

## 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	
<b>Asia operations</b>								
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	
<b>US operations</b>								
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	
<b>UK operations</b>								
UK insurance operations:	B4(b)							
Long-term business		473	436	436	8%	8%	1,167	
General insurance commission <sup>note (i)</sup>		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	
<b>Total segment profit</b>		<b>2,349</b>	<b>2,189</b>	<b>2,254</b>	<b>7%</b>	<b>4%</b>	<b>4,682</b>	
<b>Other income and expenditure</b>								
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 <sup>note (ii)</sup>		(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 <sup>note (iii)</sup>		(7)	(8)	(8)	13%	13%	(15)	
Interest received from tax settlement		43	-	-	n/a	n/a	-	
<b>Operating profit based on longer-term investment returns</b>		<b>2,059</b>	<b>1,881</b>	<b>1,946</b>	<b>9%</b>	<b>6%</b>	<b>4,007</b>	
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 <sup>note (v)</sup>		(35)	(39)	(42)	10%	17%	(76)	
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income <sup>note (vi)</sup>		-	(46)	(54)	n/a	n/a	(46)	
<b>Profit before tax attributable to shareholders</b>		<b>664</b>	<b>1,882</b>	<b>1,947</b>	<b>(65)%</b>	<b>(66)%</b>	<b>3,148</b>	
Tax charge attributable to shareholders' returns		23	(444)	(461)	105%	105%	(569)	
<b>Profit for the period attributable to shareholders</b>		<b>687</b>	<b>1,438</b>	<b>1,486</b>	<b>(52)%</b>	<b>(54)%</b>	<b>2,579</b>	

	2016		2015		%		2015
	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
<b>Basic earnings per share (in pence)</b>							
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	Half year	Full year
Insurance operations:				
Asia <sup>note (i)</sup>	26	(57)	(119)	
US <sup>note (ii)</sup>	(1,440)	228	(424)	
UK <sup>note (iii)</sup>	246	(96)	(120)	
Other operations <sup>note (iv)</sup>	(192)	11	(74)	
<b>Total</b>	<b>(1,360)</b>	<b>86</b>	<b>(737)</b>	

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

### B1: Analysis of performance by segment continued

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

##### 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	Full 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:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	Half year 2016				Half year 2015				Full year 2015			
	Average book value		Annual expected loss		Average book value		Annual expected loss		Average book value		Annual expected loss	
	US\$m	RMR %	US\$m	£m	US\$m	RMR %	US\$m	£m	US\$m	RMR %	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)
<b>Total</b>	<b>56,368</b>	<b>0.21</b>	<b>(122)</b>	<b>(85)</b>	<b>54,300</b>	<b>0.23</b>	<b>(127)</b>	<b>(83)</b>	<b>54,633</b>	<b>0.23</b>	<b>(127)</b>	<b>(83)</b>
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: Analysis of performance by segment** continued

**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 per cent, 31 December 2015: 3.5 per cent 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%

#### BI.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	–
<b>Total revenue from external customers</b>	<b>5,831</b>	<b>7,139</b>	<b>5,509</b>	<b>–</b>	<b>18,479</b>

	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	–
<b>Total revenue from external customers</b>	<b>5,239</b>	<b>8,832</b>	<b>5,098</b>	<b>–</b>	<b>19,169</b>

	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	–
<b>Total revenue from external customers</b>	<b>10,685</b>	<b>17,327</b>	<b>9,989</b>	<b>–</b>	<b>38,001</b>

Revenue from external customers comprises:

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

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

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).

## B: Earnings performance continued

### 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 <sup>note (i)</sup>	–	–	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 <sup>note (i)</sup>	–	–	(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
<b>Profit before tax</b>	<b>223</b>	<b>(61)</b>	<b>(12)</b>	<b>61</b>	<b>211</b>	<b>322</b>	<b>522</b>
Comprising:							
Operating profit based on longer-term investment returns <sup>note (ii)</sup>	225	13	(12)	61	287	328	587
Short-term fluctuations in investment returns	(2)	(74)	–	–	(76)	(6)	(65)
<b>Profit before tax</b>	<b>223</b>	<b>(61)</b>	<b>(12)</b>	<b>61</b>	<b>211</b>	<b>322</b>	<b>522</b>

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

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

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
<b>Total</b>	<b>1.8</b>		<b>1.7</b>	<b>1.6</b>

#### 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:

Tax charge	2016 £m			2015 £m	
	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) credit	(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.



## B: Earnings performance continued

### B5: Tax charge continued

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

Tax charge	2016 £m			2015 £m	
	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)
<b>Total tax (charge) credit</b>	<b>(502)</b>	<b>233</b>	<b>(269)</b>	<b>(646)</b>	<b>(742)</b>

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)
<b>Total actual tax charge (credit)</b>	<b>125</b>	<b>(270)</b>	<b>138</b>	<b>(16)</b>	<b>(23)</b>
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%

## B: Earnings performance continued

### B5: Tax charge continued

	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**

<b>Half year 2016</b>						
	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
<b>Based on profit for the period</b>		<b>664</b>	<b>23</b>	<b>687</b>	<b>26.9p</b>	<b>26.8p</b>
<b>Half year 2015</b>						
	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
<b>Based on profit for the period</b>		<b>1,882</b>	<b>(444)</b>	<b>1,438</b>	<b>56.3p</b>	<b>56.2p</b>
<b>Full year 2015</b>						
	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
<b>Based on profit for the year</b>		<b>3,148</b>	<b>(569)</b>	<b>2,579</b>	<b>101.0p</b>	<b>100.9p</b>

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:

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

## B: Earnings performance continued

### 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
<b>Total</b>	<b>12.93p</b>	<b>333</b>	<b>12.31p</b>	<b>315</b>	<b>48.78p</b>	<b>1,253</b>
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	–	–	–	–
<b>Total</b>	<b>36.47p</b>	<b>935</b>	<b>25.74p</b>	<b>659</b>	<b>38.05p</b>	<b>974</b>

#### 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.