvency I was previously disclosed in the Group IFRS financial statements at full year 2015. At 30 June 2016 the reconciling items from IFRS to Solvency II mainly reflect valuation differences relating to non-profit annuity liabilities within the with-profits funds.

Statement of independent review

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

Notes:

1 The UK shareholder capital position represents the consolidated capital position of the shareholder funds of Prudential Assurance Company Ltd and all its subsidiaries.

2 The UK with-profits capital position includes the Prudential Assurance Company with-profits sub-fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund.

European Embedded Value (EEV) basis results

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Description of EEV basis reporting

In broad terms, IFRS profits for long-term business reflect the aggregate of results on a traditional accounting basis. By contrast, embedded value is a way of reporting the value of the life insurance business.

The EEV basis results have been prepared in accordance with the amended European Embedded Value Principles dated April 2016, prepared by the CFO Forum of major European insurers. The half year 2016 results for UK insurance operations have been prepared to reflect the Solvency II regime. The half year and full year 2015 results for UK insurance operations were prepared reflecting the Solvency I basis, being the regime applicable for those periods. There is no change to the basis of preparation for Asia and US operations. The Principles provide consistent definitions, a framework for setting actuarial assumptions, and an approach to the underlying methodology and disclosures.

Results prepared under the EEV Principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected profits full allowance is made for the risks attached to their emergence and the associated cost of capital, taking into account recent experience in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 13 and 14.

* *The additional financial information is not covered by the KPMG independent review opinion*

European Embedded Value (EEV) Basis Results

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

Results analysis by business area

	Note	2016 £m Half year	2015 £m Half year note (iii)	2015 £m Full year note (iii)
Asia operations				
New business	4	**824**	664	1,490
Business in force	5	**391**	408	831
Long-term business		**1,215**	1,072	2,321
Eastspring Investments		**53**	50	101
Total		**1,268**	1,122	2,422
US operations				
New business	4	**311**	371	809
Business in force	5	**383**	441	999
Long-term business		**694**	812	1,808
Broker-dealer and asset management		**(8)**	8	7
Total		**686**	820	1,815
UK operationsnote (iv)				
New business:note (v)				
Excluding UK bulk annuities		**125**	80	201
UK bulk annuities		**-**	75	117
	4	**125**	155	318
Business in force	5	**259**	256	545
Long-term business		**384**	411	863
General insurance commission		**15**	14	22
Total UK insurance operations		**399**	425	885
M&G		**181**	203	358
Prudential Capital		**11**	6	18
Total		**591**	634	1,261
Other income and expenditurenote (i)		**(302)**	(275)	(566)
Solvency II and restructuring costsnote (ii)		**(17)**	(23)	(51)
Interest received from tax settlement		**37**	-	-
Operating profit based on longer-term investment returnsnote (iv)		**2,263**	2,278	4,881
Analysed as profit (loss) from:				
New business:note (v)				
Excluding UK bulk annuities		**1,260**	1,115	2,500
UK bulk annuities		**-**	75	117
	4	**1,260**	1,190	2,617
Business in force	5	**1,033**	1,105	2,375
Long-term business		**2,293**	2,295	4,992
Asset management and general insurance commission		**252**	281	506
Other results		**(282)**	(298)	(617)
Total		**2,263**	2,278	4,881

Notes

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

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

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

(iv) The EEV basis results have been prepared in accordance with the amended European Embedded Value Principles dated April 2016, prepared by the CFO Forum of major European insurers. The half year 2016 results for UK insurance operations have been prepared to reflect the Solvency II regime. The half year and full year 2015 results for UK insurance operations were prepared reflecting the Solvency I basis being the regime applicable for those periods. There is no change to the basis of preparation for Asia and US operations.

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

Basic earnings per share

	2016 Half year	2015 Half year	2015 Full year
Based on post-tax operating profit including longer-term investment returns (in pence)*	**88.5p**	89.3p	191.2p
Based on post-tax profit attributable to equity holders of the Company (in pence)*	**54.5p**	82.9p	154.8p
Average number of shares (millions)	**2,558**	2,552	2,553

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

POST-TAX SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	2016 £m Half year	2015 £m Half year	2015 £m Full year
Asia operations		**1,268**	1,122	2,422
US operations		**686**	820	1,815
UK operations*		**591**	634	1,261
Other income and expenditure		**(302)**	(275)	(566)
Solvency II and restructuring costs		**(17)**	(23)	(51)
Interest received from tax settlement		**37**	-	-
Operating profit based on longer-term investment returns		**2,263**	2,278	4,881
Short-term fluctuations in investment returns	6	**489**	(367)	(1,208)
Effect of changes in economic assumptions	7	**(1,345)**	80	57
Mark to market value movements on core borrowings		**(13)**	124	221
Total non-operating loss		**(869)**	(163)	(930)
Profit for the period attributable to equity holders of the Company		**1,394**	2,115	3,951

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

MOVEMENT IN SHAREHOLDERS' EQUITY

	Note	2016 £m Half year	2015 £m Half year	2015 £m Full year
Profit for the period attributable to equity shareholders		**1,394**	2,115	3,951
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges		**2,663**	(554)	244
Dividends		**(935)**	(659)	(974)
Mark to market value movements on Jackson assets backing surplus and required capital		**138**	(8)	(76)
Other reserve movements		**(165)**	19	53
Net increase in shareholders' equity*	9	**3,095**	913	3,198
Shareholders' equity at beginning of period				
As previously reported	9	**32,359**	29,161	29,161
Effect of implementation of Solvency II on 1 January 2016*	2	**(473)**	-	-
		31,886	29,161	29,161
Shareholders' equity at end of period	9	**34,981**	30,074	32,359

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

	30 Jun 2016 £m			30 Jun 2015 £m			31 Dec 2015 £m		
Comprising:	**Long-term business operations** note 9	**Asset manage-ment and other operations**	**Total**	Long-term business operations	Asset manage-ment and other operations	Total	Long-term business operations	Asset manage-ment and other operations	Total
Asia operations	**16,578**	**352**	**16,930**	12,838	284	13,122	13,876	306	14,182
US operations	**10,150**	**201**	**10,351**	8,457	165	8,622	9,487	182	9,669
UK insurance operations*	**10,075**	**37**	**10,112**	8,708	33	8,741	9,647	22	9,669
M&G	**-**	**1,838**	**1,838**	-	1,697	1,697	-	1,774	1,774
Prudential Capital	**-**	**31**	**31**	-	26	26	-	70	70
Other operations	**-**	**(4,281)**	**(4,281)**	-	(2,134)	(2,134)	-	(3,005)	(3,005)
Shareholders' equity at end of period	**36,803**	**(1,822)**	**34,981**	30,003	71	30,074	33,010	(651)	32,359
Representing:									
Net assets excluding acquired goodwill and holding company net borrowings	**36,545**	**270**	**36,815**	29,772	1,635	31,407	32,777	866	33,643
Acquired goodwill	**258**	**1,230**	**1,488**	231	1,230	1,461	233	1,230	1,463
Holding company net borrowings at market value note 8	**-**	**(3,322)**	**(3,322)**	-	(2,794)	(2,794)	-	(2,747)	(2,747)
	36,803	**(1,822)**	**34,981**	30,003	71	30,074	33,010	(651)	32,359

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

SUMMARY STATEMENT OF FINANCIAL POSITION

	Note	2016 £m	2015 £m	
		30 Jun	30 Jun	31 Dec
Total assets less liabilities, before deduction for insurance funds		**381,242**	331,233	340,666
Less insurance funds:*				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		**(366,637)**	(319,129)	(327,711)
Less shareholders' accrued interest in the long-term business**	9	**20,376**	17,970	19,404
		(346,261)	(301,159)	(308,307)
Total net assets	9	**34,981**	30,074	32,359
Share capital		**128**	128	128
Share premium		**1,921**	1,910	1,915
IFRS basis shareholders' reserves		**12,556**	10,066	10,912
Total IFRS basis shareholders' equity	9	**14,605**	12,104	12,955
Additional EEV basis retained profit**	9	**20,376**	17,970	19,404
Total EEV basis shareholders' equity (excluding non-controlling interests)	9	**34,981**	30,074	32,359

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

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

Net asset value per share

	2016	2015	
	30 Jun	30 Jun	31 Dec
Based on EEV basis shareholders' equity of £34,981 million** (half year 2015: £30,074 million, full year 2015: £32,359 million) (in pence)	**1,356p**	1,170p	1,258p
Number of issued shares at period end (millions)	**2,579**	2,571	2,572
Annualised return on embedded value*	**14%**	16%	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.

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

NOTES ON THE EEV BASIS RESULTS

1 Basis of preparation

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

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The EEV basis results of half year 2016 and half year 2015 are unaudited. The full year 2015 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2015. The supplement included an unqualified audit report from the auditors.

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

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

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

The impact of Solvency II on EEV shareholders' equity at 1 January 2016 is shown below:

Total EEV basis shareholders' equity	**£m**
As reported at 31 December 2015[note 9]	**32,359**
Opening adjustment at 1 January 2016 for long-term business operations	
Effect of implementation of Solvency II on net worth[note (a)]	**2,760**
Effect of implementation of Solvency II on net value of in-force business (VIF)[note (b)]	**(3,233)**
	(473)
Group total shareholders' equity as at 1 January 2016[note (c)]	**31,886**

Notes

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

(b) The net value of in-force business (VIF) is correspondingly impacted as follows:
- the release of prudent regulatory margins and recognition of a portion of future with-profits business shareholders' transfers within net worth leads to a corresponding reduction in the VIF;
- the run-off of the risk margin, net of transitional measures, is now captured in VIF; and
- the cost of capital deducted from the gross VIF increases as a result of the higher Solvency II capital requirements.

The overall impact of these changes is to reduce the value of in-force by £(3,233) million.

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

The impact of Solvency II on the half year 2016 for UK insurance operations is estimated to have reduced operating profit by £(17) million.

3 Results analysis by business area

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

Annual premium and contribution equivalents (APE)[note 15]

	Note	Half year 2016 £m	Half year 2015 £m		% change	
			AER	CER	AER	CER
Asia operations		**1,655**	1,366	1,404	21%	18%
US operations		**782**	857	912	(9)%	(14)%
UK retail operations**		**593**	393	393	51%	51%
Group total excluding UK bulk annuities**		**3,030**	2,616	2,709	16%	12%
UK bulk annuities**		**-**	117	117	(100)%	(100)%
Group Total	4	**3,030**	2,733	2,826	11%	7%

Post-tax operating profit

	Note	Half year 2016 £m	Half year 2015 £m		% change	
			AER	CER	AER	CER
Asia operations						
New business	4	**824**	664	688	24%	20%
Business in force	5	**391**	408	418	(4)%	(6)%
Long-term business		**1,215**	1,072	1,106	13%	10%
Eastspring Investments		**53**	50	52	6%	2%
Total		**1,268**	1,122	1,158	13%	9%
US operations						
New business	4	**311**	371	394	(16)%	(21)%
Business in force	5	**383**	441	469	(13)%	(18)%
Long-term business		**694**	812	863	(15)%	(20)%
Broker-dealer and asset management		**(8)**	8	8	(200)%	(200)%
Total		**686**	820	871	(16)%	(21)%
UK operations						
New business**						
UK retail operations	4	**125**	80	80	56%	56%
UK bulk annuities		**-**	75	75	(100)%	(100)%
		125	155	155	(19)%	(19)%
Business in force	5	**259**	256	256	1%	1%
Long-term business		**384**	411	411	(7)%	(7)%
General insurance commission		**15**	14	14	7%	7%
Total UK insurance operations*		**399**	425	425	(6)%	(6)%
M&G		**181**	203	203	(11)%	(11)%
Prudential Capital		**11**	6	6	83%	83%
Total*		**591**	634	634	(7)%	(7)%
Other income and expenditure		**(302)**	(275)	(275)	(10)%	(10)%
Solvency II and restructuring costs		**(17)**	(23)	(23)	26%	26%
Interest received from tax settlement		**37**	-	-	100%	100%
Operating profit based on longer-term investment returns*		**2,263**	2,278	2,365	(1)%	(4)%
Analysed as profit (loss) from:						
New business:*'**						
Life operations excluding UK bulk annuities	4	**1,260**	1,115	1,162	13%	8%
UK bulk annuities		**-**	75	75	(100)%	(100)%
		1,260	1,190	1,237	6%	2%
Business in force*	5	**1,033**	1,105	1,143	(7)%	(10)%
Total long-term business*		**2,293**	2,295	2,380	(0)%	(4)%
Asset management and general insurance commission		**252**	281	283	(10)%	(11)%
Other results		**(282)**	(298)	(298)	5%	5%
Operating profit based on longer-term investment returns*		**2,263**	2,278	2,365	(1)%	(4)%

Post-tax profit

	Note	Half year 2016 £m	Half year 2015 £m		% change	
			AER	CER	AER	CER
Operating profit based on longer-term investment returns*		**2,263**	2,278	2,365	(1)%	(4)%
Short-term fluctuations in investment Returns	6	**489**	(367)	(389)	233%	226%
Effect of changes in economic assumptions	7	**(1,345)**	80	88	(1781)%	(1628)%
Mark to market value movements on core borrowings		**(13)**	124	124	(110)%	(110)%
Total non-operating profit		**(869)**	(163)	(177)	(433)%	(391)%
Profit for the period attributable to shareholders*		**1,394**	2,115	2,188	(34)%	(36)%

Basic earnings per share (in pence)

	Half year 2016	Half year 2015		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns*	**88.5p**	89.3p	92.7p	(1)%	(5)%
Based on post-tax profit*	**54.5p**	82.9p	85.7p	(34)%	(36)%

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

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

4 Analysis of new business contribution

(i) Group summary

	Half year 2016				
	Annual premium and contribution equivalents (APE) £m note 15	**Present value of new business premiums (PVNBP) £m** note 15	**New business contribution £m**	**New business margin APE %**	**New business margin PVNBP %**
Asia operations[note (ii)]	**1,655**	**8,955**	**824**	**50**	**9.2**
US operations	**782**	**7,816**	**311**	**40**	**4.0**
UK insurance operations*	**593**	**5,267**	**125**	**21**	**2.4**
Total	**3,030**	**22,038**	**1,260**	**42**	**5.7**

	Half year 2015				
	Annual premium and contribution equivalents (APE) £m note 15	Present value of new business premiums (PVNBP) £m note 15	New business contribution £m	New business margin APE %	New business margin PVNBP %
Asia operations[note (ii)]	1,366	7,340	664	49	9.0
US operations	857	8,574	371	43	4.3
UK retail operations*,**	393	3,355	80	20	2.4
Total excluding UK bulk annuities	2,616	19,269	1,115	43	5.8
UK bulk annuities	117	1,169	75	64	6.4
Total	2,733	20,438	1,190	44	5.8

	Full year 2015				
	Annual premium and contribution equivalents (APE) £m note 15	Present value of new business premiums (PVNBP) £m note 15	New business contribution £m	New business margin APE %	New business margin PVNBP %
Asia operations[note (ii)]	2,853	15,208	1,490	52	9.8
US operations	1,729	17,286	809	47	4.7
UK retail operations*,**	874	7,561	201	23	2.7
Total excluding UK bulk annuities	5,456	40,055	2,500	46	6.2
UK bulk annuities	151	1,508	117	77	7.8
Total	5,607	41,563	2,617	47	6.3

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

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

Note

The increase in new business contribution of £145 million from £1,115 million for half year 2015 (excluding the contribution from UK bulk annuities) to £1,260 million for half year 2016 comprises an increase on a CER basis of £98 million and an increase of £47 million for foreign exchange effects. The increase of £98 million on the CER basis comprises a contribution of £138 million for higher retail sales volumes in half year 2016, a £(88) million effect of lower long-term interest rates, generated by the active basis of setting economic assumptions (analysed as Asia £(46) million, US £(38) million and UK £(4) million), and a £48 million impact of pricing, product and other actions.

(ii) Asia operations – new business contribution by territory

	2016 £m	2015 £m		
		AER	CER	AER
	Half year	Half year	Half year	Full year
China	**22**	20	20	30
Hong Kong	**539**	322	342	835
India	**10**	9	9	18
Indonesia	**87**	127	131	229
Korea	**3**	4	4	8
Taiwan	**9**	13	13	28
Other	**154**	169	169	342
Total Asia operations	**824**	664	688	1,490

5 Operating profit from business in force

(i) Group summary

	Half year 2016 £m			
	Asia operations note (ii)	**US operations** note (iii)	**UK insurance operations*** note (iv)	**Total*** note
Unwind of discount and other expected returns	**384**	**209**	**205**	**798**
Effect of changes in operating assumptions	**2**	**-**	**-**	**2**
Experience variances and other items	**5**	**174**	**54**	**233**
Total	**391**	**383**	**259**	**1,033**

	Half year 2015 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total note
Unwind of discount and other expected returns	411	236	245	892
Effect of changes in operating assumptions	1	-	-	1
Experience variances and other items	(4)	205	11	212
Total	408	441	256	1,105

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

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

Note

The movement in operating profit from business in force of £(72) million from £1,105 million for half year 2015 to £1,033 million for half year 2016 comprises:

	Half year 2016 £m
Movement in unwind of discount and other expected returns:	
Effects of changes in:	
Interest rates	**(161)**
Foreign exchange	**23**
Growth in opening value and other items	**44**
	(94)
Movement in effect of changes in operating assumptions, experience variances and other items (including foreign exchange of £15 million)	**22**
Net movement in operating profit from business in force	**(72)**

(ii) Asia operations

	2016 £m	2015 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns[note (a)]	**384**	411	749
Effect of changes in operating assumptions:			
Mortality and morbidity	**-**	-	63
Persistency and withdrawals	**3**	4	(46)
Expense	**-**	(4)	(1)
Other	**(1)**	1	(4)
	2	1	12
Experience variances and other items:			
Mortality and morbidity[note (b)]	**28**	30	58
Persistency and withdrawals[note (c)]	**(24)**	(31)	20
Expense[note (d)]	**(8)**	(12)	(32)
Other	**9**	9	24
	5	(4)	70
Total Asia operations	**391**	408	831

Notes

(a) The decrease in unwind of discount and other expected returns of £(27) million from £411 million for half year 2015 to £384 million for half year 2016 comprises a £(75) million decrease from the decline in long-term interest rates across most territories, partially offset by a positive £8 million foreign exchange effect and a positive £40 million effect for the growth in the opening in-force value and other items.

(b) The positive mortality and morbidity experience variance in half year 2016 of £28 million (half year 2015: £30 million; full year 2015: £58 million) mainly reflected better than expected experience in a number of territories, particularly Hong Kong.

(c) The negative £(24) million for persistency and withdrawals experience in half year 2016 comprises positive and negative contributions from various operations, with positive persistency experience on health and protection products which was more than offset by negative experience on unit-linked products.

(d) The expense experience variance in half year 2016 of negative £(8) million (half year 2015: £(12) million; full year 2015: £(32) million), is driven by operations which are currently sub-scale (China, Malaysia Takaful and Taiwan) and from short-term overruns in India.

(iii) US operations

	2016 £m	2015 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns[note (a)]	**209**	236	472
Effect of changes in operating assumptions:			
Persistency	**-**	-	139
Other	**-**	-	(24)
	-	-	115
Experience variances and other items:			
Spread experience variance[note (b)]	**60**	70	149
Amortisation of interest-related realised gains and losses[note (c)]	**39**	39	70
Other[note (d)]	**75**	96	193
	174	205	412
Total US operations	**383**	441	999

Notes

(a) The decrease in unwind of discount and other expected returns of £(27) million from £236 million for half year 2015 to £209 million for half year 2016 comprises a £(53) million impact of the 90 basis points decrease in US 10-year treasury rates since 30 June 2015, partially offset by a positive £15 million foreign currency translation effect and a positive £11 million effect for the underlying growth in the in-force book and other items.

(b) 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 half year 2016 of £60 million (half year 2015: £70 million; full year 2015: £149 million) includes the positive effect of transactions previously undertaken to more closely match the overall asset and liability duration. The reduction compared to the prior 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 year when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(d) Other experience variances of £75 million in half year 2016 (half year 2015: £96 million; full year 2015: £193 million) include the effects of positive persistency experience and other variances. The full year 2015 result also benefited from higher levels of tax relief from prior period adjustments.

(iv) UK insurance operations

	2016 £m	2015 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns[note (a)]	**205**	245	488
Reduction in corporate tax rate[note (b)]	**-**	-	55
Other items[note (c)]	**54**	11	2
Total UK insurance operations*	**259**	256	545

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

Notes

(a) The decrease in unwind of discount and expected returns of £(40) million from half year 2015 of £245 million to £205 million for half year 2016 comprises a £(33) million effect driven by the 100 basis points decrease in 15-year gilt yields since 30 June 2015, a positive £7 million effect for the underlying growth in the in-force book and other items and a negative £(14) million representing the net effect on the UK unwind of adopting the Solvency II regime.

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

(c) Other items comprise the following:

	2016 £m	2015 £m	
	Half year	Half year	Full year
Longevity reinsurance	**(10)**	(46)	(134)
Impact of specific management actions to improve solvency position[note (d)]	**41**	-	75
Other items[note (e)]	**23**	57	61
	54	11	2

(d) The £41 million (half year 2015: nil; full year 2015: £75 million) benefit arises from the specific management actions to improve solvency, including the effect of repositioning the fixed income asset portfolio.

(e) The half year 2016 credit of £23 million (half year 2015: £57 million; full year 2015: £61 million) comprises assumption updates and experience variances for mortality, expense, persistency and other items.

6 Short-term fluctuations in investment returns

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

(i) Group summary

	2016 £m	2015 £m	
	Half year	Half year	Full year
Asia operations[note (ii)]	**383**	(79)	(206)
US operations[note (iii)]	**(237)**	(271)	(753)
UK insurance operations[note (iv)]	**506**	(32)	(194)
Other operations[note (v)]	**(163)**	15	(55)
Total	**489**	(367)	(1,208)

(ii) Asia operations

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

	2016 £m	2015 £m	
	Half year	Half year	Full year
Hong Kong	**237**	(24)	(144)
Indonesia	**22**	(27)	(53)
Singapore	**26**	(46)	(104)
Taiwan	**47**	(5)	44
Other	**51**	23	51
Total Asia operations[note]	**383**	(79)	(206)

Note

For half year 2016, the credit of £383 million principally arises from unrealised gains on bonds backing surplus assets driven by decreases in long-term interest rates (as shown in note14(i)).

(iii) US operations

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

	2016 £m	2015 £m	
	Half year	Half year	Full year
Investment return related experience on fixed income securities[note (a)]	**(64)**	(25)	(17)
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 items[note (b)]	**(173)**	(246)	(736)
Total US operations	**(237)**	(271)	(753)

Notes

(a) The charge relating to fixed income securities comprises the following elements:
- the impact on portfolio yields of changes in the asset portfolio in the 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 in the current period and that assumed at the start of the period; and
- related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

(iv) UK insurance operations

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

	2016 £m	2015 £m	
	Half year	Half year	Full year
Shareholder-backed annuity business[note (a)]	**335**	(90)	(88)
With-profits and other[note (b)]	**171**	58	(106)
Total UK insurance operations*	**506**	(32)	(194)

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

Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise:
- gains (losses) on surplus assets compared to the expected long-term rate of return reflecting reductions (increases) in corporate bond and gilt yields; and
- the difference between actual and expected default experience.

(b) The £171 million fluctuation in half year 2016 for with-profits, unit-linked and other business represents the impact of achieving a 5.3 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 2.3 per cent (half year 2015: total return of 3.0 per cent compared to assumed rate of 2.95 per cent; full year 2015: total return of 3.1 per cent compared to assumed rate of 5.4 per cent), and a beneficial effect of an increase in future unit-linked fee income arising from market movements. The fluctuations for with-profits and other business 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 negative £(163) million (half year 2015: positive £15 million; full year 2015: negative £(55) million) include unrealised value movements on investments held outside of the main life operations and exchange movements.

7 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

	2016 £m	2015 £m	
	Half year	Half year	Full year
Asia operations[note (ii)]	**(586)**	14	(148)
US operations[note (iii)]	**(542)**	36	109
UK insurance operations[note (iv)]	**(217)**	30	96
Total	**(1,345)**	80	57

(ii) Asia operations

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

	2016 £m	2015 £m	
	Half year	Half year	Full year
Hong Kong	**(483)**	103	100
Indonesia	**89**	(36)	(15)
Malaysia	**9**	(19)	(30)
Singapore	**(20)**	(24)	(50)
Taiwan	**(78)**	2	(97)
Other	**(103)**	(12)	(56)
Total Asia operations[note]	**(586)**	14	(148)

Note

The negative effect for half year 2016 of £(586) million arises across most territories principally reflecting a decrease in fund earned rates driven by the decline in long-term interest rates. There are partial offsetting impacts arising in Indonesia and Malaysia reflecting the positive impact of valuing future health and protection profits at lower discount rates, driven by the decrease in long-term interest rates (see note 14(i)).

(iii) US operations

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

	2016 £m	2015 £m	
	Half year	Half year	Full year
Variable annuity business	**(709)**	81	104
Fixed annuity and other general account business	**167**	(45)	5
Total[note]	**(542)**	36	109

Note

For half year 2016, the charge of £(542) million mainly reflects the decrease in the assumed separate account return and reinvestment rates for variable annuity business, following the 80 basis points decrease in the US 10-year treasury rate (half year 2015: 20 basis points increase; full year 2015: 10 basis points increase), resulting in lower projected fee income and an increase in projected benefit costs.

(iv) UK insurance operations

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

	2016 £m	2015 £m	
	Half year	Half year	Full year
Shareholder-backed annuity business[note (a)]	**(24)**	(113)	(56)
With-profits and other business[note (b)]	**(193)**	143	152
Total UK insurance operations*	**(217)**	30	96

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

Notes

(a) For shareholder-backed annuity business the overall negative effect of £(24) million for half year 2016 (half year 2015: £(113) million; full year 2015: £(56) million) reflects an increase in the cost of capital, driven by the lower interest rates, offset by the change in the present value of projected spread income arising mainly from the adoption of lower risk discount rates as shown in note 14(iii).

(b) The change of £(193) million for half year 2016 (half year 2015: £143 million; full year 2015: £152 million) reflects the net effect of lower expected future fund earned rates (as shown in note 14(iii)), driven by the 90 basis points decrease in 15-year gilt rates (half year 2015: 30 basis points increase; full year 2015: 20 basis points increase).

8 Net core structural borrowings of shareholder-financed operations

	2016 £m			2015 £m					
	30 Jun			30 Jun			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* cash and short-term investments	**(2,546)**	**-**	**(2,546)**	(2,094)	-	(2,094)	(2,173)	-	(2,173)
Central funds[note]									
Subordinated debt	**4,956**	**192**	**5,148**	3,897	295	4,192	4,018	211	4,229
Senior debt	**549**	**171**	**720**	549	147	696	549	142	691
	5,505	**363**	**5,868**	4,446	442	4,888	4,567	353	4,920
Holding company net borrowings	**2,959**	**363**	**3,322**	2,352	442	2,794	2,394	353	2,747
Prudential Capital bank loan	**275**	**-**	**275**	275	-	275	275	-	275
Jackson Surplus Notes	**186**	**63**	**249**	159	51	210	169	55	224
Net core structural borrowings of shareholder-financed operations	**3,420**	**426**	**3,846**	2,786	493	3,279	2,838	408	3,246

* Including central finance subsidiaries.

Note

In June 2016, the Company issued core structural borrowings of $1,000 million 5.25 per cent subordinated notes due 2055. The proceeds, net of costs, were £681 million (£738 million carrying value on IFRS basis, net of costs, translated at 30 June 2016 closing rate). The movement in IFRS basis core structural borrowings from full year 2015 to half year 2016 also includes foreign exchange effects.

9 Reconciliation of movement in shareholders' equity

	Half year 2016 £m						
	Long-term business operations						
	Asia operations note (i)	US operations	UK insurance operations*	Total long-term business operations	Asset management and UK general insurance commission	Other operations note (i)	Group Total
Operating profit (based on longer-term investment returns)							
Long-term business:							
New business[note 4]	**824**	**311**	**125**	**1,260**	**-**	**-**	**1,260**
Business in force[note 5]	**391**	**383**	**259**	**1,033**	**-**	**-**	**1,033**
	1,215	**694**	**384**	**2,293**	**-**	**-**	**2,293**
Asset management and general insurance commission	**-**	**-**	**-**	**-**	**252**	**-**	**252**
Other results	**-**	**-**	**(11)**	**(11)**	**-**	**(271)**	**(282)**
Operating profit based on longer-term investment returns	**1,215**	**694**	**373**	**2,282**	**252**	**(271)**	**2,263**
Total non-operating (loss) profit	**(203)**	**(786)**	**289**	**(700)**	**(61)**	**(108)**	**(869)**
Profit for the period	**1,012**	**(92)**	**662**	**1,582**	**191**	**(379)**	**1,394**
Other items taken directly to equity							
Exchange movements on foreign operations and net investment hedges	**1,881**	**944**	**-**	**2,825**	**55**	**(217)**	**2,663**
Intra-group dividends (including statutory transfers) and investment in operations[note (ii)]	**(282)**	**(314)**	**20**	**(576)**	**(189)**	**765**	**-**
External dividends	**-**	**-**	**-**	**-**	**-**	**(935)**	**(935)**
Mark to market value movements on Jackson assets backing surplus and required capital	**-**	**138**	**-**	**138**	**-**	**-**	**138**
Other movements[note (iii)]	**-**	**(13)**	**(60)**	**(73)**	**48**	**(140)**	**(165)**
Net increase in shareholders' equity	**2,611**	**663**	**622**	**3,896**	**105**	**(906)**	**3,095**
Shareholders' equity at beginning of period:							
As previously reported	**13,643**	**9,487**	**9,647**	**32,777**	**2,354**	**(2,772)**	**32,359**
Effect of implementation of Solvency II[note 2]	**-**	**-**	**(473)**	**(473)**	**-**	**-**	**(473)**
Other opening adjustments[note (v)]	**66**	**-**	**279**	**345**	**-**	**(345)**	**-**
	13,709	**9,487**	**9,453**	**32,649**	**2,354**	**(3,117)**	**31,886**
Shareholders' equity at end of period	**16,320**	**10,150**	**10,075**	**36,545**	**2,459**	**(4,023)**	**34,981**
Representing:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	**4,615**	**5,056**	**6,126**	**15,797**	**1,229**	**(3,909)**	**13,117**
Goodwill	**-**	**-**	**-**	**-**	**1,230**	**258**	**1,488**
Total IFRS basis shareholders' equity	**4,615**	**5,056**	**6,126**	**15,797**	**2,459**	**(3,651)**	**14,605**
Additional retained profit (loss) on an EEV basis[note (iv)]	**11,705**	**5,094**	**3,949**	**20,748**	**-**	**(372)**	**20,376**
EEV basis shareholders' equity	**16,320**	**10,150**	**10,075**	**36,545**	**2,459**	**(4,023)**	**34,981**
Balance at beginning of period:*							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	3,789	4,154	5,397	13,340	1,124	(2,972)	11,492
Goodwill	-	-	-	-	1,230	233	1,463
Total IFRS basis shareholders' equity	3,789	4,154	5,397	13,340	2,354	(2,739)	12,955
Additional retained profit (loss) on an EEV basis[note (iv)]	9,920	5,333	4,056	19,309	-	(378)	18,931
EEV basis shareholders' equity	13,709	9,487	9,453	32,649	2,354	(3,117)	31,886

* The half year 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. The balance at beginning of period has been presented after the adjustments for the impact of Solvency II for UK insurance operations at 1 January 2016 (see note 2 for details), together with the effect of a classification change (see note (v) below).

Notes

(i) Other operations of £(4,023) million represents the shareholders' equity of £(4,281) million for other operations as shown in the movement in shareholders' equity and includes goodwill of £258 million (half year 2015: £231 million; full year 2015: £233 million) related to Asia long-term operations.

(ii) Intra-group dividends (including statutory transfers) represents dividends that have been declared in the period and investments in operations reflect increases in share capital. The amounts included in note 11 for these items are as per the holding company cash 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 share capital subscribed, share-based payments and treasury shares.

(iv) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(363) million (half year 2015: £(442) million; full year 2015: £(353) million), as shown in note 8.

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

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

	Half year 2016 £m				
	Free surplus note 11	Required capital	Total net worth	Value of in-force business note (i)	Total long-term business operations
Group*					
Shareholders' equity at beginning of period:					
As previously reported	**5,642**	**4,705**	**10,347**	**22,430**	**32,777**
Opening adjustments*	**(1,473)**	**4,578**	**3,105**	**(3,233)**	**(128)**
	4,169	**9,283**	**13,452**	**19,197**	**32,649**
New business contribution	**(502)**	**347**	**(155)**	**1,415**	**1,260**
Existing business – transfer to net worth	**1,437**	**(361)**	**1,076**	**(1,076)**	**-**
Expected return on existing business[note 5]	**48**	**108**	**156**	**642**	**798**
Changes in operating assumptions and experience variances[note 5]	**385**	**(115)**	**270**	**(35)**	**235**
Solvency II and restructuring costs	**(11)**	**-**	**(11)**	**-**	**(11)**
Post-tax operating profit	**1,357**	**(21)**	**1,336**	**946**	**2,282**
Non-operating items	**(812)**	**583**	**(229)**	**(471)**	**(700)**
Profit after tax from long-term business	**545**	**562**	**1,107**	**475**	**1,582**
Exchange movements on foreign operations and net investment hedges	**329**	**382**	**711**	**2,114**	**2,825**
Intra-group dividends and investment in operations	**(576)**	**-**	**(576)**	**-**	**(576)**
Other movements	**67**	**(1)**	**66**	**(1)**	**65**
Shareholders' equity at end of period*	**4,534**	**10,226**	**14,760**	**21,785**	**36,545**
Asia operations					
New business contribution	**(237)**	**67**	**(170)**	**994**	**824**
Existing business – transfer to net worth	**559**	**(69)**	**490**	**(490)**	**-**
Expected return on existing business[note 5]	**15**	**24**	**39**	**345**	**384**
Changes in operating assumptions and experience variances[note 5]	**29**	**48**	**77**	**(70)**	**7**
Post-tax operating profit	**366**	**70**	**436**	**779**	**1,215**
Non-operating items	**(29)**	**167**	**138**	**(341)**	**(203)**
Profit after tax from long-term business	**337**	**237**	**574**	**438**	**1,012**
US operations					
New business contribution	**(209)**	**189**	**(20)**	**331**	**311**
Existing business – transfer to net worth	**555**	**(97)**	**458**	**(458)**	**-**
Expected return on existing business[note 5]	**22**	**24**	**46**	**163**	**209**
Changes in operating assumptions and experience variances[note 5]	**124**	**(3)**	**121**	**53**	**174**
Post-tax operating profit	**492**	**113**	**605**	**89**	**694**
Non-operating items	**(242)**	**(132)**	**(374)**	**(412)**	**(786)**
Profit after tax from long-term business	**250**	**(19)**	**231**	**(323)**	**(92)**
UK insurance operations*					
New business contribution	**(56)**	**91**	**35**	**90**	**125**
Existing business – transfer to net worth	**323**	**(195)**	**128**	**(128)**	**-**
Expected return on existing business[note 5]	**11**	**60**	**71**	**134**	**205**
Changes in operating assumptions and experience variances[note 5]	**232**	**(160)**	**72**	**(18)**	**54**
Solvency II and restructuring costs	**(11)**	**-**	**(11)**	**-**	**(11)**
Post-tax operating profit	**499**	**(204)**	**295**	**78**	**373**
Non-operating items	**(541)**	**548**	**7**	**282**	**289**
Profit after tax from long-term business*	**(42)**	**344**	**302**	**360**	**662**

* The half year 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. Opening adjustments represent the impact of Solvency II for UK insurance operations at 1 January 2016 (as explained in note 2), together with the effect of a classification change, as discussed in note 9(v).

Notes

(i) 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:

	30 Jun 2016 £m			
	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	**13,442**	**8,225**	**3,405**	**25,072**
Cost of capital	**(605)**	**(191)**	**(716)**	**(1,512)**
Cost of time value of guarantees[note (ii)]	**(168)**	**(1,607)**	**-**	**(1,775)**
Net value of in-force business	**12,669**	**6,427**	**2,689**	**21,785**
Total net worth	**3,651**	**3,723**	**7,386**	**14,760**
Total embedded value	**16,320**	**10,150**	**10,075**	**36,545**

	31 Dec 2015* £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	11,279	7,355	3,043	21,677
Cost of capital	(438)	(229)	(713)	(1,380)
Cost of time value of guarantees[note (ii)]	(88)	(1,012)	-	(1,100)
Net value of in-force business	10,753	6,114	2,330	19,197
Total net worth	2,956	3,373	7,123	13,452
Total embedded value	13,709	9,487	9,453	32,649

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

(ii) The increase in the cost of time value of guarantees for US operations from £(1,012) million at 31 December 2015 to £(1,607) million at 30 June 2016 primarily relates to variable annuity business, mainly arising from the decrease in the expected long-term separate account rate of return following the 80 basis points decline in the US 10-year treasury bond yield and the level of equity market performance.

11 Analysis of movement in free surplus

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

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

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

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

	Half year 2016 £m	Half year 2015 £m		% change	
		AER	CER	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	**603**	519	529	16%	14%
Investment in new business[note (iii)(a)]	**(237)**	(213)	(217)	(11)%	(9)%
Long-term business	**366**	306	312	20%	17%
Eastspring Investments[note (iii)(b)]	**53**	50	52	6%	2%
Total	**419**	356	364	18%	15%
US operations					
Underlying free surplus generated from in-force life business	**701**	700	746	0%	(6)%
Investment in new business[note (iii)(a)]	**(209)**	(164)	(175)	(27)%	(19)%
Long-term business	**492**	536	571	(8)%	(14)%
Broker-dealer and asset management[note (iii)(b)]	**(8)**	8	8	(200)%	(200)%
Total	**484**	544	579	(11)%	(16)%
UK insurance operations*					
Underlying free surplus generated from in-force life business	**555**	352	352	58%	58%
Investment in new business[note (iii)(a)]	**(56)**	(57)	(57)	2%	2%
Long-term business	**499**	295	295	69%	69%
General insurance commission[note (iii)(b)]	**15**	14	14	7%	7%
Total	**514**	309	309	66%	66%
M&G[note (iii)(b)]	**181**	203	203	(11)%	(11)%
Prudential Capital[note (iii)(b)]	**11**	6	6	83%	83%
Underlying free surplus generated from insurance and asset management operations	**1,609**	1,418	1,461	13%	10%
Representing:					
Long-term business:*					
Expected in-force cash flows (including expected return on net assets)	**1,485**	1,418	1,465	5%	1%
Effects of changes in operating assumptions, operating experience variances and other operating items	**374**	153	162	144%	131%
Underlying free surplus generated from in-force life business	**1,859**	1,571	1,627	18%	14%
Investment in new business[note (iii)(a)]	**(502)**	(434)	(449)	(16)%	(12)%
Total long-term business	**1,357**	1,137	1,178	19%	15%
Asset management and general insurance commission[note (iii)(b)]	**252**	281	283	(10)%	(11)%
	1,609	1,418	1,461	13%	10%

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

(ii) Underlying free surplus generated – total Group

	Half year 2016 £m	Half year 2015 £m AER	Half year 2015 £m CER	% change AER	% change CER
Underlying free surplus generated from insurance and asset management operations[note (iii)(b)]	**1,609**	1,418	1,461	13%	10%
Other income and expenditure net of restructuring and Solvency II costs[note (iii) (b)]	**(308)**	(285)	(285)	(8)%	(8)%
Interest received from tax settlement	**37**	-	-	100%	100%
Total underlying free surplus generated, including other operations	**1,338**	1,133	1,176	18%	14%

(iii) Movement in free surplus

Long-term business and asset management operations*	**Long-term business** note 10	**Asset management and UK general insurance commission** note (b)	**Total insurance and asset management operations**	**Central and other operations** note (b)	**Group total**
	Half year 2016 £m				
Underlying free surplus generated	**1,357**	**252**	**1,609**	**(271)**	**1,338**
Other non-operating items[note (c)]	**(812)**	**(61)**	**(873)**	**(129)**	**(1,002)**
	545	**191**	**736**	**(400)**	**336**
Net cash flows to parent company[note (d)]	**(830)**	**(288)**	**(1,118)**	**1,118**	**-**
External dividends	**-**	**-**	**-**	**(935)**	**(935)**
Exchange movements, timing differences and other items[note (e)]	**650**	**202**	**852**	**205**	**1,057**
Net movement in free surplus	**365**	**105**	**470**	**(12)**	**458**
Balance at 1 January 2016:					
Balance at beginning of period	**5,642**	**1,124**	**6,766**	**1,224**	**7,990**
Opening adjustments**	**(1,473)**	**-**	**(1,473)**	**(345)**	**(1,818)**
	4,169	**1,124**	**5,293**	**879**	**6,172**
Balance at end of period	**4,534**	**1,229**	**5,763**	**867**	**6,630**
Representing:					
Asia operations			**2,120**	**-**	**2,120**
US operations			**1,937**	**-**	**1,937**
UK operations			**1,706**	**-**	**1,706**
Other operations[note (b)]			**-**	**867**	**867**
			5,763	**867**	**6,630**
Balance at 1 January 2016:					
Asia operations			1,814	-	1,814
US operations			1,733	-	1,733
UK operations			1,746	-	1,746
Other operations[note (b)]			-	879	879
			5,293	879	6,172

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

** Opening adjustments represent the impact of adopting Solvency II at 1 January 2016 (as explained in note 2), together with the effect of a reclassification between long-term business and other operations, as discussed in note 9(v).

Long-term business and asset management operations*	**Long-term business**	**Asset management and UK general insurance commission** note (b)	**Total insurance and asset management operations**	**Central and other operations** note (b)	**Group total**
	Half year 2015 £m				
Underlying free surplus generated	1,137	281	1,418	(285)	1,133
Disposal of Japan Life business	23	-	23	-	23
Other non-operating items[note (c)]	(141)	(4)	(145)	37	(108)
	1,019	277	1,296	(248)	1,048
Net cash flows to parent company[note (d)]	(910)	(158)	(1,068)	1,068	-
External dividends	-	-	-	(659)	(659)
Exchange movements, timing differences and other items[note (e)]	27	(10)	17	456	473
Net movement in free surplus	136	109	245	617	862
Balance at beginning of period	4,193	866	5,059	1,439	6,498
Balance at end of period	4,329	975	5,304	2,056	7,360

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

Long-term business and asset management operations*	Full year 2015 £m Long-term business	Asset management and UK general insurance commission note (b)	Total insurance and asset management operations	Central and other operations note (b)	Group total
Underlying free surplus generated	2,544	506	3,050	(588)	2,462
Disposal of Japan Life business	23	-	23	-	23
Other non-operating items[note (c)]	(407)	(53)	(460)	29	(431)
	2,160	453	2,613	(559)	2,054
Net cash flows to parent company[note (d)]	(1,271)	(354)	(1,625)	1,625	-
External dividends	-	-	-	(974)	(974)
Exchange movements, timing differences and other items[note (e)]	560	159	719	(307)	412
Net movement in free surplus	1,449	258	1,707	(215)	1,492
Balance at beginning of period	4,193	866	5,059	1,439	6,498
Balance at end of period	5,642	1,124	6,766	1,224	7,990

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

Notes

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

(b) Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post 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 movements, timing differences and other items represent:

	Half 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 movements[note 10]	**329**	**55**	**384**	**50**	**434**
Mark to market value movements on Jackson assets backing surplus and required capital[note 9]	**138**	**-**	**138**	**-**	**138**
Other items[note (f)]	**183**	**147**	**330**	**155**	**485**
	650	**202**	**852**	**205**	**1,057**

	Half year 2015 £m Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange movements	(64)	(7)	(71)	(16)	(87)
Mark to market value movements on Jackson assets backing surplus and required capital	(8)	-	(8)	-	(8)
Other items[note (f)]	99	(3)	96	472	568
	27	(10)	17	456	473

	Full year 2015 £m Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange movements	67	3	70	10	80
Mark to market value movements on Jackson assets backing surplus and required capital	(76)	-	(76)	-	(76)
Other items[note (f)]	569	156	725	(317)	408
	560	159	719	(307)	412

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

12 Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2016 and 31 December 2015 and the new business contribution after the effect of required capital for half year 2016 and full year 2015 to:

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

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

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 2016 £m				Full year 2015 £m			
	Asia operations	**US operations**	**UK insurance operations***	**Total long-term business operations***	Asia operations	US operations	UK insurance operations	Total long-term business operations
New business contribution[note 4]	**824**	**311**	**125**	**1,260**	1,490	809	318	2,617
Discount rates – 1% increase	**(160)**	**(16)**	**(14)**	**(190)**	(260)	(38)	(40)	(338)
Interest rates – 1% increase	**58**	**41**	**5**	**104**	28	80	7	115
Interest rates – 1% decrease	**-**	**-**	**-**	**-**	(78)	(127)	(9)	(214)
Interest rates – 0.5% decrease	**(87)**	**(31)**	**(7)**	**(125)**	-	-	-	-
Equity/property yields – 1% rise	**43**	**47**	**3**	**93**	73	95	20	188
Long-term expected defaults – 5 bps increase	**-**	**-**	**(1)**	**(1)**	-	-	(8)	(8)

Embedded value of long-term business operations

	30 Jun 2016 £m				31 Dec 2015 £m			
	Asia operations	**US operations**	**UK insurance operations***	**Total long-term business operations***	Asia operations	US operations	UK insurance operations	Total long-term business operations
Shareholders' equity[note 9]	**16,320**	**10,150**	**10,075**	**36,545**	13,643	9,487	9,647	32,777
Discount rates – 1% increase	**(1,733)**	**(266)**	**(762)**	**(2,761)**	(1,448)	(271)	(586)	(2,305)
Interest rates – 1% increase	**(276)**	**(145)**	**(252)**	**(673)**	(380)	(46)	(328)	(754)
Interest rates – 1% decrease	**-**	**-**	**-**	**-**	132	(93)	426	465
Interest rates – 0.5% decrease	**(238)**	**(53)**	**126**	**(165)**	-	-	-	-
Equity/property yields – 1% rise	**601**	**676**	**206**	**1,483**	506	514	271	1,291
Equity/property market values – 10% fall	**(328)**	**(69)**	**(483)**	**(880)**	(246)	(411)	(373)	(1,030)
Statutory minimum capital	**203**	**123**	**-**	**326**	148	162	4	314
Long-term expected defaults – 5 bps increase	**-**	**-**	**(135)**	**(135)**	-	-	(141)	(141)

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

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

(b) Effect of change in future UK corporate tax rate announced in March 2016

The Finance Bill announced on 24 March 2016, includes a reduction in the UK corporate tax rate from 18 per cent to 17 per cent effective from 1 April 2020 (see note 14). The impact of this change has not been factored in the EEV results or shareholders' equity at 30 June 2016 as it has not been substantively enacted by the end of the reporting period. Had the half year 2016 EEV results been prepared on the basis of this new tax rate, the net of tax value of in-force business of UK insurance operations at 30 June 2016 would have been higher by around £25 million.

13 Methodology and accounting presentation

(a) Methodology

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

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

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

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

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

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

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

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

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

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

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

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

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

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-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 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 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 the IFRS basis.

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

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

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

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

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

(iv) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business
Asia operations
Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

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

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

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for all periods, depending on the particular product, jurisdiction where issued, and date of issue. For half year 2016, 87 per cent (half year 2015: 86 per cent; full year 2015: 87 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 (half year 2015: 2.7 per cent; full year 2015: 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 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 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 policyholder's value in the event of poor equity market performance. Jackson hedges the GMDB and GMWB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

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

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

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses - annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The PAC with-profits fund also held a provision on the Solvency II basis of £54 million at 30 June 2016 (Pillar I Peak 2 basis at 30 June 2015: £50 million; Pillar I Peak 2 basis at 31 December 2015: £47 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 £575 million was held in SAIF at 30 June 2016 (Pillar I Peak 2 basis at 30 June 2015: £471 million; Pillar I Peak 2 basis at 31 December 2015: £412 million) to honour the guarantees. As described in note 13(a)(i), the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders.

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

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

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

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

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

For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. 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 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 of UK insurance operations as a whole; for half year and full year 2015 the capital requirements were set to an amount at least equal to the higher of Solvency I Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole.

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

(vii) Internal asset management
The new business and in-force results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current 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 covered business assets.

(viii) Allowance for risk and risk discount rates

Overview

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

For Asia and US operations, the risk-free rate is based on a 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 using a flat 15-year gilt rate (as for half year and full year 2015). This yield curve 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:

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

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

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

Asia operations

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

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

US operations (Jackson)

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

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

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

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

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

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

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

In the annuity MCEV calculations, as the assets are generally held to maturity to match 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 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 14(iii).

In half year and full year 2015, the allowance for liquidity premium was 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.

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

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

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

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's 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. For the Group's US business and UK business, no additional allowance is necessary.

For UK shareholder-backed annuity business for half year and full year 2015, a further allowance of 50 basis points was used to reflect the longevity risk, which is covered by the solvency capital requirements following the implementation of Solvency II from 1 January 2016.

(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 rates of exchange. The principal exchange rates are shown in note A1 of the IFRS statements.

(x) Taxation
In determining the post-tax profit for the 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 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 EEV results are calculated after taking account of the impact of contingent loan arrangements between Group companies.

(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 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.

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.

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

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

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end-of-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 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 result for the period.

(iii) Unwind of discount and other expected returns
The unwind of discount and other expected returns is determined by reference to:

— the value of in-force business at the beginning of the period (adjusted for the effect of current period economic and operating assumption changes); and
— required capital and surplus assets.

UK operations
In applying this general approach, the unwind of discount included in operating profit is determined by reference to the following:

— The unwind is determined by reference to an implied single risk discount rate for half year 2016. Following the implementation of Solvency II the EEV risk-free rate is based on a yield curve (as set out in note 13a(viii) above). This yield curve is used to derive a single implied discount rate which, if this rate had been used, would reproduce the same embedded value as that calculated by reference to the yield curve. The difference between the operating profit determined using the single implied discount rate and that derived using the yield curve is included within non-operating profit.

- For with-profits business, the opening value of in-force, is 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 30 June 2016 the shareholders' interest in the smoothed surplus assets used for this purpose only, were £21 million lower (30 June 2015: £104 million lower; 31 December 2015: £58 million lower) than the surplus assets carried in the statement of financial position.

(iv) Effect of changes in operating assumptions
Operating profit includes the effect of changes to non-economic assumptions on the value of in-force at the end of the period. 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-period assumptions (see note 13(b)(v) below).

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

(vi) Effect of changes in economic assumptions
Movements in the value of in-force business at the beginning of the period 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. For UK insurance operations, the effect is after allowing for the recalculation of transitional measures on technical provisions.

14 Assumptions

Principal economic assumptions

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

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

(i) Asia operations[notes (b), (c)]

The risk-free rates of return for Asia operations are defined as 10-year government bond yields at the end of the period.

	Risk discount rate %					
	New business			**In-force business**		
	2016	2015		**2016**	2015	
	30 Jun	30 Jun	31 Dec	**30 Jun**	30 Jun	31 Dec
China	**9.4**	10.2	9.4	**9.4**	10.2	9.4
Hong Kong[notes (b), (d)]	**3.0**	3.9	3.7	**2.9**	3.9	3.7
Indonesia	**11.5**	12.5	12.8	**11.5**	12.5	12.8
Korea	**5.9**	6.4	6.1	**4.0**	5.8	5.7
Malaysia[note (d)]	**6.3**	6.5	6.6	**6.4**	6.6	6.7
Philippines	**10.5**	11.2	11.3	**10.5**	11.2	11.3
Singapore[note (d)]	**3.6**	4.5	4.3	**4.5**	5.3	5.1
Taiwan	**3.8**	4.2	4.0	**3.3**	4.2	3.9
Thailand	**8.7**	9.7	9.3	**8.7**	9.7	9.3
Vietnam	**13.7**	13.6	13.8	**13.7**	13.6	13.8
Total weighted risk discount rate[note (a)]	**4.7**	6.5	5.9	**5.7**	6.6	6.4

	10-year government bond yield %			Expected long-term Inflation %		
	2016	2015		**2016**	2015	
	30 Jun	30 Jun	31 Dec	**30 Jun**	30 Jun	31 Dec
China	**2.9**	3.7	2.9	**2.5**	2.5	2.5
Hong Kong[notes (b), (d)]	**1.5**	2.4	2.3	**2.3**	2.3	2.3
Indonesia	**7.6**	8.5	8.9	**5.0**	5.0	5.0
Korea	**1.5**	2.5	2.1	**3.0**	3.0	3.0
Malaysia[note (d)]	**3.8**	4.0	4.2	**2.5**	2.5	2.5
Philippines	**3.7**	4.5	4.6	**4.0**	4.0	4.0
Singapore[note (d)]	**1.9**	2.7	2.6	**2.0**	2.0	2.0
Taiwan	**0.8**	1.5	1.0	**1.0**	1.0	1.0
Thailand	**2.0**	3.0	2.5	**3.0**	3.0	3.0
Vietnam	**6.9**	6.8	7.1	**5.5**	5.5	5.5

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 8.7 per cent (half year 2015: 3.5 per cent to 8.7 per cent; full year 2015: from 3.5 per cent to 8.6 per cent).

(d) The mean equity return assumptions for the most significant equity holdings of the Asia operations are:

	2016 %	2015 %	
	30 Jun	30 Jun	31 Dec
Hong Kong	**5.5**	6.4	6.3
Malaysia	**9.8**	10.0	10.2
Singapore	**7.9**	8.7	8.6

(ii) US operations

The risk-free rates of return for US operations are defined as 10-year treasury bond yields at the end of the period.

	2016 %	2015 %	
	30 Jun	30 Jun	31 Dec
Assumed new business spread margins:*			
Fixed annuity business:**			
January to June issues	**1.25**	1.25	1.25
July to December issues	**n/a**	n/a	1.50
Fixed index annuity business:			
January to June issues	**1.50**	1.50	1.50
July to December issues	**n/a**	n/a	1.75
Institutional business	**0.50**	0.70	0.70
Allowance for long-term defaults included in projected spread[note 13(a)(viii)]	**0.21**	0.24	0.24
Risk discount rate:			
Variable annuity:			
Risk discount rate	**6.0**	7.0	6.8
Additional allowance for credit risk included in risk discount rate[note 13(a)(viii)]	**0.2**	0.2	0.2
Non-variable annuity:			
Risk discount rate	**3.1**	4.1	3.9
Additional allowance for credit risk included in risk discount rate[note 13(a)(viii)]	**1.0**	1.0	1.0
Weighted average total:			
New business	**5.7**	6.9	6.7
In-force business	**5.4**	6.4	6.2
US 10-year treasury bond rate at end of period	**1.5**	2.4	2.3
Pre-tax expected long-term nominal rate of return for US equities	**5.5**	6.4	6.3
Expected long-term rate of inflation	**2.7**	2.9	2.8
Equity risk premium	**4.0**	4.0	4.0
S&P equity return volatility[note (v)]	**18.0**	18.0	18.0

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

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

(iii) UK insurance operations

Effective from 1 January 2016, following the implementation of Solvency II, the EEV risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period. For half year 2016, these yield curves are used to derive pre-tax expected long-term nominal rates of investment return and discount rates. For the purpose of determining the unwind of discount in the analysis of operating profit, these yield curves are used to derive a single risk discount rate, as explained in note 13(a)(viii).

For half year and full year 2015, risk-free rates of return and discount were based on a flat 15-year gilt rate at the end of the period.

The key economic assumptions are shown below for all periods, for half year 2016 the single risk discount rate is shown, along with the 15-year nominal rate of return based on the yield curve. For half and full year 2015 the long-term nominal rates of return are shown.

	2016 %	2015* %	
	30 Jun	30 Jun	31 Dec
Shareholder-backed annuity business:			
Risk discount rate:[note (a)]			
New business	**4.5**	6.4	5.7
In-force business	**4.2**	7.1	7.4
Pre-tax expected 15-year / long-term nominal rates of investment return:[note (b)]			
New business	**3.4**	3.4	3.5
In-force business	**2.9**	3.7	3.5
With-profits and other business:			
Risk discount rate:			
New business	**4.6**	5.9	5.6
In-force business	**4.6**	6.1	5.7
Pre-tax expected 15-year / long-term nominal rates of investment return:[note (b)]			
Overseas equities	**5.5 to 8.8**	6.4 to 8.9	6.3 to 9.4
Property	**4.3**	5.3	5.2
15-year gilt rate	**1.5**	2.5	2.4
Corporate bonds	**3.2**	4.1	4.1
Expected 15-year / long-term rate of inflation	**3.1**	3.3	3.1
Equity risk premium	**4.0**	4.0	4.0

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

Note

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

(b) The table below shows the pattern of the UK risk-free Solvency II spot yield curve at the end of 30 June 2016:

	30 Jun 2016 %				
Year	**1**	**5**	**10**	**15**	**20**
Risk-free rate	0.4	0.5	0.9	1.1	1.1

Stochastic assumptions

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

(iv) Asia operations

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

(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 for all periods shown, and the standard deviation of interest rates ranges from 2.3 per cent to 2.6 per cent (half year and full year 2015: from 2.2 per cent to 2.5 per cent).

(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 return plus a mean-reverting spread.
- Property returns are also modelled on a risk-free 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 all periods shown.

Operating assumptions

Best estimate assumptions

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

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

Demographic assumptions

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

Expense assumptions

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

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

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

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

Tax rates

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

The local standard corporate tax rates applicable for the most significant operations for 2015 and half year 2016 are as follows:

Standard corporate tax rates	%
Asia operations:	
Hong Kong	16.5 per cent on 5 per cent of premium income
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

* The sensitivity of the embedded value as at 30 June 2016 to the effect of the future reduction in the UK corporate tax rate announced in March 2016 is shown in note 12(b).

15 Total insurance and investment products new business[note (i)]

	Single			Regular			Annual premium and contribution equivalents (APE) note 13(a)(ii)			Present value of new business premiums (PVNBP) note 13(a)(ii)		
	2016 £m	2015 £m		**2016 £m**	2015 £m		**2016 £m**	2015 £m		**2016 £m**	2015* £m	
	Half year	Half year	Full year	**Half year**	Half year	Full year	**Half year**	Half year	Full year	**Half year**	Half year	Full year
Insurance operations												
Asia	**1,045**	1,241	2,120	**1,551**	1,242	2,641	**1,655**	1,366	2,853	**8,955**	7,340	15,208
US	**7,816**	8,574	17,286	**-**	-	-	**782**	857	1,729	**7,816**	8,574	17,286
UK retail**	**4,936**	3,022	6,955	**99**	91	179	**593**	393	874	**5,267**	3,355	7,561
Group total excluding bulk annuities	**13,797**	12,837	26,361	**1,650**	1,333	2,820	**3,030**	2,616	5,456	**22,038**	19,269	40,055
UK bulk annuities**	**-**	1,169	1,508	**-**	-	-	**-**	117	151	**-**	1,169	1,508
Group Total	**13,797**	14,006	27,869	**1,650**	1,333	2,820	**3,030**	2,733	5,607	**22,038**	20,438	41,563
Asia insurance operations												
Cambodia	**-**	-	-	**6**	3	8	**6**	3	8	**30**	17	38
Hong Kong	**506**	242	546	**817**	495	1,158	**868**	519	1,213	**5,045**	3,015	7,007
Indonesia	**84**	147	230	**117**	168	303	**125**	183	326	**486**	762	1,224
Malaysia	**52**	53	100	**104**	100	201	**109**	105	211	**630**	630	1,208
Philippines	**36**	79	146	**26**	21	44	**30**	29	59	**118**	146	287
Singapore	**174**	276	454	**125**	125	264	**142**	153	309	**1,063**	1,097	2,230
Thailand	**36**	34	69	**39**	45	88	**43**	48	95	**197**	207	422
Vietnam	**3**	3	6	**44**	34	82	**44**	34	83	**182**	140	343
SE Asia operations including Hong Kong	**891**	834	1,551	**1,278**	991	2,148	**1,367**	1,074	2,304	**7,751**	6,014	12,759
China[note (ii)]	**74**	259	308	**102**	63	111	**109**	89	142	**452**	487	739
Korea	**42**	102	182	**46**	64	123	**50**	74	141	**276**	398	780
Taiwan	**14**	27	45	**55**	58	127	**56**	61	131	**205**	209	442
India[note (iii)]	**24**	19	34	**70**	66	132	**73**	68	135	**271**	232	488
Total Asia insurance operations	**1,045**	1,241	2,120	**1,551**	1,242	2,641	**1,655**	1,366	2,853	**8,955**	7,340	15,208
US insurance operations												
Variable annuities	**4,995**	6,065	11,977	**-**	-	-	**500**	606	1,198	**4,995**	6,065	11,977
Elite Access (variable annuity)	**990**	1,656	3,144	**-**	-	-	**99**	166	314	**990**	1,656	3,144
Fixed annuities	**285**	233	477	**-**	-	-	**28**	23	48	**285**	233	477
Fixed index annuities	**277**	210	458	**-**	-	-	**28**	21	46	**277**	210	458
Wholesale	**1,269**	410	1,230	**-**	-	-	**127**	41	123	**1,269**	410	1,230
Total US insurance operations	**7,816**	8,574	17,286	**-**	-	-	**782**	857	1,729	**7,816**	8,574	17,286
UK and Europe insurance operations												
Individual annuities	**327**	279	565	**-**	-	-	**33**	28	57	**327**	279	565
Bonds	**1,956**	1,558	3,327	**-**	-	-	**196**	156	333	**1,957**	1,559	3,328
Corporate pensions	**60**	51	175	**68**	71	135	**74**	76	152	**258**	300	600
Individual pensions	**1,137**	480	1,185	**21**	14	32	**134**	62	150	**1,212**	536	1,295
Income drawdown	**808**	386	1,024	**-**	-	-	**81**	39	102	**808**	386	1,024
Other products	**648**	268	679	**10**	6	12	**75**	32	80	**705**	295	749
Total Retail	**4,936**	3,022	6,955	**99**	91	179	**593**	393	874	**5,267**	3,355	7,561
Bulk annuities	**-**	1,169	1,508	**-**	-	-	**-**	117	151	**-**	1,169	1,508
Total UK and Europe insurance operations	**4,936**	4,191	8,463	**99**	91	179	**593**	510	1,025	**5,267**	4,524	9,069
Group Total	**13,797**	14,006	27,869	**1,650**	1,333	2,820	**3,030**	2,733	5,607	**22,038**	20,438	41,563
Group total excluding UK bulk annuities	**13,797**	12,837	26,361	**1,650**	1,333	2,820	**3,030**	2,616	5,456	**22,038**	19,269	40,055

* For half year 2016, the risk discount rates used to calculate PVNBP for UK insurance operations are on a basis that reflects the Solvency II regime effective on 1 January 2016. The half year 2015 and full year 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for those periods (see note 2 for details).

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

Investment products - funds under management[notes (iv), (v), (vi)]

	Half year 2016 £m				
	1 January 2016	**Market gross inflows**	**Redemptions**	**Market exchange translation and other movements**	**30 Jun 2016**
Eastspring Investments	**30,281**	**6,163**	**(6,575)**	**2,859**	**32,728**
M&G	**126,405**	**9,731**	**(16,697)**	**10,217**	**129,656**
Group Total	**156,686**	**15,894**	**(23,272)**	**13,076**	**162,384**

	Half year 2015 £m				
	1 January 2015	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2015
Eastspring Investments	25,333	11,653	(7,092)	194	30,088
M&G	137,047	20,425	(22,800)	(1,272)	133,400
Group Total	162,380	32,078	(29,892)	(1,078)	163,488

Notes

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

The format of the tables shown above 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 PRA regulations.

The details shown above 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.

(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) Investment products referred to in the tables for fund under management above are unit trust, 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, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

(v) Investment flows for the half year exclude Eastspring Money Market Funds gross inflows of £62,302 million (half year 2015: inflows of £45,072 million) and net inflows of £656 million (half year 2015: net inflows of £609 million).

(vi) New business and market gross inflows and redemptions have been translated at an average exchange rate for the period applicable. Funds under management at points in time are translated at the exchange rate applicable to those dates.

Additional EEV 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. The half year 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. The half year 2015 and full year 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for those periods.

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(v)

(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: £		Half year 2016**	Half year 2015**	Half year 2016 vs half year 2015 appreciation (depreciation) of local currency against GBP
China	Average Rate	9.37	9.48	1%
	Closing Rate	8.88	9.75	9%
Hong Kong	Average Rate	11.13	11.81	6%
	Closing Rate	10.37	12.19	15%
India	Average Rate	96.30	95.76	(1)%
	Closing Rate	90.23	100.15	10%
Indonesia	Average Rate	19,222.95	19,760.02	3%
	Closing Rate	17,662.47	20,968.02	16%
Malaysia	Average Rate	5.87	5.55	(6)%
	Closing Rate	5.39	5.93	9%
Singapore	Average Rate	1.98	2.06	4%
	Closing Rate	1.80	2.12	15%
Thailand	Average Rate	50.81	50.21	(1)%
	Closing Rate	46.98	53.12	12%
US	Average Rate	1.43	1.52	6%
	Closing Rate	1.34	1.57	15%
Vietnam	Average Rate	31,996.45	32,832.81	3%
	Closing Rate	29,815.99	34,345.42	13%

** Average rate is for the 6 month period to 30 June.

* The additional financial information is not covered by the KPMG independent review opinion

Local currency: £		Half year 2016**	Full year 2015	Half year 2016 vs Full year 2015 appreciation (depreciation) of local currency against GBP
China	Average Rate	9.37	9.61	2%
	Closing Rate	8.88	9.57	7%
Hong Kong	Average Rate	11.13	11.85	6%
	Closing Rate	10.37	11.42	9%
India	Average Rate	96.30	98.08	2%
	Closing Rate	90.23	97.51	7%
Indonesia	Average Rate	19,222.95	20,476.93	6%
	Closing Rate	17,662.47	20,317.71	13%
Malaysia	Average Rate	5.87	5.97	2%
	Closing Rate	5.39	6.33	15%
Singapore	Average Rate	1.98	2.10	6%
	Closing Rate	1.80	2.09	14%
Thailand	Average Rate	50.81	52.38	3%
	Closing Rate	46.98	53.04	11%
US	Average Rate	1.43	1.53	6%
	Closing Rate	1.34	1.47	9%
Vietnam	Average Rate	31,996.45	33,509.21	5%
	Closing Rate	29,815.99	33,140.64	10%

** Average rate is for the 6 month period to 30 June.

(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 the individual second half period in 2015 represent the difference between the year-to-date reported sterling results at the 2015 year end and the results for the first half year of 2015. The second half 2015 results therefore include foreign exchange movements from the first half period.
(1b) Insurance new business for overseas operations for 2015 has been calculated using constant exchange rates (CER).
(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. For half year 2016, the risk discount rates used to calculate PVNBP for UK insurance operations are on a basis that reflects the Solvency II regime effective on 1 January 2016. The half year 2015 and full year 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for those periods.
(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 period exclude year-to-date Eastspring Money Market Funds (MMF) gross inflows of £62,302 million (half year 2015: £45,072 million; full year 2015: £89,553 million) and net inflows of £656 million (half year 2015: net inflows £609 million; full year 2015: net inflows £1,066 million).
(9) Total Group Investment Operations funds under management exclude MMF funds under management of £7,421 million at 30 June 2016 (30 June 2015: £5,428 million; 31 December 2015: £6,006 million).
(10) The half year 2016 results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime effective from 1 January 2016. The half year 2015 and full year 2015 comparative results for UK insurance operations reflect the Solvency I basis being the regime applicable for those periods.
(11) Following Prudential’s withdrawal from the UK bulk annuity market, the 2015 comparative results for UK bulk annuities new business have been presented separately.

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

	Single			Regular			Annual Equivalents[2]			PVNBP[2]		
	2016 Half year £m	2015 Half year £m	+/- (%)	2016 Half year £m	2015 Half year £m	+/- (%)	2016 Half year £m	2015 Half year £m	+/- (%)	2016 Half year £m	2015 Half year £m	+/- (%)
Group Insurance Operations												
Asia [1a]	**1,045**	1,241	(16)%	**1,551**	1,242	25%	**1,655**	1,366	21%	**8,955**	7,340	22%
US[1a]	**7,816**	8,574	(9)%	**-**	-	N/A	**782**	857	(9)%	**7,816**	8,574	(9)%
UK retail[11]	**4,936**	3,022	63%	**99**	91	9%	**593**	393	51%	**5,267**	3,355	57%
Group total excluding UK bulk annuities	**13,797**	12,837	7%	**1,650**	1,333	24%	**3,030**	2,616	16%	**22,038**	19,269	14%
UK bulk annuities[11]	**-**	1,169	N/A	**-**	-	N/A	**-**	117	N/A	**-**	1,169	N/A
Group Total	**13,797**	14,006	(1)%	**1,650**	1,333	24%	**3,030**	2,733	11%	**22,038**	20,438	8%
Asia Insurance Operations[1a]												
Cambodia	**-**	-	N/A	**6**	3	100%	**6**	3	100%	**30**	17	76%
Hong Kong	**506**	242	109%	**817**	495	65%	**868**	519	67%	**5,045**	3,015	67%
Indonesia	**84**	147	(43)%	**117**	168	(30)%	**125**	183	(32)%	**486**	762	(36)%
Malaysia	**52**	53	(2)%	**104**	100	4%	**109**	105	4%	**630**	630	-
Philippines	**36**	79	(54)%	**26**	21	24%	**30**	29	3%	**118**	146	(19)%
Singapore	**174**	276	(37)%	**125**	125	-	**142**	153	(7)%	**1,063**	1,097	(3)%
Thailand	**36**	34	6%	**39**	45	(13)%	**43**	48	(10)%	**197**	207	(5)%
Vietnam	**3**	3	-	**44**	34	29%	**44**	34	29%	**182**	140	30%
SE Asia Operations inc. Hong Kong	**891**	834	7%	**1,278**	991	29%	**1,367**	1,074	27%	**7,751**	6,014	29%
China[6]	**74**	259	(71)%	**102**	63	62%	**109**	89	22%	**452**	487	(7)%
Korea	**42**	102	(59)%	**46**	64	(28)%	**50**	74	(32)%	**276**	398	(31)%
Taiwan	**14**	27	(48)%	**55**	58	(5)%	**56**	61	(8)%	**205**	209	(2)%
India[4]	**24**	19	26%	**70**	66	6%	**73**	68	7%	**271**	232	17%
Total Asia Insurance Operations	**1,045**	1,241	(16)%	**1,551**	1,242	25%	**1,655**	1,366	21%	**8,955**	7,340	22%
US Insurance Operations[1a]												
Variable annuities	**4,995**	6,065	(18)%	**-**	-	N/A	**500**	606	(17)%	**4,995**	6,065	(18)%
Elite Access (variable annuity)	**990**	1,656	(40)%	**-**	-	N/A	**99**	166	(40)%	**990**	1,656	(40)%
Fixed annuities	**285**	233	22%	**-**	-	N/A	**28**	23	22%	**285**	233	22%
Fixed index annuities	**277**	210	32%	**-**	-	N/A	**28**	21	33%	**277**	210	32%
Wholesale	**1,269**	410	210%	**-**	-	N/A	**127**	41	210%	**1,269**	410	210%
Total US Insurance Operations	**7,816**	8,574	(9)%	**-**	-	N/A	**782**	857	(9)%	**7,816**	8,574	(9)%
UK & Europe Insurance Operations												
Individual annuities	**327**	279	17%	**-**	-	N/A	**33**	28	18%	**327**	279	17%
Bonds	**1,956**	1,558	26%	**-**	-	N/A	**196**	156	26%	**1,957**	1,559	26%
Corporate pensions	**60**	51	18%	**68**	71	(4%)	**74**	76	(3)%	**258**	300	(14)%
Individual pensions	**1,137**	480	137%	**21**	14	50%	**134**	62	116%	**1,212**	536	126%
Income drawdown	**808**	386	109%	**-**	-	N/A	**81**	39	108%	**808**	386	109%
Other products	**648**	268	142%	**10**	6	67%	**75**	32	134%	**705**	295	139%
Total UK Retail	**4,936**	3,022	63%	**99**	91	9%	**593**	393	51%	**5,267**	3,355	57%
UK bulk annuities	-	1,169	N/A	**-**	-	N/A	**-**	117	N/A	**-**	1,169	N/A
Total UK & Europe Insurance Operations	**4,936**	4,191	18%	**99**	91	9%	**593**	510	16%	**5,267**	4,524	16%
Group Total	**13,797**	14,006	(1)%	**1,650**	1,333	24%	**3,030**	2,733	11%	**22,038**	20,438	8%
Group total excluding UK bulk annuities[11]	**13,797**	12,837	7%	**1,650**	1,333	24%	**3,030**	2,616	16%	**22,038**	19,269	14%

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 2015.

	Single			Regular			Annual Equivalents(2)			PVNBP(2)		
	2016 Half year £m	2015 Half year £m	+/- (%)	2016 Half year £m	2015 Half year £m	+/- (%)	2016 Half year £m	2015 Half year £m	+/- (%)	2016 Half year £m	2015 Half year £m	+/- (%)
Group Insurance Operations												
Asia (1a) (1b)	1,045	1,270	(18)%	1,551	1,277	21%	1,655	1,404	18%	8,955	7,560	18%
US(1a) (1b)	7,816	9,117	(14)%	-	-	N/A	782	912	(14)%	7,816	9,117	(14)%
UK retail(11)	4,936	3,022	63%	99	91	9%	593	393	51%	5,267	3,355	57%
Group total excluding UK bulk annuities(11)	13,797	13,409	3%	1,650	1,368	21%	3,030	2,709	12%	22,038	20,032	10%
UK bulk annuities	-	1,169	N/A	-	-	N/A	-	117	N/A	-	1,169	N/A
Group Total	13,797	14,578	(5)%	1,650	1,368	21%	3,030	2,826	7%	22,038	21,201	4%
Asia Insurance Operations(1a) (1b)												
Cambodia	-	-	N/A	6	4	50%	6	3	100%	30	18	67%
Hong Kong	506	256	98%	817	524	56%	868	550	58%	5,045	3,200	58%
Indonesia	84	151	(44)%	117	172	(32)%	125	187	(33)%	486	783	(38)%
Malaysia	52	50	4%	104	94	11%	109	99	10%	630	595	6%
Philippines	36	80	(55)%	26	21	24%	30	29	3%	118	147	(20)%
Singapore	174	288	(40)%	125	130	(4)%	142	159	(11)%	1,063	1,140	(7)%
Thailand	36	33	9%	39	45	(13)%	43	49	(12)%	197	205	(4)%
Vietnam	3	3	0%	44	35	26%	44	35	26%	182	144	26%
SE Asia Operations inc. Hong Kong	891	861	3%	1,278	1,025	25%	1,367	1,111	23%	7,751	6,232	24%
China(6)	74	262	(72)%	102	64	59%	109	90	21%	452	493	(8)%
Korea	42	101	(58)%	46	63	(27)%	50	73	(32)%	276	394	(30)%
Taiwan	14	27	(48)%	55	59	(7)%	56	62	(10)%	205	211	(3)%
India(4)	24	19	26%	70	66	6%	73	68	7%	271	230	18%
Total Asia Insurance Operations	1,045	1,270	(18)%	1,551	1,277	21%	1,655	1,404	18%	8,955	7,560	18%
US Insurance Operations(1a) (1b)												
Variable annuities	4,995	6,449	(23)%	-	-	N/A	500	645	(22)%	4,995	6,449	(23)%
Elite Access (variable annuity)	990	1,761	(44)%	-	-	N/A	99	176	(44)%	990	1,761	(44)%
Fixed annuities	285	248	15%	-	-	N/A	28	25	12%	285	248	15%
Fixed index annuities	277	223	24%	-	-	N/A	28	22	27%	277	223	24%
Wholesale	1,269	436	191%	-	-	N/A	127	44	189%	1,269	436	191%
Total US Insurance Operations	7,816	9,117	(14)%	-	-	N/A	782	912	(14)%	7,816	9,117	(14)%
UK & Europe Insurance Operations												
Individual annuities	327	279	17%	-	-	N/A	33	28	18%	327	279	17%
Bonds	1,956	1,558	26%	-	-	N/A	196	156	26%	1,957	1,559	26%
Corporate pensions	60	51	18%	68	71	(4)%	74	76	(3)%	258	300	(14)%
Individual pensions	1,137	480	137%	21	14	50%	134	62	116%	1,212	536	126%
Income drawdown	808	386	109%	-	-	N/A	81	39	108%	808	386	109%
Other products	648	268	142%	10	6	67%	75	32	134%	705	295	139%
Total UK Retail	4,936	3,022	63%	99	91	9%	593	393	51%	5,267	3,355	57%
UK bulk annuities	-	1,169	N/A	-	-	N/A	-	117	N/A	-	1,169	N/A
Total UK & Europe Insurance Operations	4,936	4,191	18%	99	91	9%	593	510	16%	5,267	4,524	16%
Group Total	13,797	14,578	(5)%	1,650	1,368	21%	3,030	2,826	7%	22,038	21,201	4%
Group total excluding UK bulk annuities(11)	13,797	13,409	3%	1,650	1,368	21%	3,030	2,709	12%	22,038	20,032	10%

Schedule A(iii) – Total Insurance New Business APE (Actual and Constant Exchange Rates)

Note: In schedule A(iii) amounts for the first half (H1) and second half (H2) of 2015 are presented on both actual exchange rate and constant exchange rate. The half year 2016 amounts are presented on actual exchange rate.

	2015				2016
	Actual exchange rates		Constant exchange rates		Actual exchange rates
	H1	H2	H1	H2	H1
	£m	£m	£m	£m	£m
Group Insurance Operations					
Asia [1a]	1,366	1,487	1,404	1,594	1,655
US[1a]	857	872	912	932	782
UK retail[11]	393	481	393	481	593
Group total excluding UK bulk annuities[11]	**2,616**	**2,840**	**2,709**	**3,007**	**3,030**
UK bulk annuities	117	34	117	34	-
Group Total	**2,733**	**2,874**	**2,826**	**3,041**	**3,030**
Asia Insurance Operations[1a]					
Cambodia	3	5	3	4	6
Hong Kong	519	694	550	741	868
Indonesia	183	143	187	161	125
Malaysia	105	106	99	116	109
Philippines	29	30	29	32	30
Singapore	153	156	159	169	142
Thailand	48	47	49	49	43
Vietnam	34	49	35	52	44
SE Asia Operations inc. Hong Kong	**1,074**	**1,230**	**1,111**	**1,324**	**1,367**
China[6]	89	53	90	56	109
Korea	74	67	73	71	50
Taiwan	61	70	62	74	56
India[4]	68	67	68	69	73
Total Asia Insurance Operations	**1,366**	**1,487**	**1,404**	**1,594**	**1,655**
US Insurance Operations[1a]					
Variable annuities	606	592	645	632	500
Elite Access (variable annuity)	166	148	176	159	99
Fixed annuities	23	25	25	26	28
Fixed index annuities	21	25	22	27	28
Wholesale	41	82	44	88	127
Total US Insurance Operations	**857**	**872**	**912**	**932**	**782**
UK & Europe Insurance Operations					
Individual annuities	28	29	28	29	33
Bonds	156	177	156	177	196
Corporate pensions	76	76	76	76	74
Individual pensions	62	88	62	88	134
Income drawdown	39	63	39	63	81
Other products	32	48	32	48	75
Total UK Retail	**393**	**481**	**393**	**481**	**593**
UK bulk annuities	117	34	117	34	-
Total UK & Europe Insurance Operations	**510**	**515**	**510**	**515**	**593**
Group Total	**2,733**	**2,874**	**2,826**	**3,041**	**3,030**
Group total excluding UK bulk annuities[11]	**2,616**	**2,840**	**2,709**	**3,007**	**3,030**

Schedule A(iv) – Investment Operations (Actual Exchange Rates)

	2015 H1 £m	2015 H2 £m	2016 H1 £m
Group Investment Operations			
Opening FUM	162,380	163,488	156,686
Net Flows:[8]	2,186	(3,223)	(7,378)
- Gross Inflows	32,078	22,392	15,894
- Redemptions	(29,892)	(25,615)	(23,272)
Other Movements	(1,078)	(3,579)	13,076
Total Group Investment Operations[10]	**163,488**	**156,686**	**162,384**
M&G			
Retail			
Opening FUM	74,289	69,158	60,801
Net Flows:	(3,418)	(7,440)	(6,122)
- Gross Inflows	14,264	6,836	6,160
- Redemptions	(17,682)	(14,276)	(12,282)
Other Movements	(1,713)	(917)	4,538
Closing FUM	**69,158**	**60,801**	**59,217**
Comprising amounts for:			
UK	38,701	35,738	34,308
Europe (excluding UK)	28,726	23,524	23,020
South Africa	1,731	1,539	1,889
	69,158	**60,801**	**59,217**
Institutional[3]			
Opening FUM	62,758	64,242	65,604
Net Flows:	1,043	2,807	(844)
- Gross Inflows	6,161	6,365	3,571
- Redemptions	(5,118)	(3,558)	(4,415)
Other Movements	441	(1,445)	5,679
Closing FUM	**64,242**	**65,604**	**70,439**
Total M&G Investment Operations	**133,400**	**126,405**	**129,656**
PPM South Africa FUM included in Total M&G	**5,108**	**4,365**	**5,354**
Eastspring - excluding MMF[8]			
Third Party Retail[7]			
Opening FUM	21,893	26,017	25,541
Net Flows:	4,235	616	(787)
- Gross Inflows	11,089	8,165	5,650
- Redemptions	(6,854)	(7,549)	(6,437)
Other Movements	(111)	(1,092)	2,401
Closing FUM[5]	**26,017**	**25,541**	**27,155**
Third Party Institutional Mandates			
Opening FUM	3,440	4,071	4,740
Net Flows:	326	794	375
- Gross Inflows	564	1,026	513
- Redemptions	(238)	(232)	(138)
Other Movements	305	(125)	458
Closing FUM[5]	**4,071**	**4,740**	**5,573**
Total Eastspring Investment Operations	**30,088**	**30,281**	**32,728**
US			
Curian - FUM[5] [9]	**8,078**	**1,891**	**-**

Schedule A(v) – Total Insurance New Business Profit (Actual and Constant Exchange Rates)

Note: In schedule A(v) amounts for half year (HY) and full year (FY) 2015 are presented on both actual exchange rates and constant exchange rates basis. The half year 2016 amounts are presented on actual exchange rates.

	2015				2016
	Actual exchange rates		Constant exchange rates		Actual exchange rates
	HY	FY	HY	FY	HY
	£m	£m	£m	£m	£m
New Business Profit(1a) (b)					
Total Asia Insurance Operations	664	1,490	688	1,576	824
Total US Insurance Operations	371	809	394	863	311
Total UK retail(10) (11)	80	201	80	201	125
Group total excluding UK bulk annuities(10) (11)	**1,115**	**2,500**	**1,162**	**2,640**	**1,260**
UK bulk annuities	75	117	75	117	-
Group Total	**1,190**	**2,617**	**1,237**	**2,757**	**1,260**
Annual Equivalent(1a) (b) (2)					
Total Asia Insurance Operations	1,366	2,853	1,404	2,998	1,655
Total US Insurance Operations	857	1,729	912	1,844	782
Total UK retail(11)	393	874	393	874	593
Group total excluding UK bulk annuities(11)	**2,616**	**5,456**	**2,709**	**5,716**	**3,030**
UK bulk annuities	117	151	117	151	-
Group Total	**2,733**	**5,607**	**2,826**	**5,867**	**3,030**
New Business Margin (NBP as % of APE)					
Total Asia Insurance Operations	49%	52%	49%	53%	50%
Total US Insurance Operations	43%	47%	43%	47%	40%
Total UK retail(10) (11)	20%	23%	20%	23%	21%
Group total excluding UK bulk annuities(10) (11)	43%	46%	43%	46%	42%
UK bulk annuities	64%	77%	64%	77%	-
Group Total	**44%**	**47%**	**44%**	**47%**	**42%**
PVNBP(1a) (b) (2)					
Total Asia Insurance Operations	7,340	15,208	7,560	16,002	8,955
Total US Insurance Operations	8,574	17,286	9,117	18,437	7,816
Total UK retail(10) (11)	3,355	7,561	3,355	7,561	5,267
Group total excluding UK bulk annuities(10) (11)	**19,269**	**40,055**	**20,032**	**42,000**	**22,038**
UK bulk annuities	1,169	1,508	1,169	1,508	-
Group Total	**20,438**	**41,563**	**21,201**	**43,508**	**22,038**
New Business Margin (NBP as % of PVNBP)					
Total Asia Insurance Operations	9.0%	9.8%	9.1%	9.8%	9.2%
Total US Insurance Operations	4.3%	4.7%	4.3%	4.7%	4.0%
Total UK retail(10) (11)	2.4%	2.7%	2.4%	2.7%	2.4%
Group total excluding UK bulk annuities(10) (11)	**5.8%**	**6.2%**	**5.8%**	**6.3%**	**5.7%**
UK bulk annuities	6.4%	7.8%	6.4%	7.8%	-
Group Total	**5.8%**	**6.3%**	**5.8%**	**6.3%**	**5.7%**

B 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 half year 2016 results

	Underlying free surplus generated for total insurance and asset management operations	**Pre-tax operating profit**	**Shareholders' funds**
	%	**%**	**%**
	note (2)	notes (2),(3),(4)	notes (2),(3),(4)
US$ linked[note(1)]	**15**	**19**	**18**
Other Asia currencies	**11**	**17**	**18**
Total Asia	**26**	**36**	**36**
UK sterling[notes (3),(4)]	**44**	**21**	**42**
US$ [note (4)]	**30**	**43**	**22**
Total	**100**	**100**	**100**

EEV half year 2016 results

	Post-tax new business profits	**Post-tax operating profit**	**Shareholders' funds**
	%	**%**	**%**
		notes (2),(3),(4)	notes (2),(3),(4)
US$ linked[note (1)]	**54**	**42**	**34**
Other Asia currencies	**11**	**14**	**14**
Total Asia	**65**	**56**	**48**
UK sterling[notes (3),(4)]	**10**	**14**	**22**
US$[note (4)]	**25**	**30**	**30**
Total	**100**	**100**	**100**

Notes

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

C Reconciliation between IFRS and EEV shareholders' funds

The table below shows the reconciliation of EEV shareholders' funds and IFRS shareholders' funds at the end of the period:

	2016 £m	2015 £m	
	30 June	30 June	31 Dec
EEV shareholders' funds	**34,981**	30,074	32,359
Less: Value of in-force business of long-term business[note (a)]	**(21,785)**	(21,003)	(22,431)
Deferred acquisition costs assigned zero value for EEV purposes	**8,068**	6,003	7,010
Other[note (b), (c)]	**(6,659)**	(2,970)	(3,983)
IFRS shareholders' funds	**14,605**	12,104	12,955

Notes

(a) The EEV shareholders' funds comprises the present value of the shareholders' interest in the value in-force business, net worth of long-term business operations and IFRS shareholders' funds of asset management and other operations. The value of in-force business reflects the present value of future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Net worth represents the net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

(b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value net worth for long-term insurance operations. It also includes the mark to market of the Group's core borrowings which are fair valued under EEV but not IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson where IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset) whereas the local regulatory basis used for EEV is based on future cash flows due to the policyholder on a prudent basis with consideration of an expense allowance as applicable, but with no separate deferred acquisition cost asset.

(c) The half year 2016 EEV results for UK insurance operations have been prepared on a basis that reflects the Solvency II regime, effective from 1 January 2016. The half year 2015 EEV results for UK insurance operations were prepared on a basis reflecting the Solvency I regime. As noted in (b) above, "other adjustments" represent asset and liability valuation differences between IFRS and the local regulatory basis used to value net worth for long-term insurance operations. At 30 June 2016 for the UK this would be the difference between IFRS and Solvency II, and at 30 June 2015 and 31 December 2015 the difference between IFRS and Solvency I.

D Reconciliation of APE new business sales to earned premiums

The Group reports annual premium equivalent (APE) new business sales as a measure of the new policies sold in the period. This differs to the IFRS measure of premiums earned as shown below:

	2016 £m	2015 £m	
	30 June	30 June	31 Dec
Annual premium equivalents (APE) as published	**3,030**	2,733	5,607
Adjustment to include 100% of single premiums on new business sold in the period[note (a)]	**12,417**	12,606	25,082
Premiums from in-force business and other adjustments[note (b)]	**2,891**	3,067	5,974
Gross premiums earned	**18,338**	18,406	36,663
Outward reinsurance premiums	**(944)**	(522)	(1,157)
Earned premiums, net of reinsurance as shown in the IFRS financial statements	**17,394**	17,884	35,506

Notes

(a) APE new business sales only include one tenth of single premiums, recorded on policies sold in the period. Gross premiums earned include 100 per cent of such premiums.

(b) Other adjustments principally include amounts in respect of the following:

- Gross premiums earned includes premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
- APE includes new policies written in the period which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in the UK for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due;
- For the purpose of reporting APE new business sales, we include the Group's share of amounts sold by the Group's insurance joint ventures. Under IFRS, joint ventures are equity accounted and so no amounts are included within gross premiums earned.

Risk Factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-Looking Statements'.

Prudential's approaches to managing risks are explained in the "Group Chief Risk Officer's report of the risks facing our business and how these are managed" section of this document.

Risks relating to Prudential's business

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

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

- investment impairments and/or reduced investment returns, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;

- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

- failure of counterparties who have transactions with Prudential (e.g. banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

- increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over the energy and commodity sectors, sovereign debt, general slowing in world growth, the monetary policies in the US, the UK and other jurisdictions and potentially negative socio-political events.

On 23 June 2016, the UK held a referendum in which a majority of the voting population voted in favour of the UK leaving the European Union (EU). Aligned with the results of the referendum, it is expected that the UK will begin negotiating the terms of its withdrawal from the EU, a process which once formally commenced has a maximum two year timeline. The vote in favour of the UK leaving the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market is currently unknown. The ongoing uncertainty of when the UK will leave the EU and the possibility of a lengthy period before negotiations are concluded may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission will review elements of the Solvency II legislation from 2016 onwards including a review of the Long Term Guarantee measures by 1 January 2021. In addition, Prudential has applied for, and been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, UK transitional measures and 'deduction and aggregation' which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position.

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

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

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying G-SIIs, and a set of policy measures that will apply to them, which the FSB endorsed. An updated methodology for identifying G-SIIs was published by the IAIS on 16 June 2016. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential's designation as a G-SII was reaffirmed on 3 November 2015. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII.

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

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

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

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

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

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

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

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

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary (subjecting the person or entity to certain regulatory requirements, such as those adopted by the US Department of Labor issued in April 2016 which is likely to cause market disruption in the shorter term). There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

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

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

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

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

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

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

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

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

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

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

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

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

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

The Prudential Assurance Company Limited's financial strength is rated Aa3 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (stable outlook) by Fitch.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

By order of the Board
Prudential plc
Alan F. Porter
Group General Counsel and Company Secretary

10 August 2016, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chairman
Paul Victor Falzon Sant Manduca

Executive Directors
Michael Andrew Wells *(Group Chief Executive)*, Nicolaos Andreas Nicandrou ACA, Penelope Jane James ACA, John William Foley, Anne Helen Richards, Barry Lee Stowe and Tony Paul Wilkey

Independent Non-executive Directors
Sir Howard John Davies, Ann Frances Godbehere FCPA FCGA, David John Alexander Law ACA, Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP, The Hon. Philip John Remnant CBE FCA, Alice Davey Schroeder and Jonathan Adair Lord Turner

** For identification purposes*