Additional information

5

Index to the additional financial information*

I. IFRS profit and loss information

II. Other information

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

I: IFRS profit and loss information

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 note (iv) £m	Margin note (ii) bps
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.

I: IFRS profit and loss information continued

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

	Half year 2015 AER					
	Asia £m	US £m	UK £m	Total £m	Average liability note (iv) £m	Margin note (ii) bps
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	–	–	61	61		
Long-term business operating profit	574	834	436	1,844		

See notes at the end of this section.

	Half year 2015 CER note (iii)					
	Asia £m	US £m	UK £m	Total £m	Average liability note (iv) £m	Margin note (ii) bps
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	–	–	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

Long-term business	Asia								
	Half year 2016			Half year 2015 AER			Half year 2015 CER note (iii)		
	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

Long-term business	US								
	Half year 2016			Half year 2015 AER			Half year 2015 CER note (iii)		
	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.

I: IFRS profit and loss information continued

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

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)			
	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total	Other operating profits	Acquisition costs Incurred	Acquisition costs 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		
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
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		

I: IFRS profit and loss information continued

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

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 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 AER and 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).

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 AER and CER bases 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: IFRS profit and loss information continued

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 expensenote (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 expensenote (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 expensenote (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	Institu-tional‡ £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	Institu-tional‡ £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.

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

	2016 £m	2015 £m	
	Half year	Half year	Full year
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

I: IFRS profit and loss information continued

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 continued

Underlying free surplus generation of UK long-term business*

	2016 £m	2015 £m	
	Half year	Half year	Full year
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*

	2016 £m	2015 £m	
	Half year	Half year	Full year
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

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: Other information continued

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			M&G		
	2016 £bn	2015 £bn	2015 £bn	2016 £bn	2015 £bn	2015 £bn
	30 Jun note	30 Jun note	31 Dec note	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).

c Solvency II capital position at 30 June 2016

The estimated Group shareholder Solvency II surplus at 30 June 2016 was £9.1 billion, 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%

Note
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 long-standing practice first put in place in 2009, which can be unwound at Jackson's discretion.

II: Other information continued

c Solvency II capital position at 30 June 2016 continued

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
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; and
— *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:

Split of the Group's estimated Solvency Capital Requirements	30 Jun 2016		31 Dec 2015	
	% 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 and 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 shareholders' 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.

II: Other information continued

c Solvency II capital position at 30 June 2016 continued

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 Surplus £bn	30 Jun 2016 Ratio	31 Dec 2015 Surplus £bn	31 Dec 2015 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)%

Notes

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*	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%

* 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.

d Option schemes

The Group presently grants share options through four schemes, and exercises of the options are satisfied by the issue of new shares. Executive Directors and eligible employees based in the UK may participate in the UK savings-related share option scheme. Executives and eligible employees based in Asia as well as eligible employees based in Europe can participate in the international savings-related share option scheme while agents based in certain regions of Asia can participate in the international savings-related share option scheme for non-employees. Employees based in Dublin are eligible to participate in the Prudential International Assurance sharesave plan, which currently has no outstanding options in issue. Further details of the schemes and accounting policies are detailed in note B3.2 of the IFRS basis consolidated financial statements in the 2015 annual report.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- UK savings-related share option scheme: 16 May 2023;
- International savings-related share option scheme: 31 May 2021;
- Prudential International Assurance sharesave plan: 3 August 2019; and
- International savings-related share option scheme for non-employees 2012: 17 May 2022.

The weighted average share price of Prudential plc for the period ended 30 June 2016 was £12.85 (30 June 2015: £16.22).

The following analyses show the movements in options for each of the option schemes for the period ended 30 June 2016.

UK savings-related share option scheme

		Exercise period		Number of shares under options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
25 Sep 08	4.38	01 Dec 15	31 May 16	3,071	–	(3,071)	–	–	–	–
27 Apr 09	2.88	01 Jun 16	30 Nov 16	154,981	–	(140,201)	–	–	(33)	14,747
28 Sep 10	4.61	01 Dec 15	31 May 16	45,959	–	(45,290)	–	–	(669)	–
16 Sep 11	4.66	01 Dec 16	31 May 17	160,392	–	(5,944)	–	–	(1,245)	153,203
21 Sep 12	6.29	01 Dec 15	31 May 16	215,520	–	(207,882)	–	(1,431)	(1,343)	4,864
21 Sep 12	6.29	01 Dec 17	31 May 18	127,520	–	(318)	–	–	(159)	127,043
20 Sep 13	9.01	01 Dec 16	31 May 17	324,479	–	(2,013)	(5,924)	(5,787)	(559)	310,196
20 Sep 13	9.01	01 Dec 18	31 May 19	70,590	–	(749)	–	(332)	(915)	68,594
23 Sep 14	11.55	01 Dec 17	31 May 18	870,308	–	(4,278)	(25,774)	(14,608)	(9,662)	815,986
23 Sep 14	11.55	01 Dec 19	31 May 20	440,551	–	(2,084)	(6,712)	(2,622)	(9,715)	419,418
22 Sep 15	11.11	01 Dec 18	31 May 19	1,039,759	–	(212)	(35,305)	(9,039)	(1,796)	993,407
22 Sep 15	11.11	01 Dec 20	31 May 21	234,607	–	–	(270)	(4,590)	–	229,747
				3,687,737	–	(412,042)	(73,985)	(38,409)	(26,096)	3,137,205

The total number of securities available for issue under the scheme is 3,137,205 which represents 0.122 per cent of the issued share capital at 30 June 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £13.47.

II: Other information continued

d Option schemes continued

International savings-related share option scheme

		Exercise period		Number of shares under options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
16 Sep 11	4.66	01 Dec 16	31 May 17	17,617	–	–	–	–	–	17,617
21 Sep 12	6.29	01 Dec 15	31 May 16	249,429	–	(224,996)	–	–	(11,910)	12,523
21 Sep 12	6.29	01 Dec 17	31 May 18	14,501	–	–	–	–	–	14,501
20 Sep 13	9.01	01 Dec 16	31 May 17	571,967	–	–	(17,275)	–	–	554,692
20 Sep 13	9.01	01 Dec 18	31 May 19	47,004	–	–	(1,664)	–	–	45,340
23 Sep 14	11.55	01 Dec 17	31 May 18	8,643	–	–	–	–	–	8,643
23 Sep 14	11.55	01 Dec 19	31 May 20	4,464	–	–	–	–	–	4,464
22 Sep 15	11.11	01 Dec 18	31 May 19	24,284	–	–	–	–	–	24,284
22 Sep 15	11.11	01 Dec 20	31 May 21	3,240	–	–	–	–	–	3,240
				941,149	–	(224,996)	(18,939)	–	(11,910)	685,304

The total number of securities available for issue under the scheme is 685,304 which represents 0.027 per cent of the issued share capital at 30 June 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £13.51.

Prudential International Assurance sharesave plan

There are no securities available for issue under the scheme at 30 June 2016.

Non-employee savings-related share option scheme

		Exercise period		Number of shares under options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
28 Sep 10	4.61	01 Dec 15	31 May 16	341,948	–	(25,357)	–	–	(316,591)	–
16 Sep 11	4.66	01 Dec 16	31 May 17	243,641	–	–	–	–	(183,641)	60,000
21 Sep 12	6.29	01 Dec 15	31 May 16	273,565	–	(148,635)	–	–	(124,930)	–
21 Sep 12	6.29	01 Dec 17	31 May 18	82,872	–	–	–	–	(54,871)	28,001
20 Sep 13	9.01	01 Dec 16	31 May 17	755,540	–	–	(599)	–	–	754,941
20 Sep 13	9.01	01 Dec 18	31 May 19	419,452	–	–	–	–	–	419,452
23 Sep 14	11.55	01 Dec 17	31 May 18	615,326	–	–	(2,310)	–	–	613,016
23 Sep 14	11.55	01 Dec 19	31 May 20	512,917	–	–	–	–	–	512,917
22 Sep 15	11.11	01 Dec 18	31 May 19	499,276	–	–	(3,078)	–	–	496,198
22 Sep 15	11.11	01 Dec 20	31 May 21	422,194	–	–	(779)	–	–	421,415
				4,166,731	–	(173,992)	(6,766)	–	(680,033)	3,305,940

The total number of securities available for issue under the scheme is 3,305,940 which represents 0.128 per cent of the issued share capital at 30 June 2016.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £13.51.

e 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 % note 2	Pre-tax operating profit % notes 2,3,4	Shareholders' funds % notes 2,3,4
US$ linked[note1]	15	19	18
Other Asia currencies	11	17	18
Total Asia	26	36	36
UK sterling[notes3,4]	44	21	42
US$[note4]	30	43	22
Total	100	100	100

EEV half year 2016 results

	Post-tax new business profits %	Post-tax operating profit % notes 2,3,4	Shareholders' funds % notes 2,3,4
US$ linked[note1]	54	42	34
Other Asia currencies	11	14	14
Total Asia	65	56	48
UK sterling[notes3,4]	10	14	22
US$[note4]	25	30	30
Total	100	100	100

Notes

1 US$ linked comprises 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.

f 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 Jun	**30 Jun**	**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[notes 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 of 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 stated in note 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.

II: Other information continued

g 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	
	Half year	Half year	Full year
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; and
- 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.

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 (eg 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 under way 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 cooperation 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.

Hong Kong listing obligations

The directors confirm that Prudential has complied with all relevant provisions set out in the Corporate Governance Code issued by The Stock Exchange of Hong Kong Limited ('HK Code') throughout the accounting period. With respect to the 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 the 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.

Going concern

In accordance with the requirements of the guidance issued by the Financial Reporting Council in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', after making sufficient enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that the financial statements are approved.

In support of this expectation, an update of the Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate are set out in the business performance section. The risks facing the Group's liquidity and capital positions and their sensitivities are referred to in the 'Chief Financial Officer's report on the 2016 first half financial performance', the 'Group Chief Risk Officer's report of the risks facing our business and how these are managed' and note II (c) 'Solvency II capital position at 30 June 2016' within Additional Financial Information. The Group's IFRS financial statements include cash flow details in the 'Condensed consolidated statement of cash flows' and borrowings information in note C6.

The directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements for the period ended 30 June 2016.

Significant shareholdings

The following notifications have been disclosed under the FCA's Disclosure and Transparency Rules in respect of notifiable interests exceeding 5 per cent in the voting rights of the issued share capital.

As at 30 June 2016	% of total voting rights
Capital Group Companies, Inc.	10.14
BlackRock, Inc	5.08

No further notifications have been received since 30 June 2016 up to the date of this report.

Outstanding share options

The following table sets out the share options held by the directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period. No other directors participated in any other option scheme.

	Date of grant	Exercise price (pence)	Market price at 30 June 2016 (pence)	Exercise period Beginning	Exercise period End	Number of options Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
John Foley	20 Sep 13	901	1,257	01 Dec 16	31 May 17	998	–	–	–	–	–	998
John Foley	23 Sep 14	1,155	1,257	01 Dec 17	31 May 18	779	–	–	–	–	–	779
Penny James	21 Sep 12	629	1,257	01 Dec 15	31 May 16	858	–	858	–	–	–	–
Penny James	22 Sep 15	1,111	1,257	01 Dec 18	31 May 19	1,620	–	–	–	–	–	1,620
Michael McLintock	23 Sep 14	1,155	1,257	01 Dec 19	31 May 20	2,622	–	–	–	–	–	2,622
Nic Nicandrou	16 Sep 11	466	1,257	01 Dec 16	31 May 17	3,268	–	–	–	–	–	3,268
Nic Nicandrou	23 Sep 14	1,155	1,257	01 Dec 19	31 May 20	1,311	–	–	–	–	–	1,311
Mike Wells	22 Sep 15	1,111	1,257	01 Dec 18	31 May 19	1,620	–	–	–	–	–	1,620

Directors' shareholdings

The Company and its directors, Chief Executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, directors, Chief Executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of directors' and Chief Executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Hong Kong Stock Exchange any disclosure of interests notified to it in the United Kingdom.

The following table sets out the interests of directors, including the interests of persons connected with directors for the purposes of DTR 3.1.2 of the Disclosure and Transparency Rules (the regime applicable at the end of the period), as at the end of the period. This includes shares acquired under the Share Incentive Plan, Prudential Corporation Asia All Employee Share Purchase Plan (PruSharePlus) and deferred annual bonus awards as detailed in the table on 'Other share awards' on page 170.

	1 Jan 2016 Total beneficial interest (number of shares)	30 Jun 2016 Total beneficial interest (number of shares)	30 Jun 2016 Number of shares subject to performance conditions	30 Jun 2016 Total interest in shares
Chairman				
Paul Manduca	42,500	42,500	–	42,500
Executive directors				
John Foley[1]	218,644	248,544	422,480	671,024
Penny James	14,500	41,359	171,255	212,614
Michael McLintock[2]	210,884	n/a	n/a	n/a
Nic Nicandrou	265,219	303,045	373,328	676,373
Anne Richards[3]	n/a	–	45,906	45,906
Barry Stowe[4]	246,656	264,276	553,532	817,808
Mike Wells[5]	465,285	541,334	811,178	1,352,512
Tony Wilkey	189,592	120,487	430,817	551,304
Non-executive directors				
Howard Davies	8,730	8,966	–	8,966
Ann Godbehere	15,914	15,914	–	15,914
Alistair Johnston[6]	10,000	n/a	n/a	n/a
David Law	3,327	3,327	–	3,327
Kaikhushru Nargolwala	50,000	70,000	–	70,000
Anthony Nightingale	30,000	30,000	–	30,000
Philip Remnant	5,816	6,916	–	6,916
Alice Schroeder[7]	8,500	8,500	–	8,500
Lord Turner	2,000	3,500	–	3,500

Notes

1. John Foley was appointed to the Board on 19 January 2016.
2. Michael McLintock stepped down from the Board on 6 June 2016.
3. Anne Richards was appointed to the Board on 7 June 2016.
4. For the 1 January 2016 figure Barry Stowe's beneficial interest in shares is made up of 123,328 ADRs (representing 246,656 ordinary shares), (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 30 June 2016 figure the beneficial interest in shares is made up of 132,138 ADRs (representing 264,276 ordinary shares).
5. For the 1 January 2016 figure Mike Wells' beneficial interest in shares is made up of 232,594 ADRs (representing 465,188 ordinary shares) and 97 ordinary shares. For the 30 June 2016 figure his beneficial interest in shares is made up of 217,518 ADRs (representing 435,036 ordinary shares) and 106,298 ordinary shares.
6. Alistair Johnston stepped down from the Board on 19 May 2016.
7. Alice Schroeder's beneficial interest in shares is made up of 4,250 ADRs (representing 8,500 ordinary shares).

Directors' outstanding long-term incentive awards

Share-based long-term incentive awards

	Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2016 (number of shares)	Conditional awards in 2016 (number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares (note 3) (number of shares released)	Rights exercised in 2016	Rights lapsed in 2016	Conditional share awards outstanding at 30 Jun 2016 (number of shares)	Date of end of performance period
John Foley	PLTIP	2013	131,848		1,203	14,133	131,848		–	31 Dec 15
	PLTIP	2014	125,776		1,317				125,776	31 Dec 16
	PLTIP	2014	29,556		1,342				29,556	31 Dec 16
	PLTIP	2015	122,808		1,672				122,808	31 Dec 17
	PLTIP	2016		144,340	1,279				144,340	31 Dec 18
			409,988	144,340		14,133	131,848	–	422,480	
Penny James	PLTIP	2013	25,181		1,203	2,697	25,181		–	31 Dec 15
	PLTIP	2014	30,279		1,317				30,279	31 Dec 16
	PLTIP	2015	24,348		1,672				24,348	31 Dec 17
	PLTIP	2016		116,628	1,279				116,628	31 Dec 18
			79,808	116,628		2,697	25,181	–	171,255	
Anne Richards	PLTIP	2016		45,906	1,358.5				45,906	31 Dec 18
				45,906		–	–	–	45,906	
Nic Nicandrou	PLTIP	2013	122,554		1,203	13,136	122,554		–	31 Dec 15
	PLTIP	2014	132,375		1,317				132,375	31 Dec 16
	PLTIP	2015	104,117		1,672				104,117	31 Dec 17
	PLTIP	2016		136,836	1,279				136,836	31 Dec 18
			359,046	136,836		13,136	122,554	–	373,328	
Barry Stowe[1]	PLTIP	2013	131,266		1,203	13,794	127,984	3,282	–	31 Dec 15
	PLTIP	2014	114,824		1,317				114,824	31 Dec 16
	PLTIP	2015	113,940		1,672				113,940	31 Dec 17
	PLTIP	2015	50,668		1,611.5				50,668	31 Dec 17
	PLTIP	2016		274,100	1,279				274,100	31 Dec 18
			410,698	274,100		13,794	127,984	3,282	553,532	
Mike Wells[2]	PLTIP	2013	273,470		1,203	29,480	273,470		–	31 Dec 15
	PLTIP	2014	238,954		1,317				238,954	31 Dec 16
	PLTIP	2015	209,222		1,672				209,222	31 Dec 17
	PLTIP	2015	30,132		1,611.5				30,132	31 Dec 17
	PLTIP	2016		332,870	1,279				332,870	31 Dec 18
			751,778	332,870		29,480	273,470		811,178	
Tony Wilkey	PLTIP	2013	25,244		1,203	2,636	24,612	632	–	31 Dec 15
	PCA LTIP	2013	55,705		1,203		55,705		–	31 Dec 15
	PCA LTIP	2013	47,182		1,178				47,182	31 Dec 15
	PLTIP	2014	22,935		1,317				22,935	31 Dec 16
	PCA LTIP	2014	45,870		1,317				45,870	31 Dec 16
	PCA LTIP	2014	68,806		1,317				68,806	31 Dec 17
	PLTIP	2015	21,091		1,672				21,091	31 Dec 17
	PCA LTIP	2015	42,183		1,672				42,183	31 Dec 17
	PLTIP	2015	29,008		1,611.5				29,008	31 Dec 17
	PLTIP	2016		153,742	1,279				153,742	31 Dec 18
			358,024	153,742		2,636	80,317	632	430,817	

Notes

1 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

2 The awards in 2013, 2014 and 2015 for Mike Wells were made in ADRs (1 ADR = 2 ordinary shares). The award in 2016 was made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

3 A DRIP dividend equivalent was accumulated on these awards.

Other share awards

The table below sets out executive directors' deferred bonus share awards.

	Year of grant	Conditional share awards outstanding at 1 Jan 2016 (number of shares)	Conditionally awarded in 2016 (number of shares)	Dividends accumulated in 2016 (note 3) (number of shares)	Shares released in 2016 (number of shares)	Conditional share awards outstanding at 30 Jun 2016 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
John Foley										
Deferred 2012 annual incentive award	2013	37,396			37,396	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	32,731		920		33,651	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	42,062		1,182		43,244	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		63,320	1,780		65,100	31 Dec 18		1,279	
		112,189	63,320	3,882	37,396	141,995				
Penny James										
Deferred 2012 Group deferred bonus plan award	2013	5,677			5,677	–	31 Dec 15	31 Mar 16	1,083	1,301
Deferred 2013 annual incentive award	2014	4,880		137		5,017	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	3,943		110		4,053	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		13,290	373		13,663	31 Dec 18		1,279	
		14,500	13,290	620	5,677	22,733				
Nic Nicandrou										
Deferred 2012 annual incentive award	2013	41,821			41,821	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	36,639		1,030		37,669	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	28,799		809		29,608	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		37,683	1,059		38,742	31 Dec 18		1,279	
		107,259	37,683	2,898	41,821	106,019				
Barry Stowe[1]										
Deferred 2012 annual incentive award	2013	40,646			40,646	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	31,754		892		32,646	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	27,992		786		28,778	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		107,566	3,022		110,588	31 Dec 18		1,279	
		100,392	107,566	4,700	40,646	172,012				
Mike Wells[2]										
Deferred 2012 annual incentive award	2013	86,586			86,586	–	31 Dec 15	31 Mar 16	1,055	1,301
Deferred 2013 annual incentive award	2014	104,636		2,940		107,576	31 Dec 16		1,317	
Deferred 2014 annual incentive award	2015	116,304		3,268		119,572	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016		103,210	2,902		106,112	31 Dec 18		1,279	
		307,526	103,210	9,110	86,586	333,260				

	Year of grant	Conditional share awards outstanding at 1 Jan 2016 (number of shares)	Conditionally awarded in 2016 (number of shares)	Dividends accumulated in 2016 (note 3) (number of shares)	Shares released in 2016 (number of shares)	Conditional share awards outstanding at 30 Jun 2016 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Tony Wilkey										
Deferred 2013 PCA deferred bonus plan award	2014	70,831			70,831	–	31 Dec 15	31 Mar 16	1,317	1,301
Deferred 2014 PCA deferred bonus plan award	2015	82,290		1,715		84,005	31 Dec 16		1,672	
Deferred 2015 annual incentive award	2016		34,625	973		35,598	31 Dec 18		1,279	
		153,121	34,625	2,688	70,831	119,603				

Notes
1 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.
2 The awards for Mike Wells in 2013, 2014 and 2015 were made in ADRs (1 ADR = 2 ordinary shares). The award made in 2016 was made in ordinary shares. The figures in the table are represented in terms of ordinary shares.
3 A DRIP dividend equivalent was accumulated on these awards.

All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive directors are invited to participate in these plans on the same basis as other staff in their location.

Save As You Earn (SAYE) schemes

UK-based executive directors are eligible to participate in the HM Revenue & Customs (HMRC) approved Prudential Savings-Related Share Option Scheme. This scheme allows all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Since 2014 participants have been able to elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and any other option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

Details of executive directors' rights under the SAYE scheme are set out in the 'Statement of directors' shareholdings'.

Share Incentive Plan (SIP)

UK-based executive directors are also eligible to participate in the Company's Share Incentive Plan (SIP). From April 2014, all UK-based employees were able to purchase Prudential plc shares up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the SIP together with matching shares (awarded on a 1:4 basis) and dividend shares.

	Year of initial grant	Share Incentive Plan awards held in Trust at 1 Jan 2016 (number of shares)	Partnership shares accumulated in 2016 (number of shares)	Matching shares accumulated in 2016 (number of shares)	Dividend shares accumulated in 2016 (number of shares)	Share Incentive Plan awards held in Trust at 30 Jun 2016 (number of shares)
John Foley	2014	255	69	17	8	349
Nic Nicandrou	2010	1,425	69	17	39	1,550
Mike Wells	2015	97	69	17	3	186

Prudential Corporation Asia All Employee Share Purchase Plan (PruSharePlus)

From August 2014, all Asia-based employees were able to purchase Prudential plc shares up to a value of £5,000 per year from their gross salary through the PruSharePlus. For every two shares bought by the employee, one additional matching share is awarded which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the PruSharePlus together with matching shares (awarded on a 1:2 basis) and dividend shares.

	Year of initial grant	PruSharePlus awards held in Trust at 1 Jan 2016 (number of shares)	Purchased shares accumulated in 2016 (number of shares)	Matching shares accumulated in 2016 (number of shares)	Dividend shares accumulated in 2016 (number of shares)	PruSharePlus awards held in Trust at 30 Jun 2016 (number of shares)
Tony Wilkey*	2014	545	–	–	9	554

* Following his appointment to the Board, Tony Wilkey is no longer eligible to participate in the PSP with effect from the anniversary of his joining the plan.

Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out executive directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some executive directors, please see our Annual Report.

Dividends

2016 first interim dividend	Shareholders registered on the UK and Irish branch register	Shareholders registered on the Hong Kong branch register	Holders of US American Depositary Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex dividend date	25 August 2016	25 August 2016	25 August 2016	24 August 2016
Record date	26 August 2016	26 August 2016	26 August 2016	26 August 2016
Payment of 2016 interim dividend	29 September 2016	29 September 2016	On or about 6 October 2016	On or about 6 October 2016

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

By post	By telephone
Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA	Tel: 0371 384 2035 Fax: 0371 384 2100 Textel: 0371 384 2255 (for hard of hearing) Lines are open from 8.30am to 5.30pm, Monday to Friday. International shareholders tel: +44 (0) 121 415 7026.

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti Limited (Equiniti) and request a Cash Dividend Mandate form. Alternatively, shareholders may download a form from www.prudential.co.uk/investors/shareholder-centre/forms

Cash dividend alternative

The Company has a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available on the Company's website at www.prudential.co.uk/investors/shareholder-centre/dividend-information/cash-dividend

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, you will need your shareholder reference number which can be found on your share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through The Central Depository (Pte) Limited (CDP) in Singapore. Please contact Equiniti if you require any assistance or further information.

Equiniti Shareview service

Information on how to manage shareholdings can be found at https://help.shareview.co.uk The pages at this web address provide the following:

- Answers to commonly asked questions regarding shareholder registration;
- Links to downloadable forms, guidance notes and Company history factsheets; and
- A choice of contact methods – via email, telephone or post.

Share dealing services

The Company's Registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address above or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential plc shares. For telephone sales call 0371 384 2780 between 8.30am and 4.30pm, Monday to Friday excluding UK bank holidays, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be obtained from our website www.prudential.co.uk/investors/shareholder-centre/forms or from Equiniti. Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org

There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief.

Irish branch register
The Company operates a branch register for shareholders in Ireland. All enquiries regarding Irish branch register accounts should be directed to Capita Asset Services, Shareholder Solutions (Ireland), PO Box 7117, Dublin 2.
Telephone: + 353 1 553 0050

Hong Kong branch register
The Company operates a branch register for shareholders in Hong Kong. All enquiries regarding Hong Kong branch register accounts should be directed to Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Telephone: +852 2862 8555

Singapore branch register
Shareholders who have shares standing to the credit of their securities accounts with the CDP in Singapore may refer queries to the CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588. Telephone +65 6535 7511. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.

American Depositary Receipts (ADRs)
The Company's ordinary shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol PUK. Each American Depositary Share represents two ordinary shares. All enquiries regarding ADR holder accounts should be directed to JP Morgan, the authorised depositary bank, at JP Morgan Chase Bank, N.A., PO Box 64504, St. Paul, MN 55164-0854, USA.
Telephone +1 800 990 1135 or from outside the US +1 651 453 2128 or log on to www.adr.com

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Penelope James
Group Chief Risk Officer

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Group Regulatory and Government Relations Director

Raghu Hariharan
Director of Strategy and Capital Market Relations

Jonathan Oliver
Group Communications Director

Alan Porter
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Al-Noor Ramji
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Prudential public limited company
Incorporated and registered in England and Wales

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Registered number 1397169

www.prudential.co.uk

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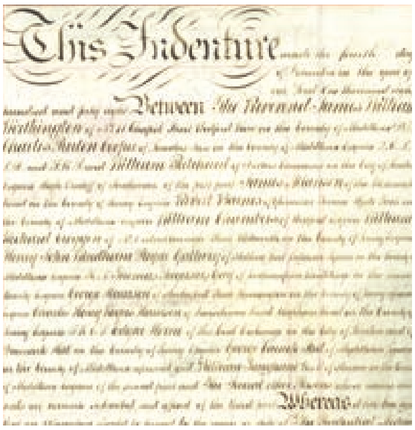
Providing financial security since 1848

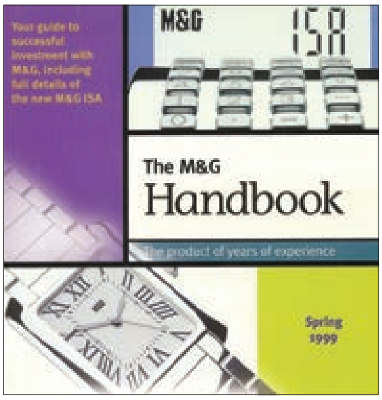
Successive generations have looked to Prudential to safeguard their financial security – from industrial workers and their families in Victorian Britain to around 24 million insurance customers worldwide today. Our financial strength, heritage, prudence and focus on our customers' long-term needs ensure that people continue to turn to our trusted brands to help them plan for today and tomorrow.

1848
Prudential is established as Prudential Mutual Assurance Investment and Loan Association in Hatton Garden, London, offering loans and life assurance to professional people.


This Indenture
Between
Whereas

1854
Prudential opens the Industrial Department to sell a new type of insurance, Industrial Insurance, to the working classes, for premiums of a penny and upwards.

1923
Prudential's first overseas life branch is established in India, with the first policy being sold to a tea planter in Assam.



1949
The 'Man from the Pru' advertising campaign is launched.

1986
Prudential acquires Jackson in the United States.

2013
Prudential Polska is launched in Poland.

1994
Prudential Corporation Asia is formed in Hong Kong as a regional head office to expand operations beyond an existing presence in Malaysia, Singapore and Hong Kong.

1999
Prudential acquires M&G, pioneer of unit trusts in the UK and a leading provider of investment products.

2014
Prudential acquires businesses in Ghana and Kenya, marking its entry into the fast-growing African life insurance industry.

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Designed by FleishmanHillard Fishburn
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