

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

		2017 £m	2016* £m		%		2016 £m
	Note	Half year	AER Half year note (iv)	CER Half year note (iv)	Half year 2017 vs half year 2016 AER note (iv)	Half year 2017 vs half year 2016 CER note (iv)	AER Full year
Asia operations							
Asia insurance operations	B4(a)	870	667	752	30%	16%	1,503
Eastspring Investments		83	61	69	36%	20%	141
Total Asia operations		953	728	821	31%	16%	1,644
US operations							
Jackson (US insurance operations)		1,079	888	1,010	22%	7%	2,052
Broker-dealer and asset management		(6)	(12)	(13)	50%	54%	(4)
Total US operations		1,073	876	997	22%	8%	2,048
UK operations							
UK insurance operations:	B4(b)						
Long-term business		480	473	473	1%	1%	799
General insurance commission note (i)		17	19	19	(11)%	(11)%	29
Total UK insurance operations		497	492	492	1%	1%	828
M&G		248	225	225	10%	10%	425
Prudential Capital		6	13	13	(54)%	(54)%	27
Total UK operations		751	730	730	3%	3%	1,280
Total segment profit		2,777	2,334	2,548	19%	9%	4,972
Other income and expenditure							
Investment return and other income		–	6	6	(100)%	(100)%	1
Interest payable on core structural borrowings		(216)	(165)	(165)	(31)%	(31)%	(360)
Corporate expenditure note (ii)		(172)	(156)	(165)	(10)%	(4)%	(334)
Total		(388)	(315)	(324)	(23)%	(20)%	(693)
Solvency II implementation costs		–	(11)	(11)	n/a	n/a	(28)
Restructuring costs note (iii)		(31)	(7)	(7)	(343)%	(343)%	(38)
Operating profit based on longer-term investment returns before interest received from tax settlement		2,358	2,001	2,206	18%	7%	4,213
Interest received from tax settlement		–	43	43	n/a	n/a	43
Operating profit based on longer-term investment returns	B1.3	2,358	2,044	2,249	15%	5%	4,256
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(573)	(1,385)	(1,580)	59%	64%	(1,678)
Amortisation of acquisition accounting adjustments note (v)		(32)	(35)	(39)	9%	18%	(76)
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1	61	–	–	n/a	n/a	–
Profit (loss) attaching to the held for sale Korea life business	D1	–	40	47	n/a	n/a	(227)
Profit before tax attributable to shareholders		1,814	664	677	173%	168%	2,275
Tax (charge) credit attributable to shareholders' returns	B5	(309)	23	43	n/a	n/a	(354)
Profit for the period attributable to shareholders		1,505	687	720	119%	109%	1,921

	2017	2016*		%		2016
	Half year	AER Half year note (iv)	CER Half year note (iv)	Half year 2017 vs half year 2016 AER note (iv)	Half year 2017 vs half year 2016 CER note (iv)	AER Full year
Basic earnings per share (in pence)	B6					
Based on operating profit based on longer-term investment returns	70.0p	61.3p	67.6p	14%	4%	131.3p
Based on profit for the period	58.7p	26.9p	28.2p	118%	108%	75.0p

* The Group completed the sale of its life business in Korea in May 2017. Operating profit based on longer-term investment returns for half year 2017 excludes the results attributable to the sold Korea life business, as described in note D1. This approach is consistent with the presentation of operating profit for full year 2016 reported in the Group 2016 Annual Report. Comparative operating profit for half year 2016 has been represented in order to show the results of the retained operations on a comparable basis, resulting in a reclassification in half year 2016 of £15 million of operating profit attributable to the Korea life business to non-operating profit.

Notes

- (i) General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.
- (ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.
- (iii) Restructuring costs are incurred in the UK and Asia and represent one-off business development expenses.
- (iv) For definitions of AER and CER refer to note A1.
- (v) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson.

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

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Insurance operations:			
Asia ^{note (i)}	41	1	(225)
US ^{note (ii)}	(754)	(1,440)	(1,455)
UK ^{note (iii)}	9	246	198
Other operations ^{note (iv)}	131	(192)	(196)
Total	(573)	(1,385)	(1,678)

* Following its sale in May 2017, the half year 2016 comparative short-term fluctuations in investment returns has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

Notes

- (i) Asia insurance operations
In Asia, the positive short-term fluctuations of £41 million principally reflect net value movements on shareholders' assets and related liabilities following falls in bond yields across the region during the period (half year 2016: positive £1 million; full year 2016: negative £(225) million).
- (ii) US insurance operations
The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £231 million as shown in note C5 (half year 2016: credit of £616 million; full year 2016: credit of £565 million) and comprise amounts in respect of the following items:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Net equity hedge result ^{note (a)}	(782)	(1,692)	(1,587)
Other than equity-related derivatives ^{note (b)}	12	335	(126)
Debt securities ^{note (c)}	5	(105)	201
Equity-type investments: actual less longer-term return	1	13	35
Other items	10	9	22
Total	(754)	(1,440)	(1,455)

B Earnings performance

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B1 Analysis of performance by segment continued

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

Notes

(a) Net equity hedge result

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

The result comprises the net effect of:

- 1 The accounting value movements on the variable and fixed index annuity guarantee liabilities. This includes:
 - The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are measured under the US GAAP basis applied for IFRS in a way that is substantially insensitive to the effect of current period equity market and interest rate changes; and
 - The 'not for life' portion of GMWB embedded derivative liabilities which are required to be measured under IAS 39 using a basis under which the projected future growth rate of the account balance is based on current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included.Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates.
 - 2 Adjustments in respect of fee assessments and claim payments;
 - 3 Fair value movements on free-standing equity derivatives held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options; and
 - 4 Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins.
- The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:
- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP;
 - The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
 - Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

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

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

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

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

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

(c) Short-term fluctuations related to debt securities

	2017 £m	2016 £m	
	Half year	Half year	Full year
Short-term fluctuations relating to debt securities			
(Charges) credits in the period:			
Losses on sales of impaired and deteriorating bonds	(2)	(87)	(94)
Defaults ^{note (v)}	–	(6)	(4)
Bond write downs	(1)	(32)	(35)
Recoveries/reversals	7	4	15
Total credits (charges) in the period	4	(121)	(118)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns	46	42	89
	50	(79)	(29)
Interest-related realised gains:			
Arising in the period	23	20	376
Less: Amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	(72)	(59)	(135)
	(49)	(39)	241
Related amortisation of deferred acquisition costs	4	13	(11)
Total short-term fluctuations related to debt securities	5	(105)	201

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit and variations from year to year are included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for half year 2017 is based on an average annual risk margin reserve of 21 basis points (half year 2016: 21 basis points; full year 2016: 21 basis points) on average book values of US\$55.8 billion (half year 2016: US\$56.4 billion; full year 2016: US\$56.4 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage- backed securities)	Half year 2017				Half year 2016				Full year 2016			
	Average book value	RMR	Annual expected loss		Average book value	RMR	Annual expected loss		Average book value	RMR	Annual expected loss	
	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m
A3 or higher	27,848	0.13	(35)	(28)	29,172	0.12	(36)	(25)	29,051	0.12	(36)	(27)
Baa1, 2 or 3	26,601	0.23	(60)	(47)	25,771	0.24	(63)	(44)	25,964	0.24	(62)	(46)
Ba1, 2 or 3	1,052	1.03	(11)	(9)	1,065	1.08	(11)	(8)	1,051	1.07	(11)	(8)
B1, 2 or 3	311	2.75	(9)	(7)	319	3.02	(10)	(7)	312	2.95	(9)	(7)
Below B3	27	3.80	(1)	(1)	41	3.81	(2)	(1)	40	3.81	(2)	(1)
Total	55,839	0.21	(116)	(92)	56,368	0.21	(122)	(85)	56,418	0.21	(120)	(89)
Related amortisation of deferred acquisition costs (see below)			22	17			22	15			23	17
Risk margin reserve charge to operating profit for longer-term credit-related losses			(94)	(75)			(100)	(70)			(97)	(72)

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit of £462 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (half year 2016: credit of £1,683 million for net unrealised gains; full year 2016: credit of £48 million for net unrealised losses). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

- (iii) UK insurance operations
The positive short-term fluctuations in investment returns for UK insurance operations of £9 million (half year 2016: £246 million; full year 2016: £198 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.
- (iv) Other
The positive short-term fluctuations in investment returns for other operations of £131 million (half year 2016: negative £(192) million; full year 2016: negative £(196) million) include unrealised value movements on financial instruments and foreign exchange items.
- (v) Default losses
The Group incurred no default losses on its shareholder-backed debt securities portfolio for half year 2017 (half year 2016: £(6) million; full year 2016: £(4) million).

B Earnings performance

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B1 Analysis of performance by segment continued

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

Operating segments

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

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

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

Performance measure

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

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Profit (loss) attaching to the sold Korea life business including the recycling of the cumulative exchange translation gain on the sold Korea life business from other comprehensive income to the income statement in 2017.

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

The determination of operating profit based on longer-term investment returns for investment and liability movements is as described in note B1.3 of the Group's consolidated financial statements for the year ended 31 December 2016.

For Group debt securities at 30 June 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds and have yet to be amortised to operating profit was a net gain of £876 million (30 June 2016: net gain of £605 million; 31 December 2016: net gain of £969 million).

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

- For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £1,535 million as at 30 June 2017 (30 June 2016: £1,035 million; 31 December 2016: £1,405 million). The rates of return applied for 2017 ranged from 4.7 per cent to 17.2 per cent (30 June 2016: 3.2 per cent to 13.0 per cent; 31 December 2016: 3.2 per cent to 13.9 per cent) with the rates applied varying by business unit; and
- For US insurance operations, at 30 June 2017, the equity-type securities for non-separate account operations amounted to £1,256 million (30 June 2016: £1,115 million; 31 December 2016: £1,323 million). The longer-term rates of return for income and capital applied in 2017 and 2016, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums, are as follows:

	2017	2016	
	Half year	Half year	Full year
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.2% to 6.5%	5.5% to 5.9%	5.5% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.2% to 8.5%	7.5% to 7.9%	7.5% to 8.5%

B1.4 Additional segmental analysis of revenue

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

Half year 2017 £m										
	Insurance operations			Asset management					Unallocated to a segment (central operations)	Group total
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment		
Gross premium earned	7,697	7,997	6,411	–	–	–	–	22,105	–	22,105
Outward reinsurance	(243)	(168)	(536)	–	–	–	–	(947)	–	(947)
Earned premiums, net of reinsurance	7,454	7,829	5,875	–	–	–	–	21,158	–	21,158
Other income from external customers	56	3	89	576	10	371	103	1,208	14	1,222
Total revenue from external customers	7,510	7,832	5,964	576	10	371	103	22,366	14	22,380
Intra-group revenue	–	–	–	88	20	57	128	293	(293)	–
Interest income	485	1,082	1,754	–	30	–	1	3,352	3	3,355
Other investment return	4,315	7,253	5,605	4	47	1	2	17,227	47	17,274
Total revenue, net of reinsurance	12,310	16,167	13,323	668	107	429	234	43,238	(229)	43,009

Half year 2016 £m										
	Insurance operations			Asset management					Unallocated to a segment (central operations)	Group total
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment		
Gross premium earned	6,116	6,980	5,242	–	–	–	–	18,338	–	18,338
Outward reinsurance	(401)	(162)	(381)	–	–	–	–	(944)	–	(944)
Earned premiums, net of reinsurance	5,715	6,818	4,861	–	–	–	–	17,394	–	17,394
Other income from external customers	32	1	124	463	2	322	85	1,029	56	1,085
Total revenue from external customers	5,747	6,819	4,985	463	2	322	85	18,423	56	18,479
Intra-group revenue	–	–	–	88	16	47	95	246	(246)	–
Interest income	441	992	2,186	2	36	–	1	3,658	–	3,658
Other investment return	2,241	1,537	9,789	4	(67)	(1)	–	13,503	(99)	13,404
Total revenue, net of reinsurance	8,429	9,348	16,960	557	(13)	368	181	35,830	(289)	35,541

B Earnings performance

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B1 Analysis of performance by segment continued

B1.4 Additional segmental analysis of revenue continued

	Full year 2016 £m									Unallo- cated to a segment (central operations)	Group total
	Insurance operations			Asset management							
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment			
Gross premium earned	14,006	14,685	10,290	–	–	–	–	38,981	–	38,981	
Outward reinsurance	(648)	(367)	(1,005)	–	–	–	–	(2,020)	–	(2,020)	
Earned premiums, net of reinsurance	13,358	14,318	9,285	–	–	–	–	36,961	–	36,961	
Other income from external customers	77	4	374	972	19	680	176	2,302	68	2,370	
Total revenue from external customers	13,435	14,322	9,659	972	19	680	176	39,263	68	39,331	
Intra-group revenue	–	–	–	200	37	103	211	551	(551)	–	
Interest income	873	2,149	4,502	15	47	2	2	7,590	57	7,647	
Other investment return	2,040	5,461	17,577	1	(41)	–	2	25,040	(176)	24,864	
Total revenue, net of reinsurance	16,348	21,932	31,738	1,188	62	785	391	72,444	(602)	71,842	

B2 Profit before tax – asset management operations

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

	2017 £m					2016 £m	
	M&G	Prudential Capital	US	Eastspring Investments	Half year Total	Half year Total	Full year Total
Revenue (excluding NPH broker-dealer fees)	668	107	124	234	1,133	834	1,876
NPH broker-dealer fees ^{note (i)}	–	–	305	–	305	259	550
Gross revenue	668	107	429	234	1,438	1,093	2,426
Charges (excluding NPH broker-dealer fees)	(395)	(50)	(130)	(180)	(755)	(649)	(1,402)
NPH broker-dealer fees ^{note (i)}	–	–	(305)	–	(305)	(259)	(550)
Gross charges	(395)	(50)	(435)	(180)	(1,060)	(908)	(1,952)
Share of profits from joint ventures and associate, net of related tax	8	–	–	29	37	26	67
Profit before tax	281	57	(6)	83	415	211	541
Comprising:							
Operating profit based on longer-term investment returns ^{note (ii)}	248	6	(6)	83	331	287	589
Short-term fluctuations in investment returns	33	51	–	–	84	(76)	(48)
Profit before tax	281	57	(6)	83	415	211	541

Notes

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

	2017 £m	2016 £m	
	Half year	Half year	Full year
Asset management fee income	491	431	900
Other income	4	9	23
Staff costs	(166)	(133)	(332)
Other costs	(95)	(96)	(212)
Underlying profit before performance-related fees	234	211	379
Share of associate's results	8	5	13
Performance-related fees	6	9	33
M&G operating profit based on longer-term investment returns	248	225	425

The revenue for M&G of £501 million (half year 2016: £449 million; full year 2016: £956 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £668 million shown in the main table of this note. This is because the £501 million (half year 2016: £449 million; full year 2016: £956 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

B3 Acquisition costs and other expenditure

	2017 £m	2016 £m	
	Half year	Half year	Full year
Acquisition costs incurred for insurance policies	(1,920)	(1,700)	(3,687)
Acquisition costs deferred less amortisation of acquisition costs	399	740	923
Administration costs and other expenditure	(3,055)	(2,451)	(5,522)
Movements in amounts attributable to external unit holders of consolidated investment funds	(754)	(152)	(562)
Total acquisition costs and other expenditure	(5,330)	(3,563)	(8,848)

Included in total acquisition costs and other expenditure is depreciation of property, plant and equipment of £(60) million (half year 2016: £(75) million; full year 2016: £(158) million).

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

The following features are of relevance to the determination of the half year 2017 results:

(a) Asia insurance operations

In half year 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £54 million (half year 2016: £42 million; full year 2016: £67 million) representing a small number of non-recurring items.

(b) UK insurance operations**Annuity business****Allowance for credit risk**

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

Prudential Retirement Income Limited (PRIL) was the principal company writing the UK's shareholder-backed annuity business. In the second half of 2016, the business of PRIL was transferred into PAC following a Part VII transfer under the Financial Services and Markets Act 2000.

The IFRS credit risk allowance made for the ex-PRIL UK shareholder-backed fixed and linked annuity business equated to 43 basis points at 30 June 2017 (30 June 2016 and 31 December 2016: 43 basis points). The allowance represented 28 per cent of the bond spread over swap rates (30 June 2016: 23 per cent; 31 December 2016: 26 per cent).

The reserves for credit risk allowance at 30 June 2017 for the UK shareholder-backed business (both for ex-PRIL and the legacy PAC shareholder annuity business) were £1.7 billion (30 June 2016: £1.8 billion; 31 December 2016: £1.7 billion).

B Earnings performance

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

Longevity reinsurance and other management actions

A number of management actions were taken in the first half of 2017 to improve the solvency position of the UK insurance operations and further mitigate market risk, which have generated combined profits of £188 million. Similar actions were also taken in 2016.

Of this amount £31 million related to profit from additional longevity reinsurance transactions covering £0.6 billion of annuity liabilities on an IFRS basis, with the balance of £157 million reflecting the effect of repositioning the fixed income portfolio and other actions.

The contribution to profit from similar longevity reinsurance and other management actions in 2016 was £140 million for the first half of the year (of which £66 million related to longevity reinsurance transactions covering £1.5 billion of IFRS annuity liabilities) and £332 million for the full year (of which £197 million related to longevity reinsurance transactions covering £5.4 billion of IFRS annuity liabilities).

At 30 June 2017, longevity reinsurance covered £14.8 billion of IFRS annuity liabilities equivalent to 44 per cent of total annuity liabilities (30 June 2016: £10.7 billion, 32 per cent; 31 December 2016: £14.4 billion, 42 per cent).

Review of past annuity sales

Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The review commenced in 2017 and is expected to last a period of three years. A provision of £175 million was established at 31 December 2016 to cover the costs of undertaking the review and any potential redress. Other than to cover the small amount of costs incurred in the period, no change has been made to this provision as at 30 June 2017. The ultimate amount that will be expended by the Group on the review remains uncertain. Although the Group's professional indemnity insurance may mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored in the provision, in accordance with the requirements of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'.

B5 Tax charge

(a) Total tax charge by nature of expense

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

Tax charge	2017 £m			2016 £m	
	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
UK tax	(240)	(66)	(306)	(229)	(764)
Overseas tax	(187)	(209)	(396)	(40)	(527)
Total tax charge	(427)	(275)	(702)	(269)	(1,291)

The current tax charge of £427 million includes £37 million (half year 2016: £27 million; full year 2016: £53 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either:

(i) 5 per cent of the net insurance premium; or (ii) the estimated assessable profits, depending on the nature of the business written.

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

Tax charge	2017 £m			2016 £m	
	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
Tax (charge) to policyholders' returns	(247)	(146)	(393)	(292)	(937)
Tax (charge) credit attributable to shareholders	(180)	(129)	(309)	23	(354)
Total tax (charge)	(427)	(275)	(702)	(269)	(1,291)

The principal reason for the increase in the tax charge attributable to policyholders' returns compared to half year 2016 is an increase on investment return in the with-profits fund in the UK insurance operations. The principal reason for the increase in the tax charge attributable to shareholders' returns compared to half year 2016 is a reduction in the deferred tax credit on derivative fair value movements in the US insurance operations.

(b) Reconciliation of effective tax rate

In the reconciliation below, the expected tax rates reflect the corporate income tax rates that are expected to apply to the taxable profit of the relevant business. Where there are profits of more than one jurisdiction the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit contributing to the aggregate business result. In the column 'Attributable to policyholders', the 100 per cent expected tax rate is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after tax basis, the effect of which leaves the profit equal to the tax charge.

	Half year 2017 £m						
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Attributable to shareholders	Attributable to policyholders	Total
Operating profit (loss) based on longer-term investment returns	870	1,079	497	(88)	2,358	n/a	n/a
Non-operating profit (loss)	98	(782)	9	131	(544)	n/a	n/a
Profit before tax	968	297	506	43	1,814	393	2,207
Expected tax rate	20%	35%	19%	19%	22%	100%	36%
Tax at the expected rate	194	104	96	8	402	393	795
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(18)	(10)	–	(3)	(31)		(31)
Deductions not allowable for tax purposes	8	–	5	5	18		18
Items related to taxation of life insurance businesses	(43)	(85)	(2)	–	(130)		(130)
Deferred tax adjustments	4	–	(1)	–	3		3
Effect of results of joint ventures and associates	(11)	–	–	(9)	(20)		(20)
Irrecoverable withholding taxes	–	–	–	29	29		29
Other	–	4	2	4	10		10
Total	(60)	(91)	4	26	(121)	–	(121)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	–	10	(5)	(1)	4		4
Movements in provisions for open tax matters	7	25	–	–	32		32
Cumulative exchange gains on the sold Korea life business recycled from other comprehensive income	(8)	–	–	–	(8)		(8)
Total	(1)	35	(5)	(1)	28	–	28
Total actual tax charge	133	48	95	33	309	393	702
Analysed into:							
Tax on operating profit based on longer-term investment returns	141	322	92	8	563	n/a	n/a
Tax on non-operating profit	(8)	(274)	3	25	(254)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	16%	30%	19%	(9)%	24%	n/a	n/a
Excluding non-recurring tax reconciling items	15%	27%	20%	(10)%	22%	n/a	n/a
Total profit	14%	16%	19%	77%	17%	100%	32%

The more significant reconciling items are explained below:

Asia insurance operations

The £18 million reconciling item 'income not taxable or taxable at concessionary rates' primarily reflects income not subject to the full rate of corporate tax in Malaysia, Singapore and Taiwan.

The £43 million reconciling item 'items related to taxation of life insurance businesses' reflects where the basis of tax is not the accounting profits, primarily in:

- Hong Kong where the taxable profit is based on the net insurance premiums; and
- Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

B Earnings performance

Continued

B5 Tax charge continued

(b) Reconciliation of effective tax rate continued

The £11 million reconciling item 'effect of results of the joint ventures and associates' arises from the accounting requirement for inclusion in the profit before tax of Prudential's share of the profits after tax from the joint ventures and associates, with no equivalent item included in Prudential's tax charge.

The £8 million reconciling item 'cumulative exchange gain on the sold Korea life business recycled from other comprehensive income' reflects the non-taxable exchange gain arising on the Korea life business previously taken through other comprehensive income on a period-by-period basis recycled through the income statement following the sale of the business.

US insurance operations

The £85 million reconciling item 'items related to taxation of life insurance businesses' reflects the impact of the dividend received deduction on the taxation of profits from the variable annuity business.

UK insurance operations

There are no significant reconciling items or significant movements from half year 2016.

Other operations

The £29 million reconciling item 'irrecoverable withholding taxes' relates to withholding tax suffered on distributions from Group companies which cannot be recovered against other taxes paid. Other operations comprise the Group's asset management businesses and central operations.

	Half year 2016* £m						Total
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Attributable to shareholders	Attributable to policyholders	
Operating profit (loss) based on longer-term investment returns	667	888	492	(3)	2,044	n/a	n/a
Non-operating profit (loss)	37	(1,471)	246	(192)	(1,380)	n/a	n/a
Profit (loss) before tax	704	(583)	738	(195)	664	292	956
Expected tax rate	21%	35%	20%	20%	8%	100%	36%
Tax at the expected rate	148	(204)	148	(39)	53	292	345
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(14)	(5)	(16)	(3)	(38)		(38)
Deductions not allowable for tax purposes	8	2	6	2	18		18
Items related to taxation of life insurance businesses	(10)	(60)	(1)	–	(71)		(71)
Deferred tax adjustments	(1)	–	3	(3)	(1)		(1)
Effect of results of joint ventures and associates	(10)	–	–	(7)	(17)		(17)
Irrecoverable withholding taxes	–	–	–	20	20		20
Other	3	–	(2)	16	17		17
Total	(24)	(63)	(10)	25	(72)	–	(72)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	1	(3)	–	(2)	(4)		(4)
Total	1	(3)	–	(2)	(4)	–	(4)
Total actual tax charge (credit)	125	(270)	138	(16)	(23)	292	269
Analysed into:							
Tax on operating profit based on longer-term investment returns	116	245	101	13	475	n/a	n/a
Tax on non-operating profit	9	(515)	37	(29)	(498)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	17%	28%	21%	(433)%	23%	n/a	n/a
Excluding non-recurring tax reconciling items	17%	28%	21%	(500)%	23%	n/a	n/a
Total profit	18%	46%	19%	8%	(3)%	100%	28%

* Following its sale in May 2017, the half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

Full year 2016 £m							
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Attributable to shareholders	Attributable to policyholders	Total
Operating profit (loss) based on longer-term investment returns	1,503	2,052	828	(127)	4,256	n/a	n/a
Non-operating (loss) profit	(460)	(1,523)	198	(196)	(1,981)	n/a	n/a
Profit (loss) before tax	1,043	529	1,026	(323)	2,275	937	3,212
Expected tax rate	22%	35%	20%	19%	25%	100%	47%
Tax at the expected rate	229	185	205	(61)	558	937	1,495
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(28)	(18)	(12)	(9)	(67)		(67)
Deductions not allowable for tax purposes	19	8	7	26	60		60
Items related to taxation of life insurance businesses	(20)	(159)	(1)	–	(180)		(180)
Deferred tax adjustments	(11)	–	2	(14)	(23)		(23)
Effect of results of joint ventures and associates	(29)	–	–	(17)	(46)		(46)
Irrecoverable withholding taxes	–	–	–	36	36		36
Other	–	–	1	(6)	(5)		(5)
Total	(69)	(169)	(3)	16	(225)	–	(225)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	1	(81)	(7)	5	(82)		(82)
Movements in provisions for open tax matters	20	–	–	31	51		51
Impact of changes in local statutory tax rates	–	–	(5)	(1)	(6)		(6)
Write down of Korea life business	58	–	–	–	58		58
Total	79	(81)	(12)	35	21	–	21
Total actual tax charge (credit)	239	(65)	190	(10)	354	937	1,291
Analysed into:							
Tax on operating profit based on longer-term investment returns	254	468	160	12	894	n/a	n/a
Tax on non-operating profit	(15)	(533)	30	(22)	(540)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	17%	23%	19%	(9)%	21%	n/a	n/a
Excluding non-recurring tax reconciling items	16%	27%	21%	18%	22%	n/a	n/a
Total profit	23%	(12)%	19%	3%	16%	100%	40%

The full year 2016 expected and actual tax rates as shown includes the impact of the re-measurement loss on the held for sale Korea life business. The full year 2016 tax rates for Asia insurance operations and attributable to shareholders, excluding the impact of the held for sale Korea life business, are as follows:

	Asia insurance	Attributable to shareholders
Expected tax rate on total profit	22%	24%
Actual tax rate		
Operating profit based on longer-term investment returns	17%	21%
Total profit	19%	14%

B Earnings performance

Continued

B6 Earnings per share

Half year 2017					
Note	Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns	2,358	(563)	1,795	70.0p	69.9p
Short-term fluctuations in investment returns on shareholder-backed business	(573)	248	(325)	(12.7)p	(12.7)p
Amortisation of acquisition accounting adjustments	(32)	6	(26)	(1.0)p	(1.0)p
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	61	–	61	2.4p	2.4p
Based on profit for the period	1,814	(309)	1,505	58.7p	58.6p

Half year 2016*					
Note	Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns	2,044	(475)	1,569	61.3p	61.2p
Short-term fluctuations in investment returns on shareholder-backed business	(1,385)	496	(889)	(34.7)p	(34.7)p
Amortisation of acquisition accounting adjustments	(35)	11	(24)	(0.9)p	(0.9)p
Profit attaching to held for sale Korea life business	40	(9)	31	1.2p	1.2p
Based on profit for the period	664	23	687	26.9p	26.8p

* Following its sale in May 2017, the half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

Full year 2016					
Note	Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns	4,256	(894)	3,362	131.3p	131.2p
Short-term fluctuations in investment returns on shareholder-backed business	(1,678)	519	(1,159)	(45.3)p	(45.2)p
Amortisation of acquisition accounting adjustments	(76)	25	(51)	(2.0)p	(2.0)p
Loss attaching to held for sale Korea life business	(227)	(4)	(231)	(9.0)p	(9.0)p
Based on profit for the year	2,275	(354)	1,921	75.0p	75.0p

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

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

	Half year 2017 (millions)	Half year 2016 (millions)	Full year 2016 (millions)
Weighted average number of shares for calculation of:			
Basic earnings per share	2,565	2,558	2,560
Diluted earnings per share	2,567	2,559	2,562

B7 Dividends

	Half year 2017		Half year 2016		Full year 2016	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
First interim ordinary dividend	14.50p	375	12.93p	333	12.93p	333
Second interim ordinary dividend	–	–	–	–	30.57p	789
Total	14.50p	375	12.93p	333	43.50p	1,122
Dividends paid in reporting period:						
Current year first interim ordinary dividend	–	–	–	–	12.93p	332
Second interim ordinary dividend for prior year	30.57p	786	26.47p	679	26.47p	679
Special dividend for prior year	–	–	10.00p	256	10.00p	256
Total	30.57p	786	36.47p	935	49.40p	1,267

Dividend per share

The second interim dividend of 30.57 pence per ordinary share for the year ended 31 December 2016 was paid to eligible shareholders on 19 May 2017.

The 2017 first interim dividend of 14.50 pence per ordinary share will be paid on 28 September 2017 in sterling to shareholders on the principal (UK) register and the Irish branch register at 6.00pm BST on 25 August 2017 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 9 August 2017. Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 5 October 2017. The exchange rate at which the dividend payable to the US Shareholders will be translated into US dollars will be determined by the depositary agent. The first interim dividend will be paid on or about 5 October 2017 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The exchange rate at which the dividend payable to the SG Shareholders will be translated from Hong Kong dollars into Singapore dollars, will be determined by CDP.

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