PRUDENTIAL PLC
Form 6-K
August 10, 2016
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As filed with the Securities and Exchange Commission on 10 August 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Name of Registrant)

12 Arthur Street,

London EC4R 9AQ, England

(Address of Principal Executive Offices)

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

Form 20-F X Form 40-F __

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ___

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ___

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This report on Form 6-K is hereby incorporated by reference, in its entirety, into Prudential Public Limited Company s registration statement on Form F-3 (File No. 333-199148).

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As used in this document, unless the content otherwise requires; the terms Prudential , the Group , we , us and our refer to Prudential plc, together with its subsidiaries, while the terms Prudential plc , the Company and the parent company each refer to Prudential plc .

Limitations on Enforcement of US Laws against Prudential plc, its Management and Others

Prudential plc is incorporated under the laws of England and Wales as a public limited company. Most of its directors and executive officers are resident outside the United States, and a substantial portion of its assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them or Prudential plc in US courts judgements obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there may be doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgements of US courts, of liabilities predicated solely upon the federal securities laws of the United States.

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Selected Historical Financial Information of Prudential

The following table sets forth Prudential s selected consolidated financial data for the periods indicated. Certain data is derived from Prudential s consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2016, there were no unendorsed standards effective for the periods presented below affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below is derived from Prudential s consolidated financial statements prepared in accordance with IFRS as issued by the IASB. This table is only a summary and should be read in conjunction with Prudential s unaudited condensed consolidated interim financial statements and the related notes included in this document, together with the Operating and Financial Review section below.

	Six Months Ended 30 June		
	2016[1]	**2016**	**20**
	(In $ Millions)	**(In £ Millions)**	**(In £ Million**
ome statement data			
ned premiums, net of reinsurance	**23,033**	**17,394**	17,8
estment return	**22,594**	**17,062**	6,1
er income	**1,436**	**1,085**	1,2
al revenue, net of reinsurance	**47,063**	**35,541**	25,2
efits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(40,969)**	**(30,939)**	(18,61
quisition costs and other expenditure	**(4,718)**	**(3,563)**	(4,50
ance costs: interest on core structural borrowings of shareholder-financed operations	**(224)**	**(169)**	(14
posal of Japan life business: Cumulative exchange loss recycled from other comprehensive income	**-**	**-**	(4
al charges, net of reinsurance	**(45,911)**	**(34,671)**	(23,31
re of profits from joint ventures and associates, net of related tax	**114**	**86**	1
fit before tax *(being tax attributable to shareholders and policyholders returns)*[2]	**1,266**	**956**	2,0
(charge) attributable to policyholders returns	**(386)**	**(292)**	(20
fit before tax attributable to shareholders	**880**	**664**	1,8
credit (charge) attributable to shareholders returns	**30**	**23**	(44
fit for the period	**910**	**687**	1,4

	Six Months Ended 30 June		
	2016[1]	**2016**	**20**
er data			
ed on profit for the period attributable to the Prudential s equity holders:			
ic earnings per share	**35.6 ¢**	**26.9p**	56.
ited earnings per share	**35.5 ¢**	**26.8p**	56.
idend per share declared and paid in reporting period:	**48.29 ¢**	**36.47p**	25.7
ond interim dividend/ final dividend for prior year[5]	**35.05 ¢**	**26.47p**	25.7
ivalent cents per share[6]		**38.42¢**	40.3
cial dividend[5]	**13.24 ¢**	**10.00p**	
ivalent cents per share[6]		**14.51¢**	

rket price per share at end of period[7]	**1665 ¢**	**1257p**	153
ghted average number of shares (in millions)		**2,558**	2,5

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	As of 30 June 2016[1] (In $ Millions)	As of 30 June 2016 (In £ Millions)	As of 31 December 2015 (In £ Millions)
Statement of financial position data			
Total assets	**581,753**	**439,324**	386,985
Total policyholder liabilities and unallocated surplus of with-profits funds	**498,041**	**376,107**	335,614
Core structural borrowings of shareholder-financed operations	**7,900**	**5,966**	5,011
Total liabilities	**562,412**	**424,718**	374,029
Total equity	**19,341**	**14,606**	12,956

	As of and for the Six Months Ended 30 June 2016[1] (In $ Millions)	2016 (In £ Millions)	2015 (In £ Millions)
Other data			
New business:			
Single premium sales[3]	**18,270**	**13,797**	14,006
New regular premium sales[3][4]	**2,185**	**1,650**	1,333
Funds under management	**744,598**	**562,300**	504,900

(1) Amounts stated in US dollars in the half year 2016 column have been translated from pounds sterling at the rate of $1.3242 per £1.00 (the noon buying rate in New York City on 30 June 2016).

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

(3) The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders (see EEV basis, new business results and free surplus generation below). The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. Internal vesting business is classified as new business where the contracts include an open market option.

The details shown above for new business include contributions for contracts that are classified under IFRS 4 Insurance Contracts as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and guaranteed investment contracts and similar funding agreements written in US operations.

(4) New regular premium sales are reported on an annualised basis, which represents a full year of instalments in respect of regular premiums irrespective of the actual payments made during the period.

(5) Under IFRS, dividends declared or approved after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes dividend in respect of the prior year that was declared or approved after the balance sheet date of the prior reporting period. The parent company dividend relating to the reporting period was a first interim dividend of 12.93p per share, as against an interim dividend of 12.31p per share for the first half of 2015.

(6) The dividend per share has been translated into US dollars at the noon buying rate in New York City on the date each payment was made.

(7) Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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Exchange Rate Information

Prudential publishes its consolidated financial statements in pounds sterling. References in this document to US dollars , US$, $ or ¢ are to US currency, references to pounds sterling , £ , pounds , pence or p are t (there are 100 pence to each pound) and references to Euro or are to the single currency adopted by the participating members of the European Union. The following table sets forth for each period the average of the noon buying rates on the last business day of each month of that period, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling expressed in US dollars per pound sterling for each of the reported periods. Prudential has not used these rates to prepare its consolidated financial statements.

Period	**Average rate**
Six months ended 30 June 2015	1.52
Twelve months ended 31 December 2015	1.53
Six months ended 30 June 2016	1.43

The following table sets forth the high and low noon buying rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

	High	**Low**
February 2016	1.46	1.39
March 2016	1.45	1.39
April 2016	1.46	1.41
May 2016	1.47	1.44
June 2016	1.48	1.32
July 2016	1.33	1.29

On 5 August 2016, the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.31.

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Risk Factors

A number of risk factors affect Prudential s operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under Forward-Looking Statements .

Risks relating to Prudential s business

Prudential s businesses are inherently subject to market fluctuations and general economic conditions

Prudential s businesses are inherently subject to market fluctuations and general economic conditions. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential s business and profitability. Prudential operates against a challenging background of periods of significant volatility in global capital and equity markets and interest rates (which in some jurisdictions have become negative), together with widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors could have a material adverse effect on Prudential s business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

- investment impairments and/or reduced investment returns, which could reduce Prudential s capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;

- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

- failure of counterparties who have transactions with Prudential (e.g. banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential s financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

- increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over the energy and commodity sectors, sovereign debt, general slowing in world growth, the monetary policies in the US, the UK and other jurisdictions and potentially negative socio-political events.

On 23 June 2016, the UK held a referendum in which a majority of the voting population voted in favour of the UK leaving the European Union (EU). Aligned with the results of the referendum, it is expected that the UK will begin negotiating the terms of its withdrawal from the EU, a process which once formally commenced has a maximum two year timeline. The vote in favour of the UK leaving the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to the country s major trading markets, including the single EU market is currently unknown. The ongoing uncertainty of when the UK will leave the EU and the possibility of a lengthy period before negotiations are concluded may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

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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

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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

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continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

The European Union s Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission will review elements of the Solvency II legislation from 2016 onwards including a review of the Long Term Guarantee measures by 1 January 2021. In addition, Prudential has applied for, and been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the matching adjustment for UK annuities, UK transitional measures and deduction and aggregation which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group s Solvency II capital position.

Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS).

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the US that, among other reforms to financial services entities, products and markets, may subject financial institutions designated as systemically important to heightened prudential and other requirements intended to prevent or mitigate the impact of future disruptions in the US financial system. The full impact of the Dodd-Frank Act on Prudential s businesses is not currently clear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years.

The IAIS has various initiatives which are detailed in this section. On 18 July 2013, it published a methodology for identifying G-SIIs, and a set of policy measures that will apply to them, which the FSB endorsed. An updated methodology for identifying G-SIIs was published by the IAIS on 16 June 2016. Groups designated as a G-SII are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential s designation as a G-SII was reaffirmed on 3 November 2015. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential s designation as a G-SII.

The G-SII regime also introduces two types of capital requirements. The first, a Basic Capital Requirement (BCR), is designed to act as a minimum group capital requirement and the second, a Higher Loss Absorption (HLA) requirement reflects the drivers of the assessment of G-SII designation. The IAIS intends for these requirements to take effect from January 2019, but G-SIIs will be expected to privately report to their group-wide supervisors in the interim.

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

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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

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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.

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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.

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Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group s joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its joint venture partners fails to meet its obligations under the joint venture, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group s product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential s Articles of Association contain an exclusive jurisdiction provision

Under Prudential s Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential s professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential s financial condition and results of operations.

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Forward-Looking Statements

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

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the Risk Factors heading of this document. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business.

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EEV Basis, New Business Results and Free Surplus Generation

In addition to IFRS basis results, Prudential s filings with the UK Listing Authority, the Stock Exchange of Hong Kong, the Singapore Stock Exchange and Group Annual Reports include reporting by Key Performance Indicators (KPIs). These include results prepared in accordance with the European Embedded Value (EEV) Principles and Guidance issued by the Chief Financial Officers (CFO) Forum of European Insurance Companies, New Business and Free Surplus Generation measures.

The EEV basis is a value-based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital or economic capital where higher and free surplus) of Prudential s life insurance operations. Prudential publishes its EEV results semi-annually in the UK, Hong Kong and Singapore markets.

New business results are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. New business results are categorised as single premiums and annual regular premiums. New business results are also summarised by annual premium equivalents (APE) which are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. The amounts are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. EEV basis new business profits and margins are also published semi-annually.

Underlying free surplus generation is used to measure the internal cash generation by our business units. For the insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit based on longer-term investment return for the period.

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Operating and Financial Review

The following discussion and analysis should be read in conjunction with Prudential s unaudited condensed consolidated interim financial statements and the related notes for the period ended 30 June 2016 included in this document. The critical accounting policies which have been applied to these statements are discussed in the section below entitled IFRS Critical Accounting Policies .

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors (including those discussed in the Risk Factors section of this document). See also the discussion under the heading Forward-looking statements above.

Introduction and Overview

In the first half of 2016, Prudential continued to provide a broad range of financial products and services, primarily to the retail market. Prudential s principal operations continue to be in Asia, the United States and the United Kingdom. The accounting policies applied by Prudential in determining the IFRS basis results reflected in Prudential s unaudited condensed consolidated interim financial statements for the period ended 30 June 2016 are the same as those previously adopted in Prudential s consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new accounting pronouncements as described in note A2 to the unaudited condensed consolidated interim financial statements.

Currency volatility

For the purpose of reporting our performance in sterling terms, we adopt the normal convention of translating the results of our overseas businesses using average exchange rates for the period. Consistent with previous reporting periods, the assets and liabilities of our overseas businesses are translated at period-end exchange rates so the effect of currency movements has been fully incorporated within reported shareholders equity.

However, the currency translation effect can be so pronounced for some parts of the business that it masks the underlying operational trends, rendering it difficult to meaningfully assess performance. The sizeable component of Prudential s non-sterling earnings and assets means that our headline results and shareholders equity, which are reported in UK sterling, will also fluctuate from one reporting period to the next. In that context, it is important to note that the actual flows that we collect from our customers in Asia and the US are received in local currency. We believe that in periods of currency volatility, the most appropriate way to assess the actual performance of our businesses is to look at what they have achieved on a local currency basis, in other words in terms of the actual flows they have collected rather than the translation of those flows into sterling. This is because our businesses in the US and Asia receive premiums and pay claims in local currencies and are, therefore, not exposed to any cross-currency trading effects.

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The table below presents a summary of the Group s profit before tax on an IFRS basis. The table presents the half year 2015 results on both an actual exchange rate and constant exchange rate basis so as to eliminate the impact of exchange translation. Actual Exchange Rates (AER) are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rate i.e. current period average rates for the income statement and current period closing rates for the balance sheet. Further discussion on currency volatility and the use of constant exchange rates to discuss the performance of our businesses is provided in the Reconciliation of total profit by business segment and geography to IFRS operating profit based on longer-term investment returns section of this document.

IFRS Profit

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

Overview

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

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

The attractiveness and value to consumers of de-risking their financial lives, whether it is through protecting health or wealth, are accentuated in periods such as the one we have experienced in the first half of this year. The secular, global trend of increasing self-reliance of the middle class to provide for savings and retirement, be it by a fast growing, wealthier, but younger population in our Asian markets or by a growing number of retirees in the US

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and the UK, remains intact despite the macro-economic uncertainty. In a world of low investment returns, high volatility and improving life expectancy, Prudential is well-placed to serve these needs through our leading position in three of the most attractive insurance regions globally.

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

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

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

2016 half year financial performance

We are pleased that we have been able to grow our key operating metrics in the first half of 2016, against an unfavourable macro-economic and market backdrop.

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

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

This progress has allowed us to build on the strong progress of prior years, with IFRS operating profit based on longer-term investment returns of £2,059 million, up 6 per cent on a constant exchange rate basis (9 per cent on an actual exchange rate basis) despite the known challenges in some of our businesses at the start of the period. IFRS shareholders funds increased to £14.6 billion on an actual exchange rate basis over the period after taking into account profit after tax and other movements.

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

Notes:

1 Gross earned premiums including Group s share of joint ventures.
2 Comparable to 31 December 2015 on local currency basis.
3 Comparable to 31 December 2015.

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Asia

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

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

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

Across the region, we have taken proactive actions to lower the interest rate sensitivity of our business by withdrawing spread products. In this context, the quality of our delivery is reflected in the continuing growth in regular premium new business sales, reflecting the durable nature of demand for our products. Our now sizeable and growing in-force book of recurring premium business in the region, has been the main contributor to a 17 per cent increase in life IFRS operating profit based on longer-term investment returns in the first half of the year to £682 million on a constant exchange rate basis (19 per cent on an actual exchange rate basis). Profits from health and protection alone contributed around two thirds of this total.

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

Overall, at a regional level, despite the short-term adverse impact of our actions in some markets to underpin long-term value creation, we have delivered double digit growth in our key operating metrics with IFRS operating profit growing by 15 per cent to £743 million on a constant exchange rate basis (18 per cent on an actual exchange rate basis). We remain on track to achieve our 2017 objectives (see below).

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

US

Jackson has developed a high-quality business with significant competitive advantages across multiple dimensions. It makes more effective use of technology and is consistently recognised as having the best service[4] standards, with the largest distribution capabilities. It has a track record of innovation and bringing products to market faster and more effectively than peers and its product proposition remains central to our ability to deliver value for our customers, offering a wide fund choice and a strong track record of account value outperformance. All this is delivered on a cost base that is the most efficient[5] in the industry.

4 Awarded highest customer service in 2015 Financial Industry Service Quality Measurement Group.

5 On Expense to Asset (Statutory) basis. Source: SNL Financial LLC report on industry wide data as at Q1 2016.

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

In the first half of 2016, traditional variable annuity sales excluding Elite Access decreased compared to the first half of 2015 in an environment of elevated market volatility and significant uncertainty on the Department of Labor reforms. The quality of our franchise is reflected in the continuing delivery of net inflows, which have driven a positive 4 per cent[2] increase in separate account assets to $138.9 billion, contributing to a 9 per cent increase in fee business IFRS operating profit to £642 million on a constant exchange rate basis (16 per cent increase on an actual exchange rate basis). The total life IFRS operating profit in line with last year at £888 million and cash remittance for the half year was £339 million.

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

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

UK

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

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

Capital and risk management

We remain disciplined in our approach to capital management. Operating capital generation in the first half of 2016 continued to make a sizeable contribution, adding to the surplus at the beginning of the year and helping to absorb market effects during the period. At 30 June 2016, the Group Solvency II capital surplus[6] was estimated at £9.1 billion, which is equivalent to a Group Solvency II capital ratio of 175 per cent (31 December 2015: £9.7 billion, equivalent to a ratio of 193 per cent).

Outlook

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

Although the macro-economic context looks certain to be challenging and unpredictable in the short term, the Group has proven its ability to manage through external change. Our absolute position is strong and we believe

[6] Before allowing for first interim dividend (31 December 2015: Second interim dividend)

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our relative position will be a source of competitive advantage in times of market disruption. Through the durable demand for products which assist our customers in reducing risk, the growing scale of stable recurring income, and proactive management of our product mix and balance sheet, the Group has the flexibility to adapt to market conditions and deliver robust earnings and shareholder value.

2017 Objectives

The objectives discussed below assume exchange rates at December 2013 and economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume that the existing EEV, IFRS and free surplus methodology at December 2013 will be applicable over the period.

We announced new objectives for 2017 at our investor conference in December 2013 in London. These objectives are:

(i) Asia Underlying Free Surplus Generation[(7)(8)] of £0.9 billion to £1.1 billion in 2017 (2012: £484 million on an actual exchange rate basis).

(ii) Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012 2017 to reach at least £1,858 million in 2017 (2012: £924 million[(9)] on an actual exchange rate basis).

(iii) Group Underlying Free Surplus Generation[(8)] of at least £10 billion cumulatively over the four-year period from 2014 to end- 2017.

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

7 Underlying free surplus generated comprises underlying free surplus generated from long-term business (net of investment in new business) and that generated from asset management operations. The 2012 comparative is based on the retrospective application of new and amended accounting standards and excludes the one-off gain of £51 million from the sale of the Group s holding in China Life Insurance Company of Taiwan.

8 Underlying free surplus generation is defined in the section EEV Basis, New Business Results and Free Surplus Generation .

9 Asia 2012 IFRS operating profit of £924 million is based on the retrospective application of new and amended accounting standards, and excludes the one-off gain of £51 million from the sale of the Group s holding in China Life Insurance Company of Taiwan.

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IFRS Critical Accounting Policies

Prudential s discussion and analysis of its financial condition and results of operations are based upon Prudential s consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2016, there were no unendorsed standards effective for the period ended 30 June 2016 affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, Prudential s financial information for the period ended 30 June 2016 is prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards when required, and may consider earlier adoption where permitted and appropriate in the circumstances.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions.

Prudential s critical accounting policies and the critical aspects of its estimates and judgements in determining the measurement of the Group s assets and liabilities are further discussed in Item 5, Operating and Financial Review and Prospects IFRS Critical Accounting Policies of the Group s 2015 annual report on Form 20-F. In preparing the unaudited condensed consolidated interim financial statements included elsewhere in this document, the significant judgements made by management in applying the Group s accounting policies and the key sources of estimation uncertainty were for the same items as those described therein, which are:

Classification of insurance and investment contracts;

Measurement of policyholder liabilities;

Measurement of deferred acquisition costs;

Determination of fair value of financial investments; and

Determining impairment related to financial assets.

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Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential s consolidated total profit for the periods indicated.

	2016 £m Half year	2015 £m Half year
Total revenue, net of reinsurance	**35,541**	25,279
Total charges, net of reinsurance	**(34,671)**	(23,317)
Share of profits from joint ventures and associates, net of related tax	**86**	122
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**956**	2,084
Less tax charge attributable to policyholders returns	**(292)**	(202)
Profit before tax attributable to shareholders	**664**	1,882
Total tax charge attributable to policyholders and shareholders	**(269)**	(646)
Adjustment to remove tax charge attributable to policyholders returns	**292**	202
Tax credit (charge) attributable to shareholders returns	**23**	(444)
Profit for the period	**687**	1,438

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

Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as with-profits and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its unaudited condensed consolidated interim results by reference to profits for the period, reflecting profit after tax. In explaining movements in profit for the period, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note B1 to Prudential s unaudited condensed consolidated interim financial statements. This basis is used by management and reported externally to the holders of shares listed on the UK, Hong Kong and Singapore exchanges and to the financial markets in those countries. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

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Explanation of Movements in Profits After Tax and Profits Before Shareholder

Tax by Reference to the Basis Applied for Segmental Disclosure

a) Group overview

Profit for half year 2016 after tax was £687 million compared to a profit of £1,438 million in the first half of 2015. The decrease reflects the movement in results before tax attributable to shareholders, which decreased from a profit before tax of £1,882 million in half year 2015 to a profit of £664 million in half of 2016, partially offset by a decrease in the tax charge attributable to shareholders returns from £444 million in half year 2015 to a tax credit of £23 million in half year 2016.

The decrease in the total profit before tax attributable to shareholders from £1,882 million in half year 2015 to £664 million in half year 2016 reflects primarily an improvement in operating profit based on longer-term investment returns from £1,881 million in half year 2015 to £2,059 million in half year 2016 and an adverse change in short-term fluctuations in investment returns from a positive £86 million in half year 2015 to a negative £1,360 million in half year 2016. The increase of £178 million or 9 per cent in operating profit based on longer-term investment returns includes a positive impact of exchange translation of £65 million. Excluding the currency volatility, on a constant exchange rate basis, the Group operating profit based on longer-term investment returns increased by £113 million or 6 per cent to £2,059 million. This result was driven by continued double digit growth in our Asia life operations. In Jackson, the expected reduction in spread earnings reflecting lower rates was mitigated by a robust performance from fee business. Operating profit from our UK life business also increased despite the loss of earnings from new bulk annuity sales, in part due to a contribution from actions taken to improve solvency. As anticipated, M&G s earnings were lower following a decline over the last year in retail assets managed, driven by net outflows.

During the first half of 2016, investment markets have remained volatile reflecting growing concerns on the outlook for global growth, the consequences of monetary policy actions and unease caused by steep declines in commodity prices. The first quarter of the year was characterised by sizeable equity market falls, wider credit spreads and lower rates, while in the second quarter equity and credit markets normalised but long-term interest rates fell further following the UK referendum vote on EU membership. Although we have taken steps to reduce the investment market sensitivity of our earnings and balance sheet, we remain significant long-term holders of financial assets to back the commitments that we have made to our customers. Short term fluctuations in both these assets and related liabilities are reported outside the operating result, which is based on long-term assumptions. In the first half of the year, these short-term fluctuations were overall negative, driven by the net effect that the sharp decline in interest rates had on our overall balance sheet. This contrasts with the equivalent period of 2015, where a more benign market environment and rising interest rates produced comparatively modest short-term investment variances. As a result, in the first half of the year, profit after tax was 52 per cent lower at £687 million.

Further, over the course of the first six months of 2016 sterling weakened significantly relative to major global currencies. As the majority of the Group s business is conducted in US dollars and in various Asian currencies, our earnings, shareholders equity and solvency have benefited strongly from this movement. In addition, the significant fall in US long-term rates between the start and the end of the reporting period produced substantial unrealised gains on the fixed income securities held by Jackson accounted for through Other Comprehensive Income. The improved operating results, negative short-term investment variances, unrealised gains on Jackson s fixed income securities and positive currency effects, combined to drive the Group s IFRS shareholders equity 21 per cent higher at £14.6 billion on a comparison to 30 June 2015.

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

b) Summary by business segment and geographical region

Prudential s operating segments, as determined under IFRS 8, are insurance operations split by geographic regions in which it conducts business, which are Asia, the US and the UK, and asset management operations. The asset management operations are split into M&G, which is Prudential s UK and European asset management business, Prudential Capital, which undertakes treasury functions for the Group, Eastspring Investments, which is the Asia asset management business, and the US broker-dealer and asset management business.

The following table shows Prudential s IFRS consolidated total profit (loss) after tax for the periods indicated presented by summary business segment and geographic region. The accounting policies applied to the segments below are the same as those used in Prudential s consolidated accounts.

	2016 £m Half year				
	Asia	**US**	**UK**	**Unallocated corporate****	**Total**
Insurance operations	**579**	**(313)**	**600**	**-**	**866**
Asset management*	**53**	**(8)**	**131**	**-**	**176**
Total profit (loss) attributable to the segments	**632**	**(321)**	**731**	**-**	**1,042**
Unallocated corporate	**-**	**-**	**-**	**(355)**	**(355)**
Total profit (loss) for the period	**632**	**(321)**	**731**	**(355)**	**687**

	2015 £m (Actual Exchange Rate) Half year				
	Asia	**US**	**UK**	**Unallocated corporate****	**Total**
Insurance operations	379	761	282	-	1,422
Asset management*	50	8	205	-	263
Total profit attributable to the segments	429	769	487	-	1,685
Unallocated corporate	-	-	-	(247)	(247)
Total profit (loss) for the period	429	769	487	(247)	1,438

* For the US, including the broker dealer business

** Representing principally central operations.

Profit from insurance operations

Total profit from insurance operations in half year 2016 was £866 million compared to a profit of £1,422 million in half year 2015. All of the profits from insurance operations in the half years 2016 and 2015 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	2016 £m Half year	**2015 £m Half year**
Profit before shareholder tax	**859**	1,851
Shareholder tax	**7**	(429)
Profit after tax	**866**	1,422

The decrease of £992 million from profit before tax attributable to shareholders in half year 2015 of £1,851 million compared to a profit of £859 million in half year 2016 is primarily attributable to the negative change of £1,243 million in the short-term fluctuations in investment returns from a positive £75 million in half year 2015 to a negative £1,168 million in half year 2016. This negative impact was partially offset by an increase of £201 million in operating profit based on longer-term investment returns from £1,861 million to £2,062 million. The increase in operating profit based on longer-term investment returns comprises a £138 million increase on a constant exchange rate basis primarily driven by continued double-digit growth in Asia and £63 million currency volatility effect.

The decrease in profit before tax was further partially offset by the non-recurrence of a one-off cumulative exchange loss of £46 million in half year 2015 that was recycled from other comprehensive income upon the disposal of the Japan life business.

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The effective shareholder tax rate on profits from insurance operations decreased from 23 per cent in half year 2015 to negative 1 per cent in half year 2016. The movement is driven by negative short-term fluctuations in the US insurance operations, which attracts tax relief at a higher rate than profits are taxed elsewhere in the Group.

In order to understand how Prudential s results are derived, it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asia operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, measurement of the insurance assets and liabilities is determined substantially by reference to US GAAP principles. This basis is applied in India and Taiwan. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven as described under United Kingdom Basis of profits below.

Comparison of total profit arising from Asia insurance operations

The following table shows the movement in profit arising from Asia insurance operations from half year 2015 to half year 2016:

	2016 £m Half year	**2015 £m Half year**
Profit before shareholder tax	**704**	467
Shareholder tax	**(125)**	(88)
Profit after tax	**579**	379

The increase of £237 million from the profit before tax attributable to shareholders in half year 2015 of £467 million to a profit of £704 million in half year 2016 primarily reflects an increase of £108 million in operating profit based on longer-term investment returns (from £574 million to £682 million) and a favourable change in short-term fluctuations in investment returns of £83 million (from negative £57 million to positive £26 million). The increase of £108 million in operating profit based on longer-term investment returns includes a positive exchange translation impact of £10 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer-term investment returns was up 17 per cent or £98 million. Income from insurance margin is the largest contributor of the growth in Asia s earnings reflecting an increase of earnings on health and protection business. The positive short-term fluctuations in investment returns reflect the net value movements on shareholders assets and related liabilities following the fall in bond yields across the region.

The increase of £237 million in the profit before tax also reflects the non-recurrence of a one-off cumulative exchange loss of £46 million in half year 2015 that was recycled from other comprehensive income upon the disposal of the Japan life business.

The effective shareholder tax rate changed from 19 per cent in half year 2015 to 18 per cent in half year 2016 reflecting a lower contribution to the total profit from higher tax jurisdictions.

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United States

Basis of profits

The underlying profit on Jackson s business arises predominantly from fee income on variable annuity business, spread income from interest-sensitive products, such as fixed annuities and institutional products, and insurance margin, net of expenses measured on a US GAAP basis. In addition, the results in any period include the incidence of realised gains and losses (including impairment) on assets classified as available-for-sale, and fair value movements on derivatives and securities classified as fair valued through profit and loss.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profits arising from US insurance operations from half year 2015 to half year 2016:

	2016 £m Half year	**2015 £m Half year**
Profit before shareholder tax	**(583)**	1,027
Shareholder tax	**270**	(266)
Profit after tax	**(313)**	761

The decrease of £1,610 million in profit before tax attributable to shareholders from a profit of £1,027 million in half year 2015 to a loss of £583 million in half year 2016, comprised an increase of £54 million in operating profit based on longer-term investment returns (from £834 million to £888 million) and an adverse change of £1,668 million in short-term fluctuations in investment returns (from £228 million to a negative £1,440 million). The increase of £54 million in operating profit based on longer-term investment returns includes a positive exchange translation impact of £53 million. Excluding the currency volatility, the operating profit based on longer-term investment returns in half year 2016 was in line with the first half of 2015 at £888 million reflecting the resilient performance of our franchise in an environment of market volatility and industry disruption caused by the Department of Labor reforms.

The negative short-term fluctuations in investment returns of £1,440 million in the first half mainly reflect the net value movements on the guarantees and the associated derivatives of the 78bps fall in the 10-year US government bond yields during the period.

The effective tax rate on profits from US operations increased from 26 per cent in half year 2015 to 46 per cent in half year 2016 driven by negative short-term fluctuations, which attracts tax relief at a higher rate than operating profit in the US operations.

United Kingdom

Basis of profits

Prudential s results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund as well as profits from its shareholder backed annuity and other businesses.

For Prudential s UK insurance operations, the primary annual contribution to shareholders profit comes from its with-profits products. With-profits products are designed to provide policyholders with smooth investment returns through a mix of regular and final bonuses.

For with-profits business (including non-participating business owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognised in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for the with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year.

The results of the UK shareholder-backed annuity business reflect the inclusion of investment returns including realised and unrealised gains and losses. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note B4 to the unaudited condensed consolidated financial statements.

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Comparison of total profit arising from UK insurance operations

The following table shows the movement in profits arising from UK insurance operations from half year 2015 to half year 2016:

	2016 £m Half year	2015 £m Half year
Profit before shareholder tax	**738**	357
Shareholder tax	**(138)**	(75)
Profit after tax	**600**	282

The increase of £381 million in profit before tax attributable to shareholders from £357 million in half year 2015 to £738 million in half year 2016 primarily comprises an increase of £39 million in operating profit based on longer-term investment returns (from £453 million to £492 million), combined with a favourable period-on-period movement in the short-term fluctuations in investment returns for shareholder-backed business of £342 million (from negative £96 million to £246 million). The increase in operating profit based on longer-term investment returns was driven by the asset and liability actions taken in the first half of 2016 to improve the solvency position of our UK life operations and further mitigate market risk, which have generated combined profits of £140 million. Of this amount, £66 million related to profit from new longevity reinsurance transactions (2015: £61 million), with the balance of £74 million reflecting the effect of repositioning the fixed income asset portfolio and other actions. This increase was partially offset by reduction in the contribution from new annuity business from £66 million to £27 million, as we scale down our participation in the annuity market.

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

The effective shareholder tax rate on profits from UK insurance operations for half year 2016 of 19 per cent compares with an effective tax rate of 21 per cent in half year 2015, with the movement principally reflecting an increase in the proportion of income that is not subject to UK taxation.

Profit from asset management

The following table shows the movement in profits from asset management from half year 2015 to half year 2016:

	2016 £m Half year	2015 £m Half year
Profit before shareholder tax	**211**	322
Shareholder tax	**(35)**	(59)
Profit after tax	**176**	263

Total profit after tax from asset management decreased from £263 million in half year 2015 to £176 million in half year 2016.

The £111 million decrease in profit before tax attributable to shareholders in half year 2016 is attributable to the profit decreases in M&G of £34 million, US asset managers of £24 million and Prudential Capital of £56 million, partially offset by profit increases in Eastspring Investments of £3 million.

The £34 million decrease in profit before tax attributable to shareholders for M&G was principally attributable to the impact on revenues of lower assets under management as a result of the net retail business outflows experienced since the second quarter of 2015. Careful management of costs has been contributed to a fall in expenses, which has cushioned the full impact of the decline in revenues in the first half of the year.

The £24 million decrease in profit before tax attributable to shareholders for US mainly reflects ongoing costs relating to the closure of Curian, which is now complete.

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The £56 million decrease in profit before tax attributable to shareholders for Prudential Capital was due to reprioritisation of activity. During 2015 we started to refocus activity away from revenue generation towards internal treasury services and this reprioritisation continued into 2016 resulting in a reduction in profit.

The £3 million increase in profit before tax attributable to shareholders for Eastspring reflects an increase in average external funds under management (excluding MMF) by 14 per cent, from £27.7 billion in the first half of 2015 to £31.5 billion in the equivalent period this year. A shift in the overall mix of assets away from higher margin equity funds towards lower margin bonds has muted the benefit of the higher asset base on overall fee revenues. Control on costs has resulted in a further small improvement in profit.

The effective tax rate on profits from asset management operations decreased from 18 per cent in half year 2015 to 17 per cent in half year 2016, principally reflecting an increase in the proportion of expenses which are not deductible for taxation purposes.

Unallocated corporate result

The following table shows the movement in the unallocated corporate result from half year 2015 to half year 2016:

	2016 £m Half year	**2015 £m Half year**
Loss before shareholder tax	**(406)**	(291)
Shareholder tax	**51**	44
Loss after tax	**(355)**	(247)

Total charges net of tax for unallocated corporate activity increased by £108 million from £247 million in half year 2015 to £355 million in half year 2016.

The loss before shareholder tax increased by £115 million from £291 million at half year 2015 to £406 million at half year 2016. The increase in the loss before shareholder tax is attributable to the adverse movement in short-term fluctuations in investment returns by £133 million from a gain of £17 million in half year 2015 to a loss of £116 million in half year 2016 partially offset by the £18 million decrease in net other expenditure (including restructuring and Solvency II implementation costs) from £308 million in half year 2015 to £290 million in half year 2016.

The effective tax rate on unallocated corporate result changed from 15 per cent at half year 2015 to 13 per cent at half year 2016, principally reflecting an increase in irrecoverable withholding tax.

c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group s results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Prudential determines and presents operating segments based on the information that is internally provided to the Group Executive Committee (GEC), which is Prudential s chief operating decision maker.

An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential s other components. An operating segment s operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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The operating segments identified by Prudential reflect the organisation structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management). Prudential s operating segments determined in accordance with IFRS 8, Operating Segments , are as follows:

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

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

Performance measure

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

- Short-term fluctuations in investment returns on shareholder-backed business including the impact of short-term market effects on the carrying value of Jackson s guarantee liabilities and related derivatives as explained below;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015.

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

Determination of operating profit based on longer-term investment returns for investment and liability movements

(a) General principles

(i) UK style with-profits business

The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii) Unit linked business

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(iii) US variable annuity and fixed index annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other, US GAAP derived, principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

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(iv) Business where policyholder liabilities are sensitive to market conditions
Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the grandfathered measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities is broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the elements that relate to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (ie after allocated investment return and charge for policyholder benefits) the operating result reflects longer-term market returns.

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively.

(v) Other shareholder-financed business
The measurement of operating profit based on longer-term investment returns reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group s shareholder-financed operations.

Except in the case of assets backing liabilities which are directly matched (such as linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

Debt, equity-type securities and loans

Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

In principle, for debt securities and loans, the longer-term capital returns comprise two elements:

- Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and
- The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 30 June 2016, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £605 million (half year 2015: net gain of £478 million).

Equity-type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity are of significance for the US and Asia insurance operations. Different rates apply to different categories of equity-type securities.

Derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson, as discussed below in section (c).

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(b) Asia insurance operations

(i) Business where policyholder liabilities are sensitive to market conditions
For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. For these products, the charge for policyholder benefits in the operating results should reflect the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (also applied for IFRS basis) was used.

For certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business
Debt securities

For this business the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £1,035 million as at 30 June 2016 (30 June 2015: £831 million). The expected long-term rates of return applied for 2016 ranged from 3.2 per cent to 13.0 per cent (30 June 2015: 3.8 per cent to 13.0 percent) with the rates applied varying by territory. These rates reflect expectations of long-term real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures accounted for using the equity method are determined on a similar basis for the other Asia insurance operations described above.

(c) US insurance operations

(i) Separate account business
For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

(ii) US variable and fixed index annuity business

The following value movements for Jackson s variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns. See note B1.2 note (ii) to the unaudited condensed consolidated financial statements:

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for the not for life portion of Guaranteed Minimum Withdrawal Benefit and fixed index annuity business, and Guaranteed Minimum Income Benefit reinsurance (see below);
- Movements in the accounts carrying value of Guaranteed Minimum Death Benefit and the for life portion of Guaranteed Minimum Withdrawal Benefits and Guaranteed Minimum Income Benefit liabilities, for which, under the grandfathered US GAAP applied under IFRS for Jackson s insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements;
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

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Embedded derivatives for variable annuity guarantee minimum income benefit

The Guaranteed Minimum Income Benefit liability, which is essentially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 944-80 Financial Services Insurance Separate Accounts (formerly SOP 03-1) under IFRS using grandfathered US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39, Financial Instruments: Recognition and Measurement , and the asset is therefore recognised at fair value. As the Guaranteed Minimum Income Benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson s bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as grandfathered under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based embedded derivatives.

(iv) Other US shareholder-financed business

Debt securities

Jackson is the shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as BlackRock Solutions to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2 to the unaudited condensed consolidated financial statements.

Equity-type securities

As at 30 June 2016, the equity-type securities for US insurance non-separate account operations amounted to £1,115 million (half year 2015: £1,087 million). For these operations, the longer-term rates of return for income and capital applied in 2016 and 2015, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums are as follows:

	2016 Half year	**2015 Half year**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**5.5% to 5.9%**	5.7% to 6.4%

Other equity-type securities such as investments in limited partnerships and private equity funds	**7.5% to 7.9%**	7.7% to 8.4%

(***d) UK Insurance operations***

(i) Shareholder-backed annuity business
For this business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the operating results based on longer-term investment returns . Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

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The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business in Prudential Retirement Income Limited (PRIL) and the Prudential Assurance Company Limited (PAC) non-profit sub-fund after adjustments to allocate the following elements of the movement to the category of short-term fluctuations in investment returns :

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;
- Credit experience compared to assumptions; and
- Short-term value movements on assets backing the capital of the business.

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. Positive or negative experience compared to assumptions is included within short-term fluctuations in investment returns without further adjustment. The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(ii) Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

(e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

Reconciliation of total profit by business segment and geography to IFRS operating profit based on longer-term investment returns

Analysis of IFRS operating profit based on longer-term investment returns and IFRS total profit

A reconciliation of profit before tax (including tax attributable to policyholders returns) to profit before tax attributable to shareholders and profit for the period is shown below.

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For comparison, the table below presents the 2015 half year results on both actual exchange rates (AER) and, so as to eliminate the impact of exchange translation, the constant exchange rates (CER) bases. Actual Exchange Rates (AER) are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

	Actual Exchange Rate		**Constant Exchange Rate**
	2016 £m Half year	**2015 £m Half year**	**2015 £m Half year**
Operating profit before tax			
Long-term business:(note (ii))			
Asia	**682**	**574**	584
US	**888**	**834**	887
UK	**473**	**436**	436
Long-term business operating profit	**2,043**	**1,844**	1,907
UK general insurance commission(note (iii))	**19**	**17**	17
Asset management business:			
M&G	**225**	**251**	251
Prudential Capital	**13**	**7**	7
Eastspring Investments	**61**	**58**	60
US broker-dealer and asset management	**(12)**	**12**	12
	2,349	**2,189**	2,254
Other income and expenditure	**(315)**	**(283)**	(283)
Solvency II implementation costs	**(11)**	**(17)**	(17)
Restructuring costs(note (iv))	**(7)**	**(8)**	(8)
Interest received from tax settlement	**43**	**-**	-
Total IFRS basis operating profit based on longer-term investment returns(note (i))	**2,059**	**1,881**	1,946
Short-term fluctuations in investment returns:(note (v))			
Insurance operations	**(1,168)**	**75**	86
Other operations	**(192)**	**11**	11
Total short-term fluctuations in investment returns	**(1,360)**	**86**	97
Amortisation of acquisition accounting adjustments	**(35)**	**(39)**	(42)
Cumulative exchange loss on the sold Japan Life business recycled from other comprehensive income	**-**	**(46)**	(54)
Profit before tax attributable to shareholders	**664**	**1,882**	1,947
Tax credit (charge) attributable to shareholders returns	**23**	**(444)**	(461)
Profit for the period attributable to equity holders of Prudential	**687**	**1,438**	1,486

Notes

(i) Operating profit based on longer-term investment returns.

The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential s segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in section (c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region above.

(ii) Effect of changes to assumptions, estimates and bases of determining life assurance liabilities.

The results of Prudential s long-term business operations are affected by changes to assumptions, estimates and bases of preparation. Where applicable, these are described in note B4 to the unaudited condensed consolidated interim financial statements.

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

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

(v) Short-term fluctuations in investment returns on shareholder-backed business comprise:

	2016 £m Half year	2015 £m Half year
Insurance operations:		
Asia	**26**	(57)
US	**(1,440)**	228
UK	**246**	(96)
Other operations	**(192)**	11
Total	**(1,360)**	86

Further details on the short-term fluctuations in investment returns are provided below and in note B1.2 to the unaudited condensed consolidated interim financial statements.

Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit by segment

The following tables reconcile Prudential s operating profit based on longer-term investment returns to total profit attributable to shareholders.

	Insurance operations			Asset management						
Half year 2016	**Asia**	**US**	**UK**	**M&G**	**Prudential Capital**	**US**	**Eastspring Investments**	**Total segment**	**Unallocated corporate**	**Total**
					(In £ Millions)					
Operating profit based on longer-term investment returns	**682**	**888**	**492**	**225**	**13**	**(12)**	**61**	**2,349**	**(290)**	**2,059**
Short-term fluctuations in investment returns on shareholder backed business	**26**	**(1,440)**	**246**	**(2)**	**(74)**	**-**	**-**	**(1,244)**	**(116)**	**(1,360)**
Amortisation of acquisition accounting adjustment	**(4)**	**(31)**	**-**	**-**	**-**	**-**	**-**	**(35)**	**-**	**(35)**
Profit before tax attributable to shareholders	**704**	**(583)**	**738**	**223**	**(61)**	**(12)**	**61**	**1,070**	**(406)**	**664**
										23

Tax attributable to shareholders										
Profit for the period										**687**

Half year 2015 (AER)	**Insurance operations**			**Asset management**						
	Asia	**US**	**UK**	**M&G**	**Prudential Capital**	**US**	**Eastspring Investments**	**Total segment**	**Unallocated corporate**	**Total**
	(In £ Millions)									
Operating profit based on longer-term investment returns	574	834	453	251	7	12	58	2,189	(308)	1,881
Short-term fluctuations in investment returns on shareholder backed business	(57)	228	(96)	6	(12)	-	-	69	17	86
Amortisation of acquisition accounting adjustment	(4)	(35)	-	-	-	-	-	(39)	-	(39)
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income	(46)	-	-	-	-	-	-	(46)	-	(46)
Profit before tax attributable to shareholders	467	1,027	357	257	(5)	12	58	2,173	(291)	1,882
Tax attributable to shareholders										(444)
Profit for the period										1,438

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Half year 2015 (CER)	Insurance operations Asia	US	UK	Asset management M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	(In £ Millions)									
Operating profit based on longer-term investment returns	584	887	453	251	7	12	60	2,254	(308)	1,946
Short-term fluctuations in investment returns on shareholder backed business	(61)	243	(96)	6	(12)	-	-	80	17	97
Amortisation of acquisition accounting adjustment	(4)	(38)	-	-	-	-	-	(42)	-	(42)
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income	(54)		-	-	-	-	-	(54)	-	(54)
Profit before tax attributable to shareholders	465	1,092	357	257	(5)	12	60	2,238	(291)	1,947
Tax attributable to shareholders										(461)
Profit for the period										1,486

IFRS operating profit based on longer-term investment returns

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

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

Compared to the same period in 2015, sterling has declined against most global currencies, which is positive for the translation of results from our sizeable non-sterling operations. To aid comparison of underlying progress, we continue to express and comment on the performance trends of our Asia and US operations on a constant currency basis. Therefore, in the commentary on half year 2016 compared to half year 2015 discussions below, every time we comment on the performance of our businesses, we provide their performance measured on the constant exchange rates basis unless otherwise stated. Growth rates based on actual exchange rates are also shown in the tables presented above.

Total operating profit based on longer-term investment returns was 6 per cent higher at £2,059 million, (up 9 per cent on an actual exchange rate basis), equivalent to an annualised 24 per cent return on opening IFRS equity. This result was driven by continued double digit growth in our Asia life operations, with life operating profit up 17 per cent to £682 million. In Jackson, the expected reduction in spread earnings reflecting lower rates was mitigated by a robust performance from fee business. Operating profit from our UK insurance operations also increased by 9 per cent, despite the loss of earnings from new bulk annuity sales, in part due to a contribution from actions taken to improve solvency. As anticipated, M&G s earnings were lower by 10 per cent following a decline over the last year in retail assets managed, driven by net outflows.

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

Insurance operations

Taken together, operating profit based on longer-term investment returns from our insurance operations in Asia, the US and the UK increased 7 per cent to £2,062 million (11 per cent on an actual exchange rate basis).

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

In the **US**, life operating profit based on longer-term investment returns at £888 million was in line with the first half of 2015 (up 6 per cent on an actual exchange rate basis), reflecting the resilient performance of our franchise in an environment of market volatility and industry disruption caused by Department of Labor reforms. Despite the equity market falls sustained in the early part of the year, we have broadly maintained the level of fee income earned on separate account values, which continue to benefit from positive net flows in spite of the reduced level of new business sales in the period. As expected, lower yields in the period have impacted spread income, which decreased by 5 per cent (increased by 2 per cent on an actual exchange rate basis).

UK insurance operations operating profit based on longer-term investment returns increased by 9 per cent to £492 million. Within this total, the contribution from new annuity business reduced from £66 million to £27 million, as we scale down our participation in the annuity market. We have taken a number of asset and liability actions in the first half of 2016 to improve the solvency position of our UK life operations and further mitigate market risk, which have generated combined profits of £140 million. Of this amount, £66 million related to profit from new longevity reinsurance transactions (2015: £61 million), with the balance of £74 million reflecting the effect of repositioning the fixed income asset portfolio and other actions. The contribution to the operating profit from ongoing with-profits and annuity in-force business was broadly consistent with the prior year at £306 million (2015: £309 million).

Asset management

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

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

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

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

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

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

Unallocated corporate result

Unallocated operating loss based on longer-term investment returns for half year 2016 of £290 million comprised a charge for other income and expenditure of £272 million, Solvency II implementation costs of £11 million and restructuring costs of £7 million.

Unallocated operating loss based on longer-term investment returns for half year of 2015 of £308 million comprised a charge for other income and expenditure of £283 million, Solvency II implementation costs of £17 million and restructuring costs of £8 million.

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.

(1) Average is calculated as opening plus closing balances for the period divided by two.

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Analysis of pre-tax IFRS operating profit by source and margin analysis of Group long-term insurance business

The following analysis expresses certain of the Group s sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details on the calculation of the Group s average policyholder liability balances are given in note (iv) at the end of this section.

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

See notes at the end of this section.

	Half year 2015 AER					
	Asia £m	US £m	UK £m	Total £m	Average liability £m note (iv)	Margin bps £m note (ii)
Spread income	65	372	137	574	72,890	157
Fee income	86	832	33	951	125,581	151
With-profits	21	-	133	154	106,205	29
Insurance margin	387	383	26	796		
Margin on revenues	832	-	88	920		
Expenses:						
Acquisition costs note (i)	(573)	(479)	(43)	(1,095)	2,733	(40)%
Administration expenses	(355)	(408)	(66)	(829)	206,167	(80)
DAC adjustments note (v)	78	114	-	192		

Expected return on shareholder assets	33	20	67	120
	574	834	375	1,783
Longevity reinsurance and other management actions to improve solvency	-	-	61	61
Long-term business operating profit	574	834	436	1,844

See notes at the end of this section.

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

See notes at the end of this section.

Margin analysis of long-term insurance business Asia

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

Operating profit	**682**	574	584

See notes at the end of this section.

Analysis of Asia operating profit drivers

- Spread income has increased on a constant exchange rate basis by 24 per cent (AER: 26 per cent) to £82 million in half year 2016, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
- The half year 2016 fee income of £86 million is in line with the prior period.
- On a constant exchange rate basis, insurance margin has increased by 24 per cent to £488 million in half year 2016 (AER: 26 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. Insurance margin includes non-recurring items of £42 million (half year 2015: £29 million at AER and CER)
- Margin on revenue has increased by £59 million on a constant exchange rate basis from £845 million in half year 2015 to £904 million in half year 2016, primarily reflecting higher regular premium income recognised in the period.

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Acquisition costs have increased by 5 per cent on a constant exchange rate basis (AER: 7 per cent) in half year 2016 to £613 million, compared to the 18 per cent increase in APE sales (AER 21 per cent), resulting in a decrease in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 73 per cent (2015: 66 per cent at CER), the increase being the result of changes in country and product mix.

Administration expenses have increased by 8 per cent at a constant exchange rate basis (AER: 9 per cent increase) in half year 2016 as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has increased from 250 basis points in half year 2015 to 254 basis points in half year 2016, the result of changes in country and product mix.

Margin analysis of long-term insurance business US

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

See notes at the end of this section.

Analysis of US operating profit drivers:

Spread income has decreased by 5 per cent on a constant exchange rate basis (AER increased by 2 per cent) to £379 million in half year 2016. The reported spread margin decreased to 217 basis points from 244 basis points in half year 2015, primarily due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 151 basis points (half year 2015 CER: 168 basis points and AER: 167 basis points).

Fee income has decreased by 1 per cent on a constant exchange rate basis (AER increased by 6 per cent) to £878 million in half year 2016. Weak equity market performance in the first quarter curbed the growth of average separate account values in the first six months of 2016 and dampened overall fee income level. Fee income margin has remained broadly in line with the prior year at 190 basis points (half year 2015 CER: 191 basis points and AER: 193 basis points).

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin of £401 million in half year 2016 was in line with last year on a constant exchange rate basis, with higher income from the variable annuity guarantees offset by a decline in the contribution from the closed books of term business acquired.

Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 19 per cent at a constant exchange rate basis, largely due to the decline in sales in half year 2016.

Administration expenses increased to £452 million in half year 2016, compared to £434 million for half year 2015 on a constant exchange rate basis (AER £408 million), primarily as a result of higher asset-based commissions. These are paid on policy anniversary dates and are treated as an administration expense in this analysis. Excluding these trail commissions, the resulting administration expense ratio would remain relatively flat at 36 basis points (half year 2015: 35 basis points at CER and 36 basis points at AER).

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DAC adjustments decreased to £83 million in half year 2016, compared to £121 million on a constant exchange rate basis (AER £114 million) in half year 2015, primarily due to a decline in DAC deferrals due to reduced sales in half year 2016, offset by lower amortisation.

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

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

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

	2016 £m	**2015 £m**		**%**	
				Half year 2016 vs half year 2015	**Half year 2016 vs half year 2015**
	Half year	**AER Half year**	**CER Half year**	**AER**	**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.

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Margin analysis of long-term insurance business UK

	UK					
	Half year 2016			**Half year 2015** note (v)		
	Profit	**Average liability** note (iv)	**Margin** note (ii)	**Profit**	**Average liability** note (iv)	**Margin** note (ii)
Long-term business	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**96**	**32,623**	**59**	137	31,861	86
Fee income	**29**	**21,495**	**27**	33	22,972	29
With-profits	**138**	**92,674**	**30**	133	89,427	30
Insurance margin	**25**			26		
Margin on revenues	**86**			88		&nbs