B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

	Note	2016 £m	2015* £m AER note (vi)	2015* £m CER note (vi)	% 2016 vs 2015 AER note (vi)	% 2016 vs 2015 CER note (vi)
Asia operations						
Asia insurance operations*	B4(a)	1,503	1,171	1,303	28%	15%
Eastspring Investments		141	115	128	23%	10%
Total Asia operations		1,644	1,286	1,431	28%	15%
US operations						
Jackson (US insurance operations)		2,052	1,691	1,908	21%	8%
Broker-dealer and asset management		(4)	11	13	(136)%	(131)%
Total US operations		2,048	1,702	1,921	20%	7%
UK operations						
UK insurance operations:	B4(b)					
Long-term business		799	1,167	1,167	(32)%	(32)%
General insurance commission note (i)		29	28	28	4%	4%
Total UK insurance operations		828	1,195	1,195	(31)%	(31)%
M&G		425	442	442	(4)%	(4)%
Prudential Capital		27	19	19	42%	42%
Total UK operations		1,280	1,656	1,656	(23)%	(23)%
Total segment profit		4,972	4,644	5,008	7%	(1)%
Other income and expenditure						
Investment return and other income		1	14	14	(93)%	(93)%
Interest payable on core structural borrowings		(360)	(312)	(312)	(15)%	(15)%
Corporate expenditure note (ii)		(334)	(319)	(319)	(5)%	(5)%
Total		(693)	(617)	(617)	(12)%	(12)%
Solvency II implementation costs		(28)	(43)	(43)	35%	35%
Restructuring costs note (iii)		(38)	(15)	(15)	(153)%	(153)%
Interest received from tax settlement		43	–	–	n/a	n/a
Operating profit based on longer-term investment returns		4,256	3,969	4,333	7%	(2)%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,678)	(755)	(827)	(122)%	(103)%
Amortisation of acquisition accounting adjustments note (iv)		(76)	(76)	(85)	0%	11%
(Loss) profit attaching to the held for sale Korea life business	D1	(227)	56	62	n/a	n/a
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income note (v)		–	(46)	(46)	n/a	n/a
Profit before tax attributable to shareholders		2,275	3,148	3,437	(28)%	(34)%
Tax charge attributable to shareholders' returns		(354)	(569)	(621)	38%	43%
Profit for the year attributable to shareholders		1,921	2,579	2,816	(26)%	(32)%

Basic earnings per share (in pence)	B6	2016	2015 AER note (vi)	2015 CER note (vi)	% 2016 vs 2015 AER note (vi)	% 2016 vs 2015 CER note (vi)
Based on operating profit based on longer-term investment returns		131.3p	124.6p	136.0p	5%	(3)%
Based on profit for the year		75.0p	101.0p	110.1p	(26)%	(32)%

* To facilitate future comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit above.

Notes

(i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement, which terminated at the end of 2016.
(ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.
(iii) Restructuring costs are incurred in the UK and Asia and represent one-off business development expenses.
(iv) Amortisation of acquisition accounting adjustments principally relate to the acquired REALIC business of Jackson.
(v) On 5 February 2015, the Group completed the sale of its closed book life insurance business in Japan.
(vi) For definitions of AER and CER refer to note A1.

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

	2016 £m	**2015*** £m
Insurance operations:		
Asia note (i)	(225)	(137)
US note (ii)	(1,455)	(424)
UK note (iii)	198	(120)
Other operations note (iv)	(196)	(74)
Total	(1,678)	(755)

* To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the short-term fluctuations in investment returns attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit.

Notes

(i) Asia insurance operations
In Asia, the short-term fluctuations of negative £(225) million (2015: negative £(137) million) principally reflect the impact of changes in interest rates across the region on bonds, and equity market falls in China.

(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 £565 million as shown in note C5(b) (2015: £93 million) and comprise amounts in respect of the following items:

	2016 £m	**2015** £m
Net equity hedge result note (a)	(1,587)	(504)
Other than equity-related derivatives note (b)	(126)	29
Debt securities note (c)	201	1
Equity-type investments: actual less longer-term return	35	19
Other items	22	31
Total	(1,455)	(424)

Notes

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

B1 Analysis of performance by segment continued

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

(c) Short-term fluctuations related to debt securities

	2016 £m	**2015** £m
Short-term fluctuations relating to debt securities		
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(94)	(54)
Defaults	(4)	–
Bond write-downs	(35)	(37)
Recoveries/reversals	15	18
Total (charges) credits in the year	(118)	(73)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns[note]	89	83
	(29)	10
Interest-related realised gains:		
Arising in the year	376	102
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(135)	(108)
	241	(6)
Related amortisation of deferred acquisition costs	(11)	(3)
Total short-term fluctuations related to debt securities	201	1

Note

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 with variations from year to year 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 2016 is based on an average annual risk margin reserve of 21 basis points (2015: 23 basis points) on average book values of US$56.4 billion (2015: US$54.6 billion) as shown below:

	2016				**2015**			
	Average book value	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**	
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	US$m	%	US$m	£m	US$m	%	US$m	£m
A3 or higher	29,051	0.12	(36)	(27)	28,185	0.13	(37)	(24)
Baa1, 2 or 3	25,964	0.24	(62)	(46)	24,768	0.25	(62)	(40)
Ba1, 2 or 3	1,051	1.07	(11)	(8)	1,257	1.17	(15)	(10)
B1, 2 or 3	312	2.95	(9)	(7)	388	3.08	(12)	(8)
Below B3	40	3.81	(2)	(1)	35	3.70	(1)	(1)
Total	56,418	0.21	(120)	(89)	54,633	0.23	(127)	(83)
Related amortisation of deferred acquisition costs (see below)			23	17			24	16
Risk margin reserve charge to operating profit for longer-term credit related losses			(97)	(72)			(103)	(67)

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit for unrealised losses on debt securities classified as available-for-sale net of related change in amortisation of deferred acquisition costs of £48 million (2015: charge for net unrealised losses £(968) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(iii) UK insurance operations

The positive short-term fluctuations in investment returns for UK insurance operations of £198 million (2015: negative £(120) million) mainly reflects gains on bonds backing the capital of the shareholder-backed annuity business following the fall in 15-year gilt yields over 2016.

(iv) Other

The negative short-term fluctuations in investment returns for other operations of £(196) million (2015: negative £(74) million) include unrealised value movements on financial instruments driven by the fall in interest rates.

(v) Default losses

The Group incurred default losses of £(4) million on its shareholder-backed debt securities for 2016 wholly in respect of Jackson's portfolio (2015: £nil).

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

Operating segments

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

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

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

Performance measure

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

- Short-term fluctuations in investment returns on shareholder-backed business. This includes 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;
- Loss attaching to the held for sale Korea life business. See note D1 for further details; and
- 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.

(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.

B1 Analysis of performance by segment continued

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

(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 unit-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 31 December 2016, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £969 million (2015: £567 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).

(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-backed operations amounted to £1,405 million as at 31 December 2016 (2015: £840 million). The rates of return applied in 2016 ranged from 3.2 per cent to 13.9 per cent (2015: 3.5 per cent to 13.0 per cent) with the rates applied varying by territory. 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 the 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 as 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):

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for the 'not for life' portion of GMWB and fixed index annuity business, and GMIB reinsurance (see below);
- Movements in the accounts carrying value of GMDB and the 'for life' portion of GMWB and GMIB 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.

Embedded derivatives for variable annuity guarantee minimum income benefit

The GMIB 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 GMIB 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.

Equity-type securities

As at 31 December 2016, the equity-type securities for US insurance non-separate account operations amounted to £1,323 million (2015: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2016	2015
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	5.5% to 6.5%	5.7% to 6.4%
Other equity-type securities such as investments in limited partnerships and private equity funds	7.5% to 8.5%	7.7% to 8.4%

B1 Analysis of performance by segment continued

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

(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.

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business within the non-profit sub-fund of The Prudential Assurance Company (PAC) 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 with 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 with 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.

B1.4 Segmental income statement

	2016 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations) note (iii)	Group total
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[note (ii)]	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[note (iv)]	873	2,149	4,502	15	47	2	2	7,590	57	7,647
Other investment return[B1.5]	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
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(11,442)	(20,214)	(27,710)	–	–	–	–	(59,366)	–	(59,366)
Interest on core structural borrowings	–	(15)	–	–	(17)	–	–	(32)	(328)	(360)
Acquisition costs and other operating expenditure[B3]	(3,564)	(1,174)	(2,241)	(768)	(74)	(789)	(304)	(8,914)	66	(8,848)
Remeasurement of carrying value of Korea life business classified as held for sale[D1]	(238)	–	–	–	–	–	–	(238)	–	(238)
Total charges, net of reinsurance	(15,244)	(21,403)	(29,951)	(768)	(91)	(789)	(304)	(68,550)	(262)	(68,812)
Share of profit from joint ventures and associates, net of related tax	94	–	21	13	–	–	54	182	–	182
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*[note (i)]	1,198	529	1,808	433	(29)	(4)	141	4,076	(864)	3,212
Tax charge attributable to policyholders' returns	(155)	–	(782)	–	–	–	–	(937)	–	(937)
Profit (loss) before tax attributable to shareholders	1,043	529	1,026	433	(29)	(4)	141	3,139	(864)	2,275

B Earnings performance
Continued

B1 Analysis of performance by segment continued

B1.4 Segmental income statement continued

	2016 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations) note (iii)	Group total
Analysis of operating profit										
Operating profit (loss) based on longer-term investment returns	1,503	2,052	828	425	27	(4)	141	4,972	(716)	4,256
Short-term fluctuations in investment returns on shareholder-backed business	(225)	(1,455)	198	8	(56)	–	–	(1,530)	(148)	(1,678)
Amortisation of acquisition accounting adjustments	(8)	(68)	–	–	–	–	–	(76)	–	(76)
Loss attaching to the held for sale Korea life business[D1]	(227)	–	–	–	–	–	–	(227)	–	(227)
Profit (loss) before tax attributable to shareholders	1,043	529	1,026	433	(29)	(4)	141	3,139	(864)	2,275

	2015 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations) note (iii)	Group total
Gross premium earned	10,814	16,887	8,962	–	–	–	–	36,663	–	36,663
Outward reinsurance	(364)	(320)	(473)	–	–	–	–	(1,157)	–	(1,157)
Earned premiums, net of reinsurance	10,450	16,567	8,489	–		–	–	35,506	–	35,506
Other income from external customers[note (ii)]	64	–	374	1,008	19	760	171	2,396	99	2,495
Total revenue from external customers[note (v)]	10,514	16,567	8,863	1,008	19	760	171	37,902	99	38,001
Intra-group revenue	–	–	–	194	25	90	178	487	(487)	–
Interest income[note (iv)]	743	1,921	4,240	18	107	–	2	7,031	(13)	7,018
Other investment return[B1.5]	(1,042)	(2,703)	132	17	(97)	(7)	1	(3,699)	(15)	(3,714)
Total revenue, net of reinsurance	10,215	15,785	13,235	1,237	54	843	352	41,721	(416)	41,305
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(6,543)	(13,029)	(10,084)	–	–	–	–	(29,656)	–	(29,656)
Interest on core structural borrowings	–	(13)	–	–	(17)	–	–	(30)	(282)	(312)
Acquisition costs and other operating expenditure[B3]	(2,651)	(1,544)	(2,025)	(810)	(82)	(832)	(278)	(8,222)	14	(8,208)
Disposal of Japan life business: Cumulative exchange loss recycled from other comprehensive income	(46)	–	–	–	–	–	–	(46)	–	(46)
Total charges, net of reinsurance	(9,240)	(14,586)	(12,109)	(810)	(99)	(832)	(278)	(37,954)	(268)	(38,222)
Share of profit from joint ventures and associates, net of related tax	130	–	53	14	–	–	41	238	–	238
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*[note (i)]	1,105	1,199	1,179	441	(45)	11	115	4,005	(684)	3,321
Tax charge attributable to policyholders' returns	(69)	–	(104)	–	–	–	–	(173)	–	(173)
Profit (loss) before tax attributable to shareholders	1,036	1,199	1,075	441	(45)	11	115	3,832	(684)	3,148

B1 Analysis of performance by segment continued

B1.4 Segmental income statement continued

	2015 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations) note (iii)	Group total
Analysis of operating profit										
Operating profit (loss) based on longer-term investment returns	1,171	1,691	1,195	442	19	11	115	4,644	(675)	3,969
Short-term fluctuations in investment returns on shareholder-backed business	(137)	(424)	(120)	(1)	(64)	–	–	(746)	(9)	(755)
Amortisation of acquisition accounting adjustments	(8)	(68)	–	–	–	–	–	(76)	–	(76)
Profit attaching to the held for sale Korea life business	56	–	–	–	–	–	–	56	–	56
Cumulative exchange loss on the sold Japan life business	(46)	–	–	–	–	–	–	(46)	–	(46)
Profit (loss) before tax attributable to shareholders	1,036	1,199	1,075	441	(45)	11	115	3,832	(684)	3,148

Notes
(i) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.
(ii) Other income from external customers includes £8 million (2015: £19 million) relating to financial instruments that are not held at fair value through profit or loss. These fees primarily related to prepayment fees, late fees and syndication fees.
(iii) In addition to the results of the central operations, unallocated to a segment includes intra-group eliminations. This column includes the elimination of the intra-group reinsurance contract between the UK with-profits and Asia with-profits operations.
(iv) Interest income includes £3 million (2015: £3 million) accrued in respect of impaired securities.
(v) In Asia, revenue from external customers from no individual country exceeds 10 per cent of the Group total except for Hong Kong in 2016 (2015: no individual country exceeded 10 per cent). Total revenue from external customers of Hong Kong is £6,313 million (2015: £3,836 million).
(vi) Due to the nature of the business of the Group, there is no reliance on any major customers.

B1.5 Other investment return

	2016 £m	2015 £m
Realised and unrealised gains (losses) and gains (losses) on securities at fair value through profit or loss	28,489	(4,572)
Realised and unrealised (losses) and gains on derivatives at fair value through profit or loss	(7,050)	(1,701)
Realised gains on available-for-sale securities, previously recognised in other comprehensive income*	270	49
Realised gains (losses) on loans	91	(50)
Dividends	2,283	1,791
Other investment income	781	769
Other investment return	24,864	(3,714)

* Including impairment.

Realised gains and losses on the Group's investments for 2016 recognised in the income statement amounted to a net loss of £1.6 billion (2015: a net gain of £3.0 billion).

B2 Profit before tax – asset management operations

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

	2016 £m					2015 £m
	M&G	Prudential Capital	US	Eastspring Investments	Total	Total
Revenue (excluding NPH broker-dealer fees)	1,188	62	235	391	1,876	1,964
NPH broker-dealer fees note (i)	–	–	550	–	550	522
Gross revenue	1,188	62	785	391	2,426	2,486
Charges (excluding NPH broker-dealer fees)	(768)	(91)	(239)	(304)	(1,402)	(1,497)
NPH broker-dealer fees note (i)	–	–	(550)	–	(550)	(522)
Gross charges	(768)	(91)	(789)	(304)	(1,952)	(2,019)
Share of profit from joint ventures and associates, net of related tax	13	–	–	54	67	55
Profit (loss) before tax	433	(29)	(4)	141	541	522
Comprising:						
Operating profit based on longer-term investment returns note (ii)	425	27	(4)	141	589	587
Short-term fluctuations in investment returns	8	(56)	–	–	(48)	(65)
Profit (loss) before tax	433	(29)	(4)	141	541	522

Notes

(i) The segment revenue of the Group's asset management operations includes:
NPH broker-dealer fees which 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 separately the amounts attributable to this item so that the underlying revenue and charges can be seen.

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

	2016 £m	2015 £m
Asset management fee income	900	934
Other income	23	5
Staff costs	(332)	(293)
Other costs	(212)	(240)
Underlying profit before performance-related fees	379	406
Share of associate results	13	14
Performance-related fees	33	22
Total M&G operating profit based on longer-term investment returns	425	442

The revenue for M&G of £956 million (2015: £961 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £1,188 million shown in the main table of this note. This is because the £956 million (2015: £961 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

B3 Acquisition costs and other expenditure

	2016 £m	2015 £m
Acquisition costs incurred for insurance policies	(3,687)	(3,275)
Acquisition costs deferred less amortisation of acquisition costs	923	431
Administration costs and other expenditure	(5,522)	(4,746)
Movements in amounts attributable to external unit holders of consolidated investment funds	(562)	(618)
Total acquisition costs and other expenditure	(8,848)	(8,208)

Total acquisition costs and other expenditure includes:

(a) Total depreciation and amortisation expense of £(242) million (2015: £(755) million) relates primarily to amortisation of deferred acquisition costs of insurance contracts and asset management contracts.
(b) The charge for non-deferred acquisition costs and the amortisation of those costs that are deferred, was £(2,764) million (2015: £(2,844) million). These amounts comprise £(2,734) million and £(30) million for insurance and investment contracts respectively (2015: £(2,817) million and £(27) million respectively).
(c) Movements in amounts attributable to external unit holders are in respect of those OEICs and unit trusts which are required to be consolidated and comprises a charge of £(485) million (2015: £(599) million) for UK insurance operations and a charge of £(77) million (2015: £(19) million) for Asia insurance operations.
(d) There were no fee expenses relating to financial liabilities held at amortised cost included in acquisition costs in 2016 and 2015.
(e) The segmental analysis of other interest expense and depreciation and amortisation included within total acquisition costs and other expenditure was as follows:

	Other interest expense		Depreciation and amortisation	
	2016	2015	2016	2015
Insurance operations				
Asia	–	–	(201)	(175)
US	(56)	(19)	94	(453)
UK	(102)	(93)	(105)	(93)
Asset management				
M&G	–	–	(7)	(8)
Prudential Capital	(5)	(22)	–	–
US	–	–	(3)	(3)
Eastspring Investments	–	–	(2)	(2)
Total segment	(163)	(134)	(224)	(734)
Unallocated to a segment (central operations)	(22)	(13)	(18)	(21)
Group total	(185)	(147)	(242)	(755)

B3.1 Staff and employment costs

The average number of staff employed by the Group during the year was:

	2016	2015
Business operations:		
Asia operations	15,439	15,030
US operations	4,447	4,562
UK operations	6,381	5,920
Total	26,267	25,512

The costs of employment were:

	2016 £m	2015 £m
Business operations:		
Wages and salaries	1,483	1,370
Social security costs	110	101
Pension costs:		
Defined benefit schemes*	213	(63)
Defined contribution schemes	79	67
Total	1,885	1,475

* The charge (credit) incorporates the effect of actuarial gains and losses.

B3.2 Share-based payment

(a) Description of the plans

The Group operates a number of share award and share option plans that provides Prudential plc shares to participants upon vesting. The plans in operation include Prudential Long-Term Incentive Plan (PLTIP), Annual Incentive Plan (AIP), savings-related share option schemes, share purchase plans and deferred bonus plans. Some of these plans are participated in by executive directors, the details of which are described in the directors' remuneration report. In addition, the following information is provided.

Share scheme	Description
Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and on a year-by-year basis determined by Prudential's full year financial results and the employee's contribution to the business. Awards vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are made in Prudential shares, or ADRs, except for countries where share awards are not feasible due to securities and/or tax reasons, where awards will be replaced by the cash value of the shares that would otherwise have been transferred.
Savings-related share option schemes	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC-approved Save As You Earn (SAYE) share option scheme in the UK. Eligible employees participate in the international savings-related share option scheme while eligible agents based in certain regions of Asia can participate in the non-employee savings-related share option scheme.
Share purchase plans	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC-approved UK SIP, which allows the purchase of Prudential plc shares. Staff based in Ireland and Asia are eligible for the Share Participation Plan.
Deferred bonus plans	The Company operates a number of deferred bonus schemes including the Group Deferred Bonus Plan, the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP), the Prudential Capital Deferred Bonus Plan (PruCap DBP) and other arrangements. There are no performance conditions attached to deferred share awards made under these arrangements.
Jackson Long-Term Incentive Plan	Eligible Jackson employees were previously granted share awards under a long-term incentive plan that rewarded the achievement of shareholder value targets. These awards were in the form of a contingent right to receive shares or a conditional allocation of shares. These share awards have vesting periods of four years and are at nil cost to the employee. Award holders do not have any right to dividends or voting rights attaching to the shares. The shares are held in the employee share trust in the form of American Depository Receipts that are tradable on the New York Stock Exchange. The final awards under this arrangement were made in 2012.

B3 Acquisition costs and other expenditure continued

B3.2 Share-based payment continued

(b) Outstanding options and awards

The following table shows movement in outstanding options and awards under the Group's share-based compensation plans at 31 December 2016 and 2015:

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans including conditional options	
	2016		2015		2016	2015
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	
Beginning of year:	8.8	9.44	8.6	8.29	28.4	28.8
Granted	1.4	11.04	2.2	11.11	13.9	9.9
Exercised	(2.0)	7.30	(1.6)	5.72	(10.5)	(7.9)
Forfeited	(0.1)	9.95	(0.2)	8.14	(1.5)	(2.3)
Cancelled	(0.8)	6.45	(0.2)	10.15	(0.1)	–
Lapsed/Expired	(0.2)	9.64	–	7.47	–	(0.1)
End of year	7.1	10.74	8.8	9.44	30.2	28.4
Options immediately exercisable, end of year	0.6	8.53	1.1	5.71		

The weighted average share price of Prudential plc for the year ended 31 December 2016 was £13.56 compared to £15.49 for the year ended 31 December 2015.

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding at 31 December.

	Outstanding						Exercisable			
	Number exercisable (millions)		Weighted average remaining contractual life (years)		Weighted average exercise prices £		Number exercisable (millions)		Weighted average exercise prices £	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Between £2 and £3	–	0.2	–	0.9	–	2.88	–	–	–	–
Between £4 and £5	0.1	0.8	0.4	0.9	4.66	4.64	0.1	0.4	4.66	4.61
Between £5 and £6	–	–	–	–	–	–	–	–	–	–
Between £6 and £7	0.2	1.0	1.4	0.9	6.29	6.29	–	0.7	6.29	6.29
Between £9 and £10	1.1	2.2	1.4	1.9	9.01	9.01	0.5	–	9.01	–
Between £11 and £12	5.7	4.6	2.9	3.6	11.27	11.34	–	–	–	–
	7.1	8.8	2.6	2.6	10.74	9.44	0.6	1.1	8.53	5.71

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

(c) Fair value of options and awards

The fair value amounts estimated on the date of grant relating to all options and awards, were determined by using the following assumptions:

	2016			2015		
	Prudential LTIP (TSR)	SAYE options	Other awards	Prudential LTIP (TSR)	SAYE options	Other awards
Dividend yield (%)	–	3.19	–	–	2.35	–
Expected volatility (%)	29.36	25.41	–	21.48	22.73	–
Risk-free interest rate (%)	0.12	0.15	–	0.88	1.02	–
Expected option life (years)	–	3.70	–	–	3.79	–
Weighted average exercise price (£)	–	11.04	–	–	11.11	–
Weighted average share price (£)	12.82	13.94	–	16.67	13.52	–
Weighted average fair value (£)	4.41	3.05	12.57	7.97	2.95	16.28

The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than the Prudential LTIP (TSR) for which the Group uses a Monte Carlo model in order to allow for the impact of the LTIP (TSR) performance conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

For all options and awards, the expected volatility is based on the market implied volatilities as quoted on Bloomberg. The Prudential specific at-the-money implied volatilities are adjusted to allow for the different terms and discounted exercise price on SAYE options by using information on the volatility surface of the FTSE 100.

Risk-free interest rates are taken from government bond spot rates with projections for two-year, three-year and five-year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over a period of 12 months up to and including the date of grant. For the Prudential LTIP (TSR), volatility and correlation between Prudential and a basket of 18 competitor companies is required. For grants in 2016, the average volatility for the basket of competitors was 24.88 per cent. Correlations for the basket are calculated for each pairing from the log of daily TSR returns for the three years prior to the valuation date. Market implied volatilities are used for both Prudential and the components of the index. Changes to the subjective input assumptions could materially affect the fair value estimate.

(d) Share-based payment expense charged to the income statement

Total expense recognised in the year in the consolidated financial statements relating to share-based compensation is as follows:

	2016 £m	**2015** £m
Share-based compensation expense	126	111
Amount accounted for as equity-settled	127	110
Carrying value at 31 December of liabilities arising from share-based payment transactions	–	6
Intrinsic value of above liabilities for which rights had vested at 31 December	–	6

B3.3 Key management remuneration

Key management constitutes the directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group.

Total key management remuneration is analysed in the following table:

	2016 £m	**2015** £m
Salaries and short-term benefits	20.7	17.1
Post-employment benefits	1.3	1.1
Share-based payments	18.7	15.5
	40.7	33.7

The share-based payments charge comprises £12.9 million (2015: £10.4 million), which is determined in accordance with IFRS 2, 'Share-based Payment' (see note B3.2) and £5.8 million (2015: £5.1 million) of deferred share awards.

Total key management remuneration includes total directors' remuneration of £37.9 million (2015: £42.7 million) less LTIP releases of £10.1 million (2015: £19.4 million) as shown in the directors' remuneration table and related footnotes in the directors' remuneration report. Further information on directors' remuneration is given in the directors' remuneration report.

B3.4 Fees payable to the auditor

	2016 £m	**2015** £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.0	2.0
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	7.5	7.2
Audit-related assurance services	3.9	3.1
Tax compliance services	0.1	0.7
Other assurance services	2.1	2.2
Services relating to corporate finance transactions	–	0.2
All other services	0.6	1.2
Total fees paid to the auditor	16.2	16.6

In addition, there were fees incurred by pension schemes of £0.1 million (2015: £0.1 million) for audit services and £0.1 million (2015: £nil) for other assurance services.

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

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

(a) Asia insurance operations

In 2016, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £67 million (2015: £62 million) representing a small number of non-recurring items, including a gain resulting from entering into a reinsurance contract in the year.

(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 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 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 31 December 2016 (31 December 2015: 43 basis points). The allowance represented 26 per cent of the bond spread over swap rates (31 December 2015: 25 per cent).

The reserves for credit risk allowance at 31 December 2016 for the UK shareholder-backed business (both for ex-PRIL and the legacy PAC shareholder annuity business) were £1.7 billion (31 December 2015: £1.6 billion).

Other assumption changes

For the shareholder-backed business, in addition to the movement in the credit risk allowance discussed above, the net effect of routine changes to assumptions in 2016 was a credit of £16 million (2015: credit of £31 million).

Longevity reinsurance and other management actions

A number of management actions were taken in 2016 to improve the Solvency II position of the UK insurance operations and further mitigate market risk, which have generated combined profits of £332 million. Similar actions were also taken in 2015.

Of this amount £197 million related to profit from additional longevity reinsurance transactions covering £5.4 billion of annuity liabilities on an IFRS basis, with the balance of £135 million reflecting the effect of repositioning the fixed income portfolio and other actions.

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

At 31 December 2016, longevity reinsurance covered £14.4 billion of IFRS annuity liabilities equivalent to 42 per cent of total annuity liabilities.

With-profits sub-fund

For the with-profits sub-fund, the aggregate effect of assumption changes in 2016 was a net charge to unallocated surplus of £78 million (2015: net charge of £114 million).

B5 Tax charge

(a) Total tax charge by nature of expense

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

	2016 £m			2015 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
UK tax	(438)	(326)	(764)	(149)
Overseas tax	(939)	412	(527)	(593)
Total tax (charge) credit	(1,377)	86	(1,291)	(742)

The total tax charge comprises:

	2016 £m	2015 £m
Current tax expense:		
Corporation tax	(1,464)	(782)
Adjustments in respect of prior years	87	48
Total current tax	(1,377)	(734)
Deferred tax arising from:		
Origination and reversal of temporary differences	64	(40)
Impact of changes in local statutory tax rates	6	22
Credit in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	16	10
Total deferred tax credit (charge)	86	(8)
Total tax charge	(1,291)	(742)

The current tax charge of £1,377 million (2015: £734 million) includes £53 million (2015: £35 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

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

	2016 £m			2015 £m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Tax (charge) to policyholders' returns	(421)	(516)	(937)	(173)
Tax (charge) credit attributable to shareholders	(956)	602	(354)	(569)
Total tax (charge) credit	(1,377)	86	(1,291)	(742)

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in realised and unrealised gains on equity and bond investments in the with-profits fund of the main UK insurance business. The principal reason for the decrease in the tax charge attributable to shareholders' returns is a deferred tax credit on derivative fair value movements in the US insurance operations. The main elements of the deferred tax credit shown in the table below are a charge of £437 million relating to unrealised gains and losses on investments reflecting an increase in unrealised gains on investments in the Group's insurance operations and a credit of £573 million relating to short-term temporary differences reflecting deferred tax assets on derivative fair value movements in the US insurance operations.

The total deferred tax credit (charge) arises as follows:

	2016 £m	2015 £m
Unrealised gains and losses on investments	(437)	272
Balances relating to investment and insurance contracts	(90)	(55)
Short-term temporary differences	573	(200)
Capital allowances	4	1
Unused tax losses	36	(26)
Deferred tax credit (charge)	86	(8)

In 2016, a deferred tax credit of £22 million (2015: credit of £333 million) has been taken through other comprehensive income.

(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.

B5 Tax charge continued

(b) *Reconciliation of effective tax rate* continued

	2016 £m						
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Attributable to shareholders	Attributable to policyholders	Total
Operating profit 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 2016 expected and actual tax rates as shown include the impact of the re-measurement loss on the held for sale Korea life business. The 2016 tax rates for Asia insurance and Group, 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%

The more significant reconciling items are explained below:

Asia insurance operations

The £28 million reconciling item 'income not taxable or taxable at concessionary rates' primarily reflects income taxable at rates lower than the expected rates in Malaysia and Singapore. It is lower than the 2015 adjustment of £42 million due to the absence of non-taxable gains on domestic securities in Taiwan.

The £20 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.

There is no significant movement in the reconciling items from 2015.

The £29 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 decrease reflects a lower profit from joint ventures and associates in 2016.

The £58 million reconciling item 'write down of Korea life business' reflects the non-tax deductible write down of the held for sale Korea life business.

US insurance operations

The £159 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 variable annuity business.

The £81 million non-recurring reconciling item 'adjustments to tax charge in relation to prior years' arose as a result of the finalisation of the dividend received deduction in the 2015 tax return as compared to the estimate included in the tax charge at 2015.

UK insurance operations

There are no significant reconciling items or significant movements from 2015.

B5 Tax charge continued

(b) Reconciliation of effective tax rate continued

Other operations

The £26 million reconciling item 'deductions not allowable for tax purposes' primarily relates to non-tax deductible foreign exchange movements on debt instruments.

	2015 £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	1,171	1,691	1,195	(88)	3,969	n/a	n/a
Non-operating loss	(135)	(492)	(120)	(74)	(821)	n/a	n/a
Profit (loss) before tax	1,036	1,199	1,075	(162)	3,148	173	3,321
Expected tax rate	24%	35%	20%	20%	27%	100%	31%
Tax at the expected rate	249	420	215	(32)	852	173	1,025
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(42)	(10)	(2)	(9)	(63)		(63)
Deductions not allowable for tax purposes	15	5	7	6	33		33
Items related to taxation of life insurance businesses	(20)	(113)	–	–	(133)		(133)
Deferred tax adjustments	10	–	–	(11)	(1)		(1)
Effect of results of joint ventures and associates	(37)	–	–	(13)	(50)		(50)
Irrecoverable withholding taxes	–	–	–	28	28		28
Other	(4)	(1)	6	2	3		3
Total	(78)	(119)	11	3	(183)		(183)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	5	(65)	(7)	–	(67)		(67)
Movements in provisions for open tax matters	(6)	–	–	(5)	(11)		(11)
Impact of changes in local statutory tax rates	(5)	–	(16)	(1)	(22)		(22)
Total	(6)	(65)	(23)	(6)	(100)		(100)
Total actual tax charge (credit)	165	236	203	(35)	569	173	742
Analysed into:							
Tax on operating profit based on longer-term investment returns	170	408	227	(19)	786	n/a	n/a
Tax on non-operating profit	(5)	(172)	(24)	(16)	(217)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	15%	24%	19%	22%	20%	n/a	n/a
Excluding non-recurring tax reconciling items	15%	28%	21%	15%	22%	n/a	n/a
Total profit	16%	20%	19%	22%	18%	100%	22%

B6 Earnings per share

		2016				
	Note	**Before tax** B1.1 £m	**Tax** 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	B1.2	(1,678)	519	(1,159)	(45.3)p	(45.2)p
Loss attaching to held for sale Korea life business	D1	(227)	(4)	(231)	(9.0)p	(9.0)p
Amortisation of acquisition accounting adjustments		(76)	25	(51)	(2.0)p	(2.0)p
Based on profit for the year		2,275	(354)	1,921	75.0p	75.0p

		2015*				
	Note	**Before tax** B1.1 £m	**Tax** 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		3,969	(786)	3,183	124.6p	124.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(755)	206	(549)	(21.5)p	(21.5)p
Profit attaching to held for sale Korea life business	D1	56	(14)	42	1.7p	1.7p
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income		(46)	–	(46)	(1.8)p	(1.8)p
Amortisation of acquisition accounting adjustments		(76)	25	(51)	(2.0)p	(2.0)p
Based on profit for the year		3,148	(569)	2,579	101.0p	100.9p

* To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit above.

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:

	2016 (millions)	**2015** (millions)
Weighted average number of shares for calculation of:		
Basic earnings per share	2,560	2,553
Shares under option at end of year	7	9
Number of shares that would have been issued at fair value on assumed option price	(5)	(6)
Diluted earnings per share	2,562	2,556

05 Financial statements

B Earnings performance
Continued

B7 Dividends

	2016		2015	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
First interim ordinary dividend	12.93p	333	12.31p	315
Second interim ordinary dividend	30.57p	789	26.47p	681
Special dividend	–	–	10.00p	257
Total	43.50p	1,122	48.78p	1,253
Dividends paid in reporting year:				
Current year first interim ordinary dividend	12.93p	332	12.31p	315
Second interim ordinary dividend/final ordinary dividend for prior year	26.47p	679	25.74p	659
Special dividend	10.00p	256	–	–
Total	49.40p	1,267	38.05p	974

Dividend per share

For the year ended 31 December 2015 the second interim ordinary dividend of 26.47 pence per ordinary share and the special dividend of 10.00 pence per ordinary share were paid to eligible shareholders on 20 May 2016. The 2016 first interim ordinary dividend of 12.93 pence per ordinary share was paid to eligible shareholders on 29 September 2016.

The second interim ordinary dividend for the year ended 31 December 2016 of 30.57 pence per share will be paid on 19 May 2017 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm (BST) on 31 March 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). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 26 May 2017. The second interim ordinary dividend will be paid on or about 26 May 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 dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 13 March 2017. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore dollars, will be determined by CDP.

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