PRUDENTIAL PLC
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of August, 2007

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,
LONDON, EC4R 0HH, ENGLAND
(Address of principal executive offices)

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

Form 20-F X   Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes   No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Enclosures: 2007 Interim Results

Embargo: 07.00 Wednesday 1 August 2007

PRUDENTIAL PLC 2007 INTERIM RESULTS

- Total EEV operating profit from continuing operations GBP1,326 million, up 39%

- Total IFRS operating profit from continuing operations GBP601 million, up

27%

- New business APE GBP1,334 million, up 12%; PVNBP GBP9.7 billion, up 4%

- New business profit GBP534 million, up 12%

- Asset management profit GBP180 million, up 45%

- EEV shareholders' funds GBP13.4 billion, up 13% (end 2006 GBP11.9 billion*)

- Interim dividend 5.7 pence per share, up 5% (2006: 5.42 pence per share)

All figures compared to 2006 constant exchange rates unless stated, *at reported exchange rates

Commenting, Mark Tucker, Group Chief Executive said:

"The growth in operating profit of 39 per cent in the first half of the year demonstrates the clear and continued momentum that we have within the Group. It builds on the very strong operating performance in both 2005 and 2006 when we grew operating profit by 36 per cent and 28 per cent respectively.

"Our strategy is focused on the growing global market for retirement savings and income and our advantaged regional platforms and global capabilities place the Group in an excellent and immensely strong position to capture a disproportionate share of this opportunity.

"In Asia, growth across the region continues to be strong, with new business up 48 per cent to GBP619 million APE, and new business profit up 31 per cent to GBP282 million. These strong first half results, and the continuing development of our operations in the region, mean that we are very confident that we will achieve our target of at least doubling 2005 EEV new business profits by 2009.

"In the US, we have one of the fastest growing variable annuity franchises in the market - VA sales grew by 31 per cent in the first half to GBP2.2 billion, continuing to gain profitable market share.

"In the UK, retail sales grew by 10 per cent in the first half of the year, while our focus on value has kept margins on new business in the UK at 30 per cent which remain high compared to the overall UK market. The Internal Rate of Return (IRR) was 15 per cent against our target of 14 per cent.

"Our asset management businesses saw very strong growth in operating profit, with M&G and Asia fund management up 40 per cent and 65 per cent respectively. Retail net sales at M&G surpassed last year's record half-year net flows and in Asia net flows remained strong at GBP1.7 billion, with a number of successful fund launches in Taiwan and Korea, as well as ongoing strong net sales in India and Japan.

"The Group is extremely well placed to continue to deliver real long-term sustainable profit growth for shareholders."

Group Chief Executive's Review

Introduction

The Group has today announced a strong set of results.

Prudential's performance in the first half of the year demonstrates the real shareholder value that we are delivering through consistent implementation of our retirement-focused strategy. This strategy is generating both continued excellent results and creating substantial longer term opportunities from our advantaged regional platforms and global capabilities.

Capturing the Retirement Opportunity

Developments in the global retirement market represent one of the most significant and important global trends in retail financial services. In the UK and US alone, it is estimated that over the next five years, as much as GBP7 trillion of assets will be available for investment into the retirement savings and retirement income market sectors. In Asia, the retirement opportunity is also expanding rapidly driven by rising incomes, increasing longevity, and a growing realisation among individuals of the need to save for retirement and to protect their income.

Prudential's strategy focuses on capturing the ever-increasing revenue and value from these material opportunities.

Prudential is well positioned - Capabilities and Geographic Coverage

While many financial institutions are moving to capture this opportunity, Prudential has an outstanding combination of assets and capabilities to succeed:

- Sophisticated risk management
- Integrated solutions to address retirement needs
- Privileged access to retirement advisers
- Trusted brands which are strongly associated with retirement
- Financial strength and reliability
- Geographic reach

Moreover, Prudential has the additional advantage of being able to draw on expertise and experience across international frontiers to advance product innovation, distribution and the quality of customer service. These initiatives transfer learning and value from one business to another, creating competitive advantage above and beyond what each could individually achieve.

Group Performance

The operating performance of the Group was again very strong in the first half of 2007. Group operating profit before tax from continuing operations, on the European Embedded Value basis (EEV), was up 39 per cent, to GBP1,326 million building on the momentum established in 2005 and 2006. On the statutory IFRS basis, operating profit before tax on continuing operations was up 27 per cent to GBP601 million.

The Group had a positive cashflow from operations in the period to 30 June 2007. The benefit of a significant increase in the uptake of the scrip dividend helped to achieve this. Our expectation remains that operations will provide a positive cash flow in the 2008 full year.

The Group's cash balances also benefited by GBP527 million from the sale of Egg. In addition, the already robust regulatory capital surplus of the Group was improved by around GBP300 million from the sale of this business.

Regional Performance

As outlined earlier, Prudential's operations in Asia, the US and the UK are all well-positioned to capitalise on the retirement opportunity, and each has specific strategies in place to build on and strengthen our established market positions.

Performance in all of our regional markets over the first half has been strong, indicating that our approach to the market is delivering material financial benefits.

Asia

Prudential's geographic spread in Asia, the strength and scale of our distribution, and the recognition of and trust in the Prudential brand in the region, continue to be key differentiating factors for the Group.

Agent numbers have reached 350,000 and at the same time, almost 30 per cent of new business is being derived from non-agency sources.

In addition to capitalising on and further building these strengths, we are increasing the focus on the fast emerging retirement opportunity by developing and providing integrated protection and savings solutions to meet consumers' increasingly sophisticated needs.

Work is progressing well on our initiatives to deepen our Health business and we are putting in place the infrastructure to facilitate greater cross-selling and up-selling to our established customer base of some 8.5 million in the region.

Growth across the region continues to be strong, with new business up 48 per cent to GBP619 million APE in the half year. Compound annual growth in APE over the last five years is 29 per cent. New business profit was up 31 per cent to GBP282 million.

A significant contributor to this growth was the "What's my number?" retirement campaign which has already seen great success in Korea and Hong Kong, and was rolled out to Taiwan at the end of April. As a result, new business in Taiwan in the second quarter was GBP106 million APE and half year new business was up 103 per cent. We will continue to identify other opportunities in retirement across the region.

We are also making good progress in two additional areas; firstly we are developing a regionwide infrastructure to support our approach to develop systematic cross-selling and up-selling to our 8.5 million customers, with plans already in place in three markets and with the first pilots due to begin later this year. Secondly, on health products we saw a 62 per cent increase in the first half. We launched a new product in Singapore in the second quarter and we have recently launched a new product in India.

These strong first half results, and the continuing development of our operations in the region, mean that we are very confident that we will achieve our target of at least doubling 2005 EEV new business profits by 2009. The outlook beyond 2009 also remains very positive.

US

In the US, our long-term strategy has been to position Jackson to meet the retirement needs of the baby boomer generation pre and post retirement. We recognised early on the central role of advice as the key source of success in this market and Jackson has developed a very effective and hard to replicate business model, with particular success in the independent broker channel - the key channel for advice.

The Jackson brand is trusted to provide integrated retirement planning solutions to financial professionals and their clients, including variable annuity products that provide the most flexibility and customisation in the industry.

We are continuing to develop our variable annuity offering, adding a number of new guaranteed minimum withdrawal benefits and a new guaranteed minimum accumulation benefit. The total number of benefit combinations available is now in excess of 2,100.

At Curian, our separately managed account platform, we also recently launched a new proposal system which cuts the time required to open a separately managed account by a factor of three. This is just one example of how we continue to leverage Jackson's superior technological capabilities to enhance our efficiency and effectiveness.

We have also continued to add to Jackson's distribution strength, increasing the number of external wholesalers by 30 per cent. Over the last two years, Jackson's wholesaling force has been one of the fastest growing in the market whilst still growing productivity per producer and sales per territory. This increase in numbers of wholesalers will allow us to take an even more granular approach to our segmentation of the market.

Today, Jackson is already one of the fastest growing variable annuity franchises in the market. Variable annuity sales grew by 31 per cent in the first half to GBP2.2 billion, continuing to gain profitable market share. Our market share of variable annuities reached 5.1 per cent at the end of the first quarter, compared to 4.2 per cent in the first quarter of 2006, and share in the main target Independent Broker Dealer channel was 11.7 per cent, up from 10.4 per cent in the first quarter of 2006.

Overall margins on new business in the US remained strong at 41 per cent (2006: 41 per cent) with an IRR of 18 per cent.

UK

In the UK, our manufacturing capabilities in the retirement space, combined with the Prudential brand - which is strongest among pre and post retirement age groups - provides an excellent platform from which to develop the business.

In line with our stated plans we are exiting those product areas that are structurally uneconomic and we are developing a new range of trail-based commission products centred on the multi-asset investment capabilities. Our new unit-linked product, for instance, will be launched later this month.

To further strengthen our distribution, we have entered into an agreement with Barclays to be the preferred provider of conventional annuity products to retail customers of Barclays in the UK. This is a five-year agreement which will take effect from later in 2007.

UK retail sales grew by 10 per cent in the first half of the year. Momentum is particularly strong in individual annuities, up 23 per cent, a market segment in which we are a clear leader with 23 per cent market share in 2006. This is a high growth, high return sector of the market where Prudential benefits from significant and recurring internal flows of maturing pensions as well as flows from both new and existing partnerships. All of this, combined with sophisticated risk management and competitive pricing, is enabling us to deliver good returns to shareholders.

In the bulk annuity market we reached an agreement in principle to acquire Equitable Life's portfolio of in-force with-profits annuities, now estimated at around GBP1.7 billion. This transaction remains on track to complete in the fourth quarter and on its own represents almost 20 per cent growth on the bulk annuities written by our UK business in the whole of 2006. We will continue to exercise pricing discipline in this market, and to pursue specific opportunities which play to our distinctive capabilities.

Margins on new business in the UK of 30 per cent (2006: 29 per cent) remain high compared to the overall UK market and the Internal Rate of Return (IRR) was 15 per cent against our target of 14 per cent. This represents an attractive return in both absolute and relative terms.

We remain confident of achieving our already-announced cost savings target of GBP195 million by 2010. By the end of 2007 we will have taken all of the actions to secure GBP115 million of the announced savings, and we are making good progress in determining the approach we will take to deliver the remaining GBP80 million, whether that is through offshoring, outsourcing or a combination of the two. We are on track to confirm our final decision by the middle of the fourth quarter this year.

Prudential's main with-profit fund in the UK was the top performing life fund in 2006 in terms of gross investment return ranking first, in the WM Company's survey of with-profit funds, over 1, 3, 5 and 10 years -an outstanding performance. Investment performance has remained strong in the first half of 2007.

Our work on the Inherited Estate is progressing well and as previously disclosed, if a decision is taken to proceed, a formal appointment of the Policyholder Advocate could be expected to take place later this year. We will only proceed if there are clear benefits to both policyholders and shareholders.

Asset Management

Our asset management businesses continue to both add value to our insurance operations as well as growing their external funds under management.

Key to this is our ability to develop retirement savings and retirement income products based on sophisticated asset allocation strategies which match customers' risk profiles and strong investment performance.

This is clearly evidenced in the UK, where our strength in the with-profits business - both bonds and annuities - has been driven by our multi-asset allocation capabilities which can deliver the kind of cautious growth that customers want. In the US, these capabilities enable us to deliver our fully unbundled variable annuity proposition.

These capabilities also position us well in the emerging area of lifecycle finance where we can create products that adapt to consumers changing circumstances, risk appetites, and needs over different stages of the retirement cycle. These products need to be underpinned by adaptable and creative asset management.

Across the Group's asset management businesses net inflows were GBP5 billion and at similar levels to those achieved in the first half of 2006. Retail net sales at M&G surpassed last year's record half-year net flows and in Asia net flows remained strong at GBP1.7 billion, with a number of successful fund launches in Taiwan and Korea, plus ongoing strong net sales in India and Japan. External funds under management increased to GBP63 billion.

This is contributing to very strong growth in operating profit from these businesses, with M&G and Asia fund management up 40 per cent and 65 per cent respectively.

Capital Efficiency

Prudential benefits from greater capital efficiency and an increased risk appetite by actively managing its product and geographic diversification. Prudential's economic capital modelling indicates that the capital requirements of the businesses on a stand-alone basis would be GBP1.3 billion higher than for the Group as a whole, as at 31 December 2006.

While the dialogue with both regulators and rating agencies continues to develop, for example over the draft Solvency II Directive, it is already clear that in future there will be material and enduring opportunities for greater regulatory capital efficiency within broader-based groups.

Outlook

In summary:

- Our strategy is focused on the growing global market for retirement savings and retirement income
- Our advantaged regional platforms and our global capabilities place the Group in a strong position to capture a disproportionate share of the retirement opportunity around the world
- Delivery of that strategy is generating continuing excellent short-term operating performance both in the regions and at the Group level, which in turn is creating superior shareholder value
- Our diversified geographic footprint across three regions provides a strong and operationally efficient base for future growth
- Prudential is extremely well placed to deliver real long-term sustainable profit growth for its shareholders

ENDS

Enquiries:

Media		Investors/Analysts	
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Notes to Editor:

1. The results in this announcement are prepared on two bases, namely International Financial Reporting Standards ('IFRS') and the European Embedded Value ('EEV') basis. The IFRS basis results form the basis of the Group's financial statements.

The EEV basis results have been prepared in accordance with the principles issued by the CFO Forum of European Insurance Companies in May 2004. Where appropriate the EEV basis results include the effects of IFRS.

References to 'operating profit' in this announcement are to operating profit based on longer-term investment returns. Consistent with previous reporting practice the Group analyses its EEV basis results, and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other constituent elements of total profit. On both the EEV and IFRS bases operating profit based on longer-term investment returns excludes goodwill impairment charges, short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profits based on longer-term investment returns also excludes the mark to market value movement in core borrowings, the effect of changes in economic assumptions, and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

'PVNBP' refers to the Present Value of New Business Premiums. PVNBPs are calculated as equalling new single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.

Period on period percentage increases are stated on a constant exchange rate basis.

2. Annual premium equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3.The internal rate of return (IRR) is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the life time of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is the initial capital in excess of the premiums received required to pay acquisition costs and set up the statutory capital requirement. The time value of options and guarantees are included in the calculation.

4.There will be a conference call today for wire services at 7.30am (BST) hosted by Mark Tucker, Group Chief Executive and Philip Broadley, Group Finance Director. Dial in telephone number: +44 (0)20 8609 0793. Passcode: 155439#.

5. A presentation to analysts will take place at 9.30am (BST) at Governor's House, Laurence Pountney Hill, London, EC4R 0HH. An audio cast of the presentation and the presentation slides will be available on the Group's website, www.prudential.co.uk

6. There will be a conference call for investors and analysts at 2.30pm (BST) hosted by Mark Tucker, Group Chief Executive and Philip Broadley, Group Finance Director. Please call from the UK +44 (0)20 8609 0793 and from the US +1 866 793 4279. Passcode 487687#. A recording of this call will be available for replay for

one week by dialling: +44 (0)20 8609 0289 from the UK or +1 866 676 5865 from the US. The conference passcode is 160473#.

7. High resolution photographs are available to the media free of charge at www.newscast.co.uk +44 (0) 208 886 5895.

8. An interview with Mark Tucker, Group Chief Executive, (in video/audio/text) will be available on www.cantos.com and www.prudential.co.uk from 7.00am on 1 August 2007.

9. Financial Calendar 2007:

Ex-dividend date	15 August 2007
Record Date	17 August 2007
Payment of interim dividend	24 September 2007
Third Quarter 2007 New Business Figures	18 October 2007
Full Year 2007 New Business Figures	29 January 2008
Full Year 2007 results	14 March 2008

10. In addition to the financial statements provided with this press release, additional financial schedules are available on the Group's website at www.prudential.co.uk

11. Total number of Prudential plc shares in issue as at 30 June 2007 was 2,460,159,970.

About Prudential

Prudential plc is a company incorporated and with its principal place of business in England, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services directly and through its subsidiaries and affiliates throughout the world. It has been in existence for over 150 years and has GBP256 billion in assets under management as at 30 June 2007. Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

Forward-Looking Statements

This statement may contain certain "forward-looking statements" with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", " seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements. Prudential undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make.

PRUDENTIAL PLC 2007 UNAUDITED INTERIM RESULTS

RESULTS SUMMARY

European Embedded Value (EEV) Basis Results*

	Half Year 2007 GBPm	Half Y 2 G
UK Insurance Operations	462	
M&G	140	
UK Operations	602	
US Operations	351	
Asian Operations	520	
Other Income and Expenditure	(147)	(1

UK restructuring costs	0	(
Operating profit from continuing operations based on longer-term investment returns*	1,326	1,
Short-term fluctuations in investment returns	241	
Mark to market value movements on core borrowings	113	
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	125	
Effect of changes in economic assumptions and time value of cost of options and guarantees	275	(
Profit from continuing operations before tax	2,080	1,
Operating earnings per share from continuing operations after related tax and minority interests*	39.4p	29
Basic earnings per share	72.8p	43
Shareholders' equity, excluding minority interests	GBP13.4bn	GBP10.

International Financial Reporting Standards (IFRS) Basis Results*

	Half Year 2007	Half Y 2
Statutory IFRS basis results		
Profit after tax attributable to equity holders of the Company	GBP715m	GBP4
Basic earnings per share	29.3p	18
Shareholders' equity, excluding minority interests	GBP5.9bn	GBP5.

	Half Year 2007	Half Y 2
Supplementary IFRS basis information		
Operating profit from continuing operations based on longer-term investment returns*	GBP601m	GBP4
Operating earnings per share from continuing operations after related tax and minority interests*	16.3p	14

	Half Year 2007	Half Y 2
Dividends per share declared and paid in reporting period	11.72p	11.
Dividends per share relating to reporting period	5.70p	5.
Funds under management	GBP256bn	GBP23

* Basis of preparation

Results bases

The EEV basis results have been prepared in accordance with the European

Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004. The basis of preparation of the statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2006 full year results and financial statements.

Operating profit based on longer-term investment returns

Consistent with previous reporting practice, the Group analyses its EEV basis results and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other constituent elements of total profit. On both the EEV and IFRS bases, operating earnings per share are calculated using operating profits from continuing operations based on longer-term investment returns, after tax and minority interests. These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. After adjusting for related tax and minority interests, the amounts for these items are included in the calculation of basic earnings per share.

For half year 2007, the EEV basis operating profit from continuing operations based on longer-term investment returns before tax of GBP1,326m includes a credit of GBP92m that arises from including the benefits, grossed up for notional tax, of altered corporate tax rates for the UK, Singapore and China. Further details are explained in note 7 to the EEV basis supplementary information.

Discontinued operations

The results for continuing operations shown above and throughout this announcement exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg Banking plc. Accordingly, the presentation of the comparative results for half year and full year 2006 has been adjusted from those previously published.

REVIEW OF OPERATING AND FINANCIAL RESULTS

RESULTS HIGHLIGHTS

	Half year 2007 GBPm	Half year CER 2006 GBPm	Change %	Ha ye RER (20 GB
Annual premium equivalent (APE) sales (1)	1,334	1,196	12%	1,2
Present value of new business premiums (PVNBP) (1)	9,681	9,300	4%	9,7
Net investment flows	5,047	5,198	(3%)	5,3
External funds under management	63,222	50,376	26%	51,0
New business profit (NBP) (1)	534	476	12%	5
NBP Margin (% APE) (1)	40%	40%		4
NBP Margin (% PVNBP) (1)	5.5%	5.1%		5.
EEV basis operating profit from long-term business from continuing operations (2) (3)	1,293	979	32%	1,0
Total EEV basis operating profit from continuing operations (3)(5)	1,326	952	39%	1,0
Total IFRS operating profit from continuing operations(3)(5)	601	473	27%	4
EEV basis shareholders' funds	13,412	10,726	25%	10,9
IFRS shareholders' funds	5,905	4,915	20%	5,0
Holding company cash flow	34	(94)	136%	(9

(1) The details shown include the effect of the bulk annuity transfer from the Scottish Amicable Insurance Fund (SAIF) to Prudential Retirement Income Limited in the first half of 2006, a shareholder owned subsidiary of the Group. SAIF is a closed ring-fenced sub-fund of the PAC long-term fund established by a court approved scheme of arrangement in September 1997, whose results are solely for the benefit of SAIF policyholders.

(2) Long-term business profits after deducting Asia development expenses and before restructuring costs.

(3) Based on longer term investment returns from continuing operations, as explained in the basis of preparation section shown below.

(4) Reported exchange rate (RER).

(5) The restructuring costs and operating loss for Egg for 2006 and the period of ownership in 2007, together with the profit on disposal, are included within discontinued operations

In the Operating and Financial Review (OFR), year-on-year comparisons of financial performance are on a constant exchange rate (CER) basis, unless otherwise stated.

Impact of currency movements

Prudential has a diverse international mix of businesses with a significant proportion of its profit generated outside the UK. In the first half of 2007, 64% of the Group's total EEV operating profit came from outside the UK. In preparing the Group's consolidated accounts, results of overseas operations are converted at rates of exchange based on the average of the year to date, whilst shareholders' funds are converted at period-end rates of exchange.

Changes in exchange rates from year to year have an impact on the Group's results when these are converted into pounds sterling for reporting purposes. In some cases, these exchange rate fluctuations can have a significant effect on reported results.

Consequently, the Board has for a number of years reviewed and reported the Group's international performance on a CER basis. This basis eliminates the impact from exchange translation.

In the Operating and Financial Review, period-on-period comparisons of financial performance are on a CER basis, unless otherwise stated.

Basis of preparation of results

The European Union (EU) requires that all listed European groups prepare their financial statements in accordance with EU approved IFRS. Since 1 January 2005, Prudential has been reporting its primary results on an IFRS basis and 2007 represents the third year in which the Group's financial statements have been prepared under IFRS.

In addition, as a signatory to the European Chief Financial Officers' (CFO) Forum's EEV Principles, Prudential has also been reporting supplementary results on an EEV basis for the Group's long-term business since 2005. These results are combined with the IFRS basis results of the Group's other businesses to provide a supplementary operating profit under EEV. Reference to operating profit relates to profit based on long-term investment returns. On both the EEV and IFRS bases, operating profits from continuing operations based on longer-term investment returns exclude short-term fluctuations in investment returns and shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profits based on longer-term investment returns also exclude the mark to market value movement on core borrowings and the effect of changes in economic assumptions and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

In broad terms, IFRS profits for long-term business contracts reflect the aggregate of statutory transfers from with-profits funds and profits on a traditional accounting basis for other long-term business. Although the statutory transfers from with-profits funds are closely aligned with cash flow generation, the pattern of IFRS profits over time from shareholder-backed long-term businesses will generally differ from the cash flow pattern. Over the life of a contract, however, aggregate IFRS profits will be the same as aggregate cash flow.

Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS does not, in Prudential's opinion, properly reflect the inherent value of these future profit streams.

Prudential believes that embedded value reporting provides investors with a better measure of underlying profitability of the Group's long-term businesses and is a valuable supplement to statutory accounts.

Sales and Funds under Management

Prudential delivered overall sales growth during the first half of 2007 with total new insurance sales up 12 per cent from the first six months of 2006 to GBP1.3 billion on the annual premium equivalent (APE) basis. At reported exchange rates (RER), APE sales were up 6 per cent on the same period in 2006. This is equivalent to insurance sales of GBP9.7 billion on a present value of new business premium basis ("PVNBP"), an increase of 4 per cent on 2006 at CER.

Total gross investment sales were GBP25 billion, up 55% per cent on the first half of 2006 at CER. Net investment sales of GBP5 billion were down 3% from net investment sales in 2006 at CER.

Total external funds under management increased by 10 per cent at RER from GBP57.2 billion at 31 December 2006, to GBP63.2 billion at 30 June 2007, reflecting net investment flows of GBP5 billion and net market and other movements of positive GBP1 billion.

At 30 June 2007, total funds under management were GBP256 billion, an increase of 2 per cent from 2006 year end at RER.

EEV basis operating profit from continuing operations

EEV basis operating profit from continuing operations	Half year 2007 GBPm	Half year CER 2006 GBPm	Change %	Half
Insurance business:				

UK	462	336	38%
US	344	316	9%
Asia	493	334	48%
Long-term business profit	1,299	986	32%
Asia development expenses	(6)	(7)	14%
Fund management business:			
M&G	140	100	40%
US broker-dealer and fund management	9	7	29%
Curian	(2)	(3)	33%
Asia fund management	33	20	65%
	180	124	45%
Other income and expenditure	(147)	(139)	(6%)
Total EEV basis operating profit from continuing operations	1,326	964	38%
Restructuring costs	0	(12)	100%
Total EEV basis operating profit from continuing operations after restructuring costs	1,326	952	39%

Total EEV basis operating profit from continuing operations based on longer-term investment returns was GBP1,326 million, up 39 per cent from the first half of 2006 at CER. At RER, the result was up 32 per cent. This result reflects profitable growth in the insurance and funds management businesses, and the benefit of positive operating assumption changes.

Prudential's insurance businesses achieved significant growth, both in terms of NBP and in-force profit, resulting in a 32 per cent increase in long term business profit over the first half of 2006 at CER.

In the first six months of 2007, the Group generated record NBP from insurance business of GBP534 million, which was 12 per cent above the same period in 2006 at CER, driven by strong sales momentum in the US and Asia, achieved without compromising margins. At RER, NBP was up 6 per cent. The average Group NBP margin was 40 per cent (2006 H1: 40 per cent) on an APE basis and 5.5 per cent (2006 H1: 5.1 per cent at CER) on a PVNBP basis. In-force profit increased 50 per cent on the first half of 2006 at CER to GBP765 million. In aggregate, net assumption changes were GBP95 million positive of which GBP92 million relates to lower tax rates in the UK and Asia. Experience variances and other items were GBP53 million positive. At RER, in-force profit was up 42 per cent.

Asia's development expenses (excluding the regional head office expenses) were GBP6 million, (2006 H1: GBP7 million at CER).

Results from the fund management business were GBP180 million (2006 H1: GBP124 million), up 45 per cent on the first half of 2006 at CER.

Other income and expenditure totalled a net expense of GBP147 million compared with GBP141 million in the first half of 2006 at RER. This result includes GBP17 million of costs for the Asia head office (2006 H1: GBP19 million at RER); GBP50 million for the Group head office costs (2006 H1: GBP46 million); and net interest expense on central borrowings and other items of negative GBP80 million (2006 H1: GBP76 million).

EEV basis profit before tax and minority interests from continuing operations

	Half year 2007 GBPm	Half year RER 2006 GBPm
Total EEV basis operating profit from continuing operations after restructuring costs	1,326	1,007
Short term fluctuations in investment returns:	241	73
UK	98	37
US	69	55
Asia	54	(34)
Other	20	15
Actuarial gains and losses on defined benefit pension schemes	125	246
Effect of change in economic assumptions:	253	(42)
UK	281	163
US	(46)	(141)
Asia	18	(64)
Effect of change in time value of cost of options and guarantees:	22	22
UK	15	4
US	8	19
Asia	(1)	(1)
Movement in mark to market value of core borrowings:	113	168
US	5	15
Other	108	153
Profit from continuing operations before tax	2,080	1,474

The following half year-on-half year comparisons are presented on a RER basis.

The EEV basis result before tax and minority interests was a profit of GBP2,080 million up 41 per cent on the first half of 2006.

This reflects in part an increase in operating profit from GBP1,007 million in the first six months of 2006 to GBP1,326 million for the same period in 2007.

The profit before tax also includes GBP241 million in short-term fluctuations in investment returns (2006 H1: GBP73 million), positive changes in economic assumptions of GBP253 million (2006 H1: negative GBP42 million) and the effect of change in time value of options and guarantees of positive GBP22 million (2006 H1: positive GBP22 million).

The UK long-term business component of short-term fluctuations in investment returns of GBP97 million (2006 H1: GBP34 million) primarily reflects the difference between the actual investment return for the with-profits life fund of 5.8 per cent (2006 H1: 4.2 per cent) and the long-term assumed return of 4.1 per cent for the first half of 2007.

The US long-term business short-term fluctuations in investment returns of GBP68 million include a net positive GBP30 million in relation to changed expectations of future profitability on variable annuity business in force due to the actual variable annuity investment account ('separate account') return exceeding the long-term return reported within operating profit, offset by the impact of the associated hedging position. It also includes a positive GBP38 million in respect of the difference between actual investment returns and long-term returns included in operating profit primarily in respect of equity based investments and other items.

In Asia, long-term business short-term investment fluctuations were GBP54million, compared to negative GBP34 million last year. This reflects strong equity market performance across the region particularly in Vietnam, Hong Kong and Singapore partially offset by Taiwan as a result of lower investment returns.

The half year 2007 shareholders' share of actuarial gains and losses on defined benefit schemes of GBP125 million reflects the increase in discount rate applied in determining the present value of projected pension payments from 5.2 per cent at 31 December 2006 to 5.8 per cent at 30 June 2007, offset by a shortfall of market returns over long-term assumptions due to the decrease in value of corporate and government bonds, which more than offset the increase in value of equity and property asset classes.

Positive economic assumption changes of GBP253 million in the first six months of 2007 compared with negative economic assumption changes of GBP42 million in the same period in 2006. Economic assumption changes in the first half of 2007 comprised positive GBP281 million in the UK, negative GBP46 million in the US and positive GBP18 million in Asia.

In the UK, economic assumption changes of positive GBP281 million reflect the impact of the increase in the future investment return assumption offset by the increase in the risk discount rates, mainly arising from the change in UK gilt rates.

In the US, economic assumption changes of negative GBP46 million primarily reflect an increase in the risk discount rates compared to the 2006 year end following an increase in the US 10-year Treasury rate, partially offset by an increase in the separate account return assumption.

In Asia, economic assumption changes were GBP18 million, due to a positive change in Hong Kong partially offset by negative effects in Malaysia and Singapore as a result of adjusting the projected investment returns and risk discount rates in these countries. Taiwan interest rates have increased ahead of our assumptions.

The change in the time value of cost of options and guarantees was positive GBP22 million for the half year (2006 H1: positive GBP22 million), consisting of GBP15 million, GBP8 million and negative GBP1 million for the UK, the US and Asia, respectively.

The mark to market movement on core borrowings was a positive GBP113 million (2006 H1: positive GBP168 million) reflecting the reduction in fair value of core borrowings due to increases in interest rates.

EEV basis profit after tax and minority interests

	Half year 2007 GBPm	Half year RER 2006 GBPm

Profit from continuing operations before tax	2,080	1,474
Tax	(545)	(387)
Profit from continuing operations after tax before minority interests	1,535	1,087
Discontinued operations (net of tax)	241	(34)
Minority interests	(1)	(1)
Profit for the period attributable to the equity holders of the Company	1,775	1,052

The following half year-on-half year comparisons are presented on a RER basis.

Profit for the period attributable to the equity holders of the Company was GBP1,775 million (2006 H1: GBP1,052 million). The tax charge of GBP545 million compares with a tax charge of GBP387 million in the first half of 2006. Minority interests in the Group results were GBP1 million (2006 H1: GBP1 million).

The effective tax rate at an operating tax level was 28 per cent (2006 H1: 30 per cent), generally reflecting expected tax rates. The effective tax rate at a total EEV level on profits from continuing operations was 26 per cent (2006 H1: 26 per cent) on a profit of GBP2,080 million.

On 29 January 2007, Prudential announced that it had entered into a binding agreement to sell Egg Banking plc to Citi. Under the terms of the agreement, the consideration payable to the Company by Citi was GBP575 million in cash, subject to adjustments to reflect any change in net asset value between 31 December 2006 and completion.

On 1 May 2007, Prudential completed the sale. The consideration, net of transaction expenses, was GBP527 million. The reduction from the GBP575 million noted above primarily reflects the post-tax loss of Egg Banking plc from 1 January 2007 to the date of sale of GBP49 million. The profit on sale was GBP290 million.

IFRS basis operating profit from continuing operations based on longer-term investment returns

IFRS basis operating profit based on longer-term investment returns	Half year 2007 GBPm	Half year CER 2006 GBPm	Change %	Hal R
Insurance business:				
UK	251	205	22%	
US	218	203	7%	

Asia	76	83	(8%)
Long-term business	545	491	11%
Asia development expenses	(6)	(7)	(14%)
Fund management business:			
M&G	140	100	40%
US broker-dealer and fund management	9	7	29%
Curian	(2)	(3)	33%
Asia fund management	33	20	65%
	180	124	45%
Other income and expenditure	(118)	(124)	5%
Total IFRS basis operating profit based on longer-term investment returns	601	484	24%
Restructuring costs	0	(11)	(100%)
Total IFRS basis operating profit based on longer-term investment returns after restructuring costs	601	473	27%

Group operating profit before tax from continuing operations based on longer-term investment returns on the IFRS basis after restructuring costs was GBP601 million, an increase of 27 per cent on the first six months of 2006 at CER. At RER, operating profit was up 21 per cent on the same period in the prior year.

Insurance business

In the UK, IFRS operating profit for the long-term business increased 22 per cent to GBP251 million in the first half of 2007. This reflected a 15 per cent increase in profits attributable to the with-profits business to GBP195 million, representing the continued strong investment performance of the Life Fund and its impact on terminal bonuses.

In the US, IFRS operating profit for long-term business was GBP218 million, up 7 per cent from GBP203 million in the first half of 2006 at CER. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS and the Group's basis of presenting operating profit based on longer-term investment returns. In determining the operating profit for US operations, longer-term returns for fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses. The growth in the US operations' long-term IFRS operating profit mainly reflects increased fee income. The fee income was driven by an increase in separate account assets held at the half year, and improved returns on these assets. Profits from the annuities spread business were broadly in line with prior year and continue to represent the key contributor to the overall IFRS operating profit. One-off items affecting the spread-based income were GBP14 million (2006 H1: GBP16 million at CER), net of DAC amortisation.

Prudential Corporation Asia's IFRS operating profit for long-term business, before development expenses of GBP6 million, was GBP76 million, an 8 per cent decrease on the first half of 2006 at CER. The fall in IFRS operating profits is due primarily to the expansion costs incurred in India to support its rapid growth. In the first half of 2007, India incurred losses of GBP17 million. Investment in India will continue throughout the remainder of 2007. The most significant contribution to operating profit continues to be from the established markets of Singapore, Malaysia and Hong Kong which represent GBP65 million of the total operating profit in 2007. There was a significant contribution from Indonesia as this operation continues to build scale, and also Taiwan. Five life operations made IFRS operating losses: China, India and Korea which are relatively new businesses rapidly building scale, Thailand, which is marginally loss making, and Japan, where Prudential continues to look for opportunities to increase the scale and profitability of its life business over the long term.

The profits and recoverability of deferred acquisition costs (DAC) in Taiwan are dependent on the rates of return earned and assumed to be earned on the assets held to cover liabilities and on future investment income and contract cash flows for traditional whole of life policies. No write-off of DAC was required in half year 2007 or 2006. At the 2006 year end it was estimated that if interest rates were to remain at then current levels in 2007 the premium reserve, net of DAC, would be broadly sufficient and that if interest rates were to remain at then current levels in 2008 then some level of write-off of DAC may be necessary. Indicatively the possible 2008 write-off was estimated as being in the range of GBP70-90 million. In the first half of 2007 bond yields increased by 0.5 per cent. With this effect and increases in the value of business in force in the six month period the outlook on recoverability has significantly improved. At 30 June 2007, if interest rates were to remain at current levels until the end of 2008, the premium reserve net of DAC would be at a level such that the likelihood of a need for a write-off of DAC in 2008 would be significantly reduced. The position in future remains sensitive to the above mentioned variables.

Fund management business

M&G's operating profit for the first half of 2007 was GBP140 million, an increase of 40 per cent over the GBP100 million recorded for the same period in 2006, due to strong net investment inflows and positive market conditions.

The operating profit from the US broker-dealer and fund management businesses was GBP9 million, a 29 per cent increase on the first half of 2006 (2006 H1: GBP7 million at CER). Curian recorded losses of GBP2 million in the first half of 2007, down from GBP3 million for the same period in 2006, as the business continues to build scale.

The Asian fund management operations reported an 65 per cent growth in operating profits to GBP33 million (2006 H1: GBP20 million) driven by strong contributions from the established markets of Hong Kong and Singapore. Hong Kong and Singapore account for 49 per cent of profit compared to 60 per cent a year ago, as newer operations such as India, Japan and Korea begin to make meaningful contributions.

IFRS basis profit before tax from continuing operations

Half

Operating profit from continuing operations
based on longer-term investment returns
Short-term fluctuations in investment returns
Shareholders' share of actuarial
gains and losses on defined benefit pension schemes
Profit before tax from continuing operations

The following half year-on-half year comparisons are presented on a RER basis.

Total IFRS basis profits before tax and minority interests were GBP728 million, compared with GBP737 million for the first half of 2006. The decrease reflects: an increase in operating profit of GBP103 million; a decrease in short-term fluctuations in investment returns, down GBP15 million from the first half of 2006; and a GBP97 million negative movement from the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes.

IFRS basis profit after tax

	Half
Profit before tax from continuing operations	
Tax	(
Profit from continuing operations after tax before minority interests	
Discontinued operations (net of tax)	
Minority interests	
Profit for the period attributable to equity holders of the Company	

The following half year-on-half year comparisons are presented on a RER basis.

Profit after tax and minority interests was GBP715 million compared with GBP449 million in the first half of 2006. The effective rate of tax on operating profits from continuing operations, based on longer-term investment returns, was 34 per cent (2006 H1: 33 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 35 per cent (2006 H1: 34 per cent). The effective tax rates in 2007 were broadly in line with those expected except for some Asian operations where there is a restriction on the ability to recognise deferred tax assets on regulatory basis losses.

On 29 January 2007, Prudential announced that it had entered into a binding agreement to sell Egg Banking plc to Citi. Under the terms of the agreement, the consideration payable to the Company by Citi was GBP575 million in cash, subject to adjustments to reflect any change in net asset value between 31 December 2006 and completion.

On 1 May 2007, Prudential completed the sale. The consideration, net of transaction expenses, was GBP527 million. The reduction from the GBP575 million noted above primarily reflects the post-tax loss of Egg Banking plc from 1 January 2007 to the date of sale of GBP49 million. The profit on sale was GBP290 million.

Earnings per share

The following half year-on-half year comparisons are presented on an RER basis.

Earnings per share for the first half of 2007, based on EEV basis operating profit from continuing operations after tax and related minority interests, were 39.4 pence, compared with 29.3 pence over the same period in 2006.

Earnings per share, based on IFRS operating profit from continuing operations after tax and related minority interests, were 16.3 pence, compared with 14.0 pence for the 2006 half year.

Basic earnings per share, based on total EEV basis profit after minority interests, were 72.8 pence, compared with 43.8 pence for the 2006 half year.

Basic earnings per share, based on IFRS profit after minority interests, were 29.3 pence, compared with 18.7 pence for the 2006 half year..

Dividend per share

The Board will focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium term a dividend cover of around two times is appropriate.

The directors recommend an interim dividend for 2007 of 5.70 pence per share payable on 24 September 2007 to shareholders on the register at the close of business on 17 August 2007, an increase of 5 per cent. The interim dividend for 2006 was 5.42 pence per share.

Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 30 June 2007 were GBP13.4 billion, an increase of GBP1.5 billion from the 2006 year-end level of GBP11.9 billion at RER. This 13 per cent increase primarily reflects: total EEV basis operating profit of GBP1,326 million; a GBP241 million favourable movement in short-term fluctuations in investment returns; a GBP275 million positive movement due to changes in economic assumptions and in time value of options and guarantees; a positive movement on the mark to market of core debt of GBP113 million; a positive movement in the actuarial gains on the defined benefit pension schemes of GBP125 million; GBP241 million from discontinued operations and GBP117 million from the issue of new share capital. These were offset by: a tax charge of GBP545 million; the negative impact of GBP65 million for foreign exchange movements, and dividend payments of GBP288 million made to shareholders.

The shareholders' funds at 30 June 2007 of GBP13.4 billion comprise GBP6.3 billion for the UK long-term business operations, GBP3.5 billion for the US long-term business operations, GBP2.9 billion for the Asian long-term business operations and GBP0.7 billion for other operations.

Within the embedded value for the Asian long-term business of GBP2.9 billion, the established markets of Hong Kong, Singapore and Malaysia account for GBP2.2 billion of the embedded value, with Korea (GBP233 million) and Vietnam (GBP222 million) making further substantial contributions. Prudential's other markets, excluding Taiwan, in aggregate account for GBP397 million of the embedded value. Taiwan has a negative embedded value of GBP157 million. This is an improvement from the reported negative GBP216 million at the 2006 year end.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 82 per cent and 8 per cent of new business APE in the first half of 2007, respectively. As a result, interest rates have little effect on new business profitability. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a GBP134 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by GBP83 million. If it had been assumed in preparing the half year 2007 results that interest rates remained at the current level of 2.5 per cent until 31 December 2008 and the progression period in bond yields was delayed by a year so as to end on 31 December 2014, there would have been a reduction in the Taiwan embedded value of GBP90m. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a 3 per cent decrease to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 30 June 2007 were GBP5.9 billion. This compares with GBP5.5 billion at 31 December 2006 at RER. The increase primarily reflects: profit after tax and minority interests of GBP715 million and new share capital of GBP117 million, offset by the impact of negative foreign exchange movements of GBP21 million, dividend payments to shareholders of GBP288 million, and the impact of unrealised holding losses on available for sale investments of GBP113 million.

Holding company cash flow

	Half y 2 G
Cash remitted by business units:	
UK life fund transfer	
US	
Asia	
M&G	
Total cash remitted to Group	
Net interest paid	(
Dividends paid	(2
Scrip dividends and share options	
Cash remittances after interest and dividends	
Tax received	
Corporate activities	(
Cash flow before investment in businesses	
Capital invested in business units:	
UK	(
Asia	(
Total capital invested in business units	(1
Increase/(Decrease) in cash	
Egg sale net proceeds	
Total holding company cash flow	

The table above shows the Group holding company cash flow. Prudential believes that this format gives a clearer presentation of the use of the Group's resources than the format of the statement required by IFRS.

The Group holding company received GBP422 million in cash remittances from business units in the first half of 2007 (2006 H1: GBP389 million) comprising the shareholders' statutory life fund transfer of GBP261 million from the UK business, and remittances of GBP86 million and GBP75 million from Asia and M&G respectively. A remittance of $230 million is expected from the US operations in the second half of 2007.

There was a strong scrip dividend take-up of GBP117 million, in respect of the 2006 final dividend. After net dividends and interest paid, there was a cash inflow of GBP179 million (2006 H1: GBP50 million).

During the first six months of 2007, the Group holding company paid GBP30 million (2006 H1: GBP24 million) in respect of corporate activities and received GBP24 million (2006 H1: GBP88 million) in respect of relief on taxable losses. The Group invested GBP139 million (2006 H1: GBP208 million) in its business units, comprising GBP69 million in its UK operations and GBP70 million in Asia. In the first half of 2007, Asia contributed a net remittance of GBP16 million to the Group holding company cash flow.

In addition, the Group received GBP527 million from the disposal of Egg (net of expenses).

In aggregate this gave rise to an increase in cash of GBP561 million (2006 H1: GBP94 million decrease). Excluding the Egg sale proceeds, cash increased by GBP34 million.

Depending on the mix of business written and the opportunities available, cash invested to support the UK business in 2007 is expected to be less than in 2006, up to GBP160 million and with the expectation that the UK shareholder backed business will become cash positive in 2010.

Taking into account plans for future growth, a normalised level of scrip dividend, the reducing UK capital requirement and increased remittances from the other life and asset management operations it is also expected that the operating cash flow of the Group holding company will be positive in 2008.

BUSINESS UNIT REVIEW

Insurance Operations

United Kingdom

1. Market review and summary of strategy

During the first half of 2007 Prudential UK pursued its retirement-led strategy, focusing on profitable opportunities in its chosen product areas and distribution channels, and declining to write low margin or low persistency business. The success of this strategy is reflected in the financial performance for the first six months of the year with APE Retail sales increasing by 10 per cent at a new business margin of 32 per cent.

The business is continuing to target capital efficient returns through selective participation in the Retail Retirement and Wholesale markets while delivering embedded value through its Mature Life and Pensions business.

The UK continues to be an attractive market for long-term savings, fuelled by an ageing demographic profile and increased life expectancy. The proportion of the UK's population aged 65 and over is expected to grow by some 2 million over the next 10 years, while the average life expectancy of a 65 year old man has improved by 3.5 years to 82 compared with a 65 year old man retiring 20 years ago. In addition, much of the nation's wealth is concentrated in older segments of the population, with many having benefited from rising property prices over the last 30 years. However, the majority still have insufficient savings to provide for the same standard of living during retirement as they have enjoyed while working.

Growth in equity markets recently and simpler pension regulation following A-Day in April 2006, have created positive conditions for growth in the Life and Pensions market.

Prudential's UK insurance operations are structured into three business areas: Retail Retirement, Wholesale and Mature Life and Pensions.

The Retail Retirement business aims to grow a profitable and sustainable franchise focused on retirement leadership. By building on Prudential UK's brand strength and core capabilities in multi-asset management and asset allocation, providing strong investment performance at lower volatility, and longevity risk management, it is able to offer unique solutions to customers who are saving for retirement and seeking to turn their wealth into income in retirement.

Prudential UK has a significant pipeline of customers with maturing pensions business over the next 25 years from policies sold through, among other channels, its direct sales-force prior to 2001 and under the old Scottish Amicable brand. By providing competitive annuities to these existing customers and to new customers from financial advisers and partnership arrangements, Prudential UK has built a leading presence in the retirement income market. It is at the forefront of the development of asset-backed retirement income solutions, building on the success of its with-profits annuity, which provides customers with an income linked to potential growth from equity investment but without the volatility. In the first half of 2007, Prudential UK added an option to accept pensions with protected rights and will continue to develop new solutions in this important market.

Prudential UK is also developing its capability in the Lifetime Mortgage market, for customers who want to remain in the family home while drawing additional income to support their retirement. In building its proposition in this market, Prudential has established a dedicated sales-force (there are currently 30 fully trained advisers with a plan to increase this further), as well as selling this product via financial advisors. The UK will continue to extend its capabilities in this market through further product innovation in the fourth quarter of this year. Prudential now has outstanding loans of over GBP160 million on its balance sheet and has grown its market share to 12.5 per cent at the end of the first quarter.

Prudential UK is continuing to deliver significant volume and hence operational scale in the corporate pensions market as it also reduces the costs associated with the distribution and administration of this business. Business volume in corporate pensions has increasingly been delivered in recent years through larger scheme wins and Prudential is now more selective, choosing not to write lower margin business.

Within retirement savings, Prudential is building on its market leading propositions. These provide access to strong investment returns with lower volatility, by adding guarantees that help consumers, particularly those approaching or at retirement, to safeguard their savings while still benefiting from investment growth, such as the capital guarantee offered on PruFund.

The Wholesale operation, which has been in operation for over 10 years, has around 1,100 people years of experience and more than 400 bulk buy-outs already written, has a strong track record in the risk management of pension schemes for corporate clients and insurers wishing to reduce or eliminate their investment and longevity liabilities. In the first quarter of 2007, Prudential reached agreement in principle with Equitable to acquire Equitable's book of in-force with-profit annuities. The transaction is expected to complete in the fourth quarter of 2007. Prudential UK will continue to compete selectively in this market, only writing business at prices that deliver an adequate return. The UK business remains confident in the long-term outlook in the bulk and back-book wholesale market where nearly GBP900 billion of assets are held in defined benefit schemes and insurers' back-book annuities.

Prudential UK is continuing to deliver embedded value through its Mature Life and Pensions business. It has set a target to reduce per policy unit processing costs over and above the cost reduction required to reduce costs in line with the expected run-off of policies on these closed books of business and is evaluating the best route for achieving this which will include one or all of internal cost cutting, further off-shoring or out-sourcing.

Prudential welcomes the Retail Distribution Review Discussion Paper, which has recently been published by the Financial Services Authority. This is in line with Prudential's strategy which is focused on building strong longer-term relationships with advisers and offering market-leading retirement solutions. Prudential has already taken significant steps to improve its distribution model by moving some of its products to a 'Factory Gate Price' basis, where the costs for intermediary services are separated from the costs of the product. As the advice costs are negotiated and paid separately, this method of pricing has also been termed Customer Agreed Remuneration. Factory gate pricing delivers more capital efficient volume through intermediary partners as the commission costs are no longer funded at outset from shareholder capital. Prudential has re-aligned its account managers to provide an even more focused service across accounts seeking to build deeper relationships with those distributors who are moving to "wealth adviser" models. More than half of Prudential UK's top 100 advisors have changed compared to last year, reflecting our focus on switching to value-creating accounts.

Through PruHealth, its joint venture with Discovery, the leading South African health insurer, Prudential UK is building a health insurance business which rewards those customers who lead healthier lives through the 'Vitality' points system. PruHealth is on track to meet its target of becoming a significant player in the private healthcare market with insured lives of more than 117,000 up 31 per cent on the 2006 year-end position.

The joint venture is being expanded to include Prudential UK's protection product, expanding 'Vitality' across both health and life insurance products later in 2007.

2. Financial results and performance

	Half Year 2007 GBPm	Half Year CER 2006 GBPm	Change	Half RER
Sales				
APE retail sales	358	325	10%	
APE total sales	363	484	(25%)	
PVNBP	2,905	4,224	(31%)	4
NBP retail	115	95	21%	
NBP total	108	138	(22%)	
NBP retail margin (% APE)	32%	29%		
NBP total margin (% APE)	30%	29%		
Operating Profits				
Total EEV basis operating profit *	462	336	38%	
Total IFRS operating profit *	251	205	22%	

* Based on longer-term investment returns

Prudential UK delivered a strong performance in the first half of 2007 including:#

- Retail sales were up 10 per cent on the first half of 2006
- New business Retail profits increased 21 per cent on the first half of 2006
- Retail new business margins were strong at 32 per cent
- The Wholesale business announced an agreement in principle to acquire Equitable's portfolio of in-force with-profits annuities
- In-force profits increased 79 per cent on first half of 2006
- IFRS profits increase by 22 per cent on first half of 2006
- The initial phase of the cost reduction programme to deliver annual savings of GBP115 million is on schedule to be achieved by the end of 2007. An update on the second phase (GBP80 million) will be given in the fourth quarter of 2007

Retail APE sales of GBP358 million were 10 per cent higher than during the same period in 2006. This growth was driven by strong performance in individual annuities, corporate pensions and with-profits bonds. Total UK APE sales in the first half were GBP363 million, a decrease of 25 per cent year-on-year. However, the first half of 2006 included two large back book annuity deals totalling

GBP128 million and also GBP31 million of credit life sales under a contract with Lloyds TSB that was not renewed in 2007. On a PVNBP basis, new business sales were GBP2.9 billion compared with GBP4.2 billion in the same period last year.

Individual annuities continued the strong performance experienced in the first quarter with total sales for the half-year of GBP140 million, up 23 per cent on the same period last year. This performance was driven by the strength of Prudential's internal vestings (up 11 per cent) with sales from its direct channel and partnership deals with Zurich, Pearl and Royal London gathering momentum (up 59 per cent compared with the same period in 2006). Prudential and Save & Prosper signed an agreement in 2006 under which Save & Prosper will offer Prudential's conventional annuity product to customers with maturing Save & Prosper pensions. The 5-year agreement went live on 18 June 2007.

The with-profits annuities market continues to grow with increased consumer recognition for the need to protect retirement income against inflation during increasingly longer retirement periods. Prudential UK remains the leading player in this market with APE sales 51 per cent higher than for the same period last year. This was aided by strong relationships with Openwork. The new enhancements Prudential UK made to the product in the first quarter (adding the facility to accept Protected Rights monies, which was a first in the with-profit annuity market) has been well received and has delivered more than expected.

The UK business continues to increase its presence in the lifetime mortgage market. Illustrations and applications continued to increase with GBP67 million of new loans advanced to customers in the first 6 months of 2007. This represents a 123 per cent increase on the GBP30 million advanced for the same period in 2006.

With-profits bond sales continue to increase on the back of continued strong investment performance. At the half-year, APE sales of GBP17 million were 47 per cent higher than during the same period in 2006. The overall with-profits bond market has been steadily increasing since the fourth quarter of 2005 (Q4 2005 sales through financial advisors of GBP6.7 million compared with GBP15.7 million APE in Q1 2007) and Prudential UK continues to write approximately half of with-profits bonds sold through financial advisors in the UK. Approximately 45 per cent of sales have been made with a capital guarantee, for which an additional charge is made.

APE sales of corporate pensions grew to GBP124 million, a rise of 28 per cent on the GBP97 million written in the first half of 2006. Sales of the shareholder-backed defined contribution proposition grew to GBP40 million, while sales of the legacy DC and AVCs grew 16 per cent to GBP71 million as AVC sales continued to flourish on the back of A-day. Prudential continues to be a market leader in AVCs, supporting major customers through its comprehensive sales capability existing in the work-place. Corporate pensions also continue to be an important source for Prudential's future annuity business.

PruHealth has continued to make encouraging progress during the first half of 2007. Gross written premiums have increased by 91 per cent to GBP32 million compared with the comparative period last year. PruHealth has extended its distribution footprint through a partnership with Boots the Chemist, and quotes and applications under this agreement have been building steadily during the second quarter. Importantly, PruHealth's lapse and claim ratios are in line with expectations.

Retail new business profits increased by 21 per cent to GBP115 million. Retail performance was driven by increased sales of high margin business, predominately of individual annuity business, and the cessation of writing low margin business. This has led to overall margins increasing to 30 per cent, with a Retail margin of 32 per cent being achieved. Total new business profits for the first half of GBP108 million were 22 per cent below the level achieved over the same period in 2006. However 2006 included significant profits relating to the Royal London and SAIF back-book transactions, and Lloyds TSB credit life profits.

A 15 per cent average IRR was achieved on new business written for the first half of 2007.

EEV basis operating profit based on longer-term investment returns of GBP462 million, were 38 per cent up on the same period last year. In-force profits were 79 per cent higher than 2006, primarily due to the increase in profits arising from the unwind of the discount from the in-force book and the effect of the change in the UK corporation tax rate. The unwind of the discount increase of GBP59 million reflects a higher opening embedded value and increases in risk discount rates.

Changes to operating assumptions of GBP68 million included a benefit of GBP67 million being the effect of a reduction in the corporation tax rate from 30 per cent to 28 per cent.

Prudential UK continues to progress its cost saving programme and by the end of 2007 the initiatives will be in place to deliver the initial GBP115 million of annual savings (of the total of GBP195 million target), which is already reflected in the current assumptions. Prudential UK continues to actively manage the retention of the in-force book. Following the strengthening of persistency assumptions in 2005, overall experience continues to be in line with assumptions.

Other charges of GBP30 million were below those incurred in the same period of 2006. These are mainly costs associated with new product and distribution development and certain costs associated with complying with regulatory change.

IFRS profits of GBP251 million increased by 22 per cent. This reflected a 15 per cent increase in profits attributable to the with-profits business, to GBP195 million, representing the continued strong investment performance of the Life Fund and its impact on terminal bonuses.

Financial Strength of the UK Long Term Fund

The fund is very strong. On a realistic basis, with liabilities recorded on a market consistent basis, the inherited estate of the fund is estimated to be valued at around GBP9.5 billion before a deduction for the risk capital margin.

In the first half of the year, the performance of the Prudential's with-profits life fund has benefited from its exposure to strongly performing equity markets around the world at the expense of global bond markets. The Fund returned 5.8 per cent gross in the first half of the year.

Recently, the decision was taken by the Fund's investment managers to partially hedge its exposure to credit risk. Since 2002, the Fund has taken a strategic exposure devoid of government bonds and encompassing a sizeable low investment grade and high yield credit component. This has proved a very successful strategy.

Given the stretched level of credit spreads around mid-year, the decision was taken to hedge the entirety of the Funds High Yield and a substantial proportion of its Sterling, Euro and Dollar BBB credit exposure, using highly liquid iTraxx and CDX index credit default swap (CDS) contracts. Around GBP4 billion nominal contracts were transacted in the second half of June in respect of the Prudential and Scottish Amicable Funds. Although, given recent market events, these derivative positions are well in the money, it is the intention to hold them for some time.

The PAC long-term fund is rated AA+ (stable outlook) by Standard & Poor's, Aa1 (negative outlook) by Moody's and AA+ (stable outlook) by Fitch Ratings.

3. Outlook and forthcoming objectives

As announced in the first quarter of 2007, an agreement in principle was reached for Prudential to acquire Equitable's portfolio of in-force with-profit annuities, a book of 62,000 policies with assets as at 31 December 2006 of approximately GBP1.7 billion. This transaction demonstrates Prudential's ability to grow its with-profits fund to create value for both its policyholders and shareholders. This transaction, which is subject to certain conditions including a vote among Equitable's policyholders as well as regulatory and court approval, is expected to complete in the fourth quarter at which time the sale and associated profit will be recognised.

Prudential UK has entered into an agreement with Barclays under which it will be the preferred supplier of conventional annuity products to Barclays' retail customers in the UK. Prudential will establish an annuities desk within its PruDirect distribution business through which Barclays customers can enquire about the range of annuity options and product features that are available to them. The agreement will take effect later in 2007 and run for five years.

In addition Prudential UK has been chosen as the main provider on Thinc group's new adviser-service, Annuity Desk. The service will allow Thinc advisers, who do not advise on annuity business, to refer their customers' annuity needs to

PruDirect.

In line with our strategy of building on the core capability of asset allocation which has driven the exceptional investment performance for the Life Fund over recent years, Prudential UK has launched two multi-asset funds during the first half of 2007 - the Cautious Managed Growth Fund and the Managed Defensive Fund. These two new funds are available within Prudential's collectives, pension, onshore and offshore bond product ranges.

As Prudential has avoided business with lower expected persistency, to increase profitability, unit-linked bond sales remained subdued, with Prudential signalling its intention to progressively withdraw from the traditional provider funded commission arena to improve the quality of its book. A new factory gate priced onshore bond will be available during August.

Prudential has committed to a GBP195 million cost saving programme. Much of this cost will be saved within Mature Life and Pensions, which encompasses products that are not actively marketed to customers and in long term decline. As explained above, plans to achieve these cost savings are being developed both internally and with third parties, with the expectation that significant savings will be delivered through a decision to either outsource or offshore roles in operations and overhead areas and simplify the systems and technology required to manage these policies. Together these actions will ensure that Prudential continues to deliver in-force profit at least in line with current assumptions. As previously announced, the savings, net of restructuring costs, are expected to result in a small positive assumption change on an EEV basis, estimated to be around GBP60 million. A decision on the option selected to deliver the further GBP80 million cost savings is scheduled to be made during the fourth quarter of 2007.

By the end of 2007, the initiatives will be in place to deliver the initial GBP115 million of this annual target which is already reflected in the current assumptions.

Total restructuring costs of GBP 57 million have been incurred in 2006 in respect of the annual GBP115 million savings target (GBP 34 million of the costs related to shareholders on an EEV basis). Further costs of approximately GBP18 million are expected to be incurred by the end of 2007, bringing the total cost to approximately GBP75 million.

Prudential UK will continue to focus on growth opportunities to deliver capital efficient returns and will seek to maintain an aggregate IRR of at least 14 per cent on new business.

United States

1. Financial results and performance

	Half Year 2007 GBPm	Half Year CER 2006 GBPm	Change	Half RER
PVNBP	3,490	2,915	20%	3
APE sales	352	294	20%	
NBP	144	122	18%	
NBP margin (% APE)	41%	41%		
Total EEV basis operating profit *	344	316	9%	
Total IFRS operating profit *	218	203	7%	

* Based on longer-term investment returns and excluding broker-dealer and fund management operations and Curian

Jackson, Prudential's US insurance business, provides retirement savings and income solutions in the mass and mass-affluent segments of the US market, primarily to near and post-retirees. The United States is the largest retirement savings market in the world, and as 78 million baby boomers born between 1946 and 1964 begin to move into retirement, annual retirement distributions are expected to increase to more than $1 trillion per year by 2012.

Jackson's primary focus is manufacturing high-margin, capital-efficient products, such as variable annuities (VA), and marketing these products to advice-based channels through its relationship-based distribution model. In developing new product offerings, Jackson leverages its low-cost, flexible technology platform to manufacture innovative, customisable products that can be brought to the market quickly.

Jackson had a strong first half of the year delivering APE sales of GBP352 million, up 20 per cent on last year with strong new business profit margins at 41 per cent. PVNBP sales were GBP3.5 billion.

Jackson again delivered record variable annuity sales of GBP2.2 billion during the first half of 2007, up 31 per cent on last year and, in the first quarter of 2007, recorded its twelfth consecutive quarter of variable annuity market share growth. This reflects its distinct competitive advantages of an innovative product offering, a relationship-driven distribution model, award-winning service as well as an efficient and flexible technology platform.

Jackson's variable annuity sales result was achieved in a market that grew 6 per cent year-on-year through the first quarter of 2007. Jackson increased its variable annuity market share to 5.1 per cent as at the end of the first quarter of 2007, up from 4.6 per cent at the end of 2006, and maintained its ranking of 12th in total variable annuity sales. In the independent broker-dealer distribution channel, Jackson's variable annuity sales during the first quarter of 2007 increased 32 per cent over the same period in 2006, while industry sales grew 16 per cent. Jackson maintained its number 2 ranking in the channel at the end of March 2007 and increased its market share to 11.7 per cent from 10.8 per cent at year end 2006.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness. In April, Jackson added a number of features to its variable annuity key offering: three new guaranteed minimum withdrawal benefits (GMWBs), a new guaranteed minimum accumulation benefit (GMAB), and several new portfolio investment options.

In the first quarter of 2007, Jackson continued its track record of product innovation by launching a set of retail mutual funds for distribution by existing wholesalers. Jackson's new mutual funds are marketed as an additional option for financial advisors selling variable annuity products.

At the 2007 half year, Jackson had GBP39.8 billion in US GAAP assets, an increase of GBP2.7 billion at CER compared to 2006 year end and up from GBP35.2 billion 12 months ago. Total assets include GBP13.6 billion in the separate accounts that back the variable portion of variable life and annuity contracts, an increase of GBP2.5 billion compared to the 2006 year-end and up from GBP8.8 billion 12 months ago, further diversifying Jackson's earnings towards fee-based income. At 30 June 2007, Jackson's investment portfolio of GBP23.3 billion included asset-backed securities with a total of GBP252 million exposure to sub prime residential mortgages, including GBP8 million held within collateralised debt obligation (CDO) structures. All of these securities are triple-A rated.

The increased variable annuity APE sales more than offset a reduction in APE sales of fixed index annuities, which were down 19 per cent to GBP22 million. Fixed annuity APE sales increased 4 per cent to GBP29 million.

Entry spreads for fixed annuities continued to be challenging during the first half of the year, which limited the attractiveness of the market to Jackson. To the end of March 2007 the traditional deferred fixed annuity market was down 25 per cent from the same point in the prior year while Jackson's market share grew from 2.8 per cent to 3.6 per cent over the same period.

Fixed index annuity sales continued to be impacted by the uncertain regulatory environment in the US, with total market sales to March 2007 down 9.5 per cent from the prior year while Jackson's market share grew from 3.4 per cent to 3.5 per cent over the same period.

Institutional APE sales of GBP67 million, a market in which Jackson participates on an opportunistic basis, were up 14 per cent from the prior year.

New business profit of GBP144 million was 18 per cent above the prior year, reflecting a 20 per cent increase in APE sales with margins of 41 per cent in line with the prior year figure.

Total EEV basis operating profit for the US insurance operations at the half year 2007 was GBP344 million compared to GBP316 million in the prior year at CER. In-force EEV profits of GBP200 million were 3 per cent higher than prior year profit, primarily reflecting an increase in the unwind of the in-force business during the first half of 2007 resulting from a higher opening embedded value and a higher aggregate risk discount rate on the in-force business. Spread variance of GBP53 million is broadly in line with that of prior year (GBP55 million at CER) and includes GBP23 million of non-recurring items (2006: GBP28 million at CER).

Jackson IFRS operating profit was GBP218 million, up 7 per cent on the prior year. The driver of this growth was higher fee income from the variable annuity business driven by higher separate account assets given the growth in variable annuity sales and market appreciation. While the fee-based business represents the key driver of growth in IFRS operating profit, the in-force block of spread-based business continues to deliver the majority of profits. Profits from the annuity spread-based business were broadly in line with prior year.

2. Outlook and forthcoming objectives

Jackson continues to deliver profitable growth in the attractive US market and enhance its competitive advantages in the variable annuity market. With a continued focus on product innovation, a proven relationship-based distribution model, award winning service and excellence in execution, Jackson is well positioned to take advantage of the changing demographics and resulting opportunities in the US market.

Asia

1. Financial results and performance

	Half Year 2007 GBPm	Half Year CER 2006 GBPm	Change	Half RER
PVNBP	3,286	2,161	52%	2
APE sales	619	418	48%	
NBP	282	216	31%	
NBP margin (% APE)	46%	52%		
Total EEV basis operating profit *	493	334	48%	
Total IFRS operating profit *	76	83	(8%)	

* Based on longer-term investment returns and excluding fund management operations, development and Asia regional head office expenses.

Prudential has increased the pace of growth in Asia delivering strong, broad based and profitable growth from its Asian life operations through a combination of freshly invigorated multi-channel distribution, innovative product design and insightful marketing.

Average new business growth accelerated to 48 per cent, up on the first half of 2006 on an APE basis at GBP619 million and this boosted the five year compound annual growth rate (CAGR) to 29 per cent. The second quarter included the impact of an exceptionally successful retirement campaign in Taiwan. This is not expected to generate the same level of growth over the full year. Average new business profit margin on APE at 46 per cent compares to 52 per cent for the same period last year with the change being principally driven by a shift in geographic mix accounting for 4 per cent of the change and product mix the remaining 2 per cent. Profit margin for the full year is expected to remain at or around this level. The proportion of linked business remains high at 72 per cent and, as has been the case in the past, this has been unaffected by the equity market fluctuations seen earlier on this year.

In-force EEV profits at GBP211 million are increasing steadily with the realisation of value inherent in the business; operating variances remain small, but the first half of 2007 saw positive assumption changes of GBP34 million primarily following corporation tax changes in Singapore and China. On the IFRS basis operating profits for the half year of GBP76 million are down 8 per cent on the first half 2006, due to increased losses in India and to a lesser extent China, as Prudential continues to invest in building the branch networks, offsetting profits from the more established operations including a particularly strong result from Taiwan. Korea continues to record IFRS losses as a result of new business strain. Continuing the trend seen in 2006, Prudential received a net remittance of GBP16 million capital in the first half of 2007 from Asia after including injections totalling GBP40 million into China, India and Korea.

A key driver of the new business growth in the first half was the launch of a new variable annuity product and the very successful launch of the 'What's your number?' retirement planning initiative in Taiwan, replicating the success of this initiative in Hong Kong and Korea. New business APE for Taiwan in the second quarter was exceptional and 246 per cent higher than the same period last year. New business volumes are expected to revert to more normal levels during the second half of 2007. The new business profit margin on the VA products is lower than regular unit linked business and, together with the launch incentives, this has lowered the average margin from 52 per cent for the first half last year to 42 per cent.

Prudential's Indonesian life business continues to maintain its robust growth with a 57 per cent increase in first half new business. Since 2002 this business has been growing at a CAGR of 54 per cent. With APE of GBP47 million for the half year the operation is becoming a material contributor to total new business. The business now has 40,000 agents and is currently growing this base at around a net 1,000 per month. The life insurance market in Indonesia is still very much in its infancy and this business has considerable long term potential. This business made an IFRS profit during the first half and remitted GBP11 million of surplus capital.

In China, growth remains on track at 57 per cent with APE of GBP22 million, although agency recruitment is currently challenging, particularly in Guangzhou and Beijing. China is also a recipient of capital from the Group to support growth and geographic expansion. China's new business profit margin in the first half of 2007 decreased by two percentage points to 44 per cent compared to 46 per cent in 2006 due to a higher proportion of unit-linked business.

The life joint venture with ICICI in India continues to grow apace with new business APE for the first half 2007 of GBP83 million for Prudential's 26 per cent stake, up 54 per cent compared to the same period in 2006, with the number of branches now 583 compared to 256 this time last year. Agent numbers have similarly increased and there are now over 244,000 agents across the country. The CAGR for this business over the last five years has been 107 per cent and it now has 3.4 million customers. New business profit margins in India remain the lowest in the region and averaged 20 per cent for the first half 2007. This pace of growth is capital intensive and the lower margin products means more shareholder support is required than in other markets. In the first half of 2007 India incurred IFRS operating losses of GBP17 million. Investment in India will continue throughout the remainder of 2007.

In Hong Kong, despite this market being deemed mature and competitive, new business growth continues to accelerate, up 45 per cent on the same period last year. This is in part driven by successful marketing campaigns with the continuation of 'What's your number?' and the 'Double Treasure Income Plan' bancassurance promotion with Standard Chartered Bank (SCB). Average new business margins remain satisfactory at 62 per cent, down from 67 per cent in 2006 due to a higher proportion of unit-linked business as a result of the 'What's Your Number?' retirement campaign. IFRS profits were in line with 2006 reflecting higher new business strain from a higher proportion of linked business.

Singapore's first half new business growth in 2007 on an APE basis was 27 per cent. Two new pilot health products were successfully launched in Singapore in May as part of Prudential's regional initiative in this area and so far 15,000 proposals have been received.

Korea had a slower first half in 2007 compared to previous years with new business growth at a modest 18 per cent principally due to the first quarter where, as previously reported, there were some market related issues around unit-linked products, increased competition in the general agent channel and lower agent recruitment. During the second quarter, the business improved strongly, being up 31 per cent on the same quarter last year. A new distribution agreement with Korea Bank got underway in the second quarter. New business profit margins in Korea are relatively low and were 33 per cent compared to 38 per cent at the same time last year as a result of product mix changes. Korea is a recipient of capital injections to fund its growth.

Malaysia grew at 10 per cent for the first half of 2007, however senior management remain confident the business will continue to accelerate during the second half following a second quarter that was up 25 per cent on the first quarter.

Japan Life reported new business APE of GBP16 million, up around 5 times the half year 2006 level. New business profit margins in Japan are currently negative as the expense base remains high relative to the current scale of the business. As previously reported, Prudential continues to look for opportunities to increase the scale and profitability of its Japanese life business over the long term.

Prudential's other markets of the Philippines, Thailand and Vietnam collectively grew by 29 per cent with some encouraging signs of growth in Vietnam up 6 per cent after several years of decline and strong growth in Thailand at 78 per cent with the success of the call centre.

In summary, Prudential continues its excellent track record of building a profitable business in Asia.

2. Outlook and forthcoming objectives

Prudential continues to deliver strong, broad based and profitable growth in Asia from its well established platform. The demographics and environment in Asia remain as compelling as ever and the business is expected to carry on growing at a fast pace.

The objectives going ahead are to continue to focus on building agency scale, particularly in the huge markets of India, China and Indonesia, and to increase productivity in other markets. Prudential remains unique amongst the regional players in Asia with a proven approach to partnership distribution and this will continue to be expanded.

There is also the opportunity to deepen and strengthen relationships with the over 8.5 million customers already on the books using a disciplined and systematic approach. Work is already underway in this area and pilot schemes are scheduled for later this year in a number of markets.

The retirement opportunity is clear and Prudential has already demonstrated its ability to successfully package and promote retirement accumulation products through the 'What's your number?' campaign. The next stage is to build on this with a retirement solution that covers not just accumulation, but also drawdown and associated protection needs.

Prudential has not leveraged its strengths to building scale direct distribution as yet and this will be a priority in the future. A new regional team is being assembled to drive this initiative

Prudential will also be re-examining its approach to health products as there are significant opportunities to create value to shareholders and customers above and beyond what is already being done. A new regional team is developing the approach and has already piloted initiatives in Singapore and most recently India.

The business remains well on track to deliver its target of at least doubling 2005 new business profits of GBP413m by 2009.

Asset Management

Global

The Prudential Group's asset management businesses are contributing to the Group in two ways. Not only do they provide value to the insurance businesses within the Group, but also are important profit generators in their own right, with low capital requirements and generating significant cash flow for the Group.

The asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services (RFS) markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths, but are increasingly working together by managing money for each other with clear regional specialism, distributing each others' products and sharing knowledge and expertise, such as credit research.

Each business and its performance for the first half of 2007 is summarised below.

M&G

1. Financial results and performance

	Half Year 2007 GBPm	Half Year CER 2006 GBPm	Change	Half
Net investment flows	3,367	3,595	(6)%	
Total IFRS operating profit	140	100	40%	

M&G is Prudential's UK and European fund management business and has GBP168 billion of funds under management, of which GBP119 billion relates to Prudential's long-term business funds. M&G aims to maximise profitable growth by operating in areas of the retail and wholesale markets where it has a leading position and competitive advantage, including retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

M&G is made up of three distinct and autonomous businesses - Retail, Wholesale and Prudential Capital - each with its own strategy for the markets in which it operates. M&G's retail strategy is to maximise the leverage of its strong investment performance, efficient operating platform and multi-channel distribution in the UK, Europe and Asia. M&G's wholesale strategy is twofold: to add value to its internal clients through investment performance, liability matching and investment in innovative and attractive areas of capital markets and to utilise the skills developed primarily for internal funds to build new business streams and diversify revenues. Prudential Capital manages Prudential's balance sheet for profit.

M&G delivered significant profit growth during the first six months of 2007. Operating profits, which include performance related fees (PRF), increased 40 per cent to GBP140 million compared to the same period last year. Underlying profits, excluding PRF, were GBP127 million, an increase of 40 per cent. This continues M&G's strong profit growth that has seen underlying profits increase fourfold over the past five years. Profit growth in the first half was generated on the back of rising market levels, strong net inflows across the UK and international markets and improved deal flow in Prudential Capital. First half profits were boosted by GBP5 million of non-recurring items and M&G also expects to incur a number of anticipated project costs in the second half. PRF and carried interest during the first six months was GBP13 million, an increase of 51 per cent on last year.

Strong fund performance led to record gross fund inflows of GBP7.5 billion, up 11 per cent on the same period last year. Net fund inflows of GBP3.4 billion were the second highest ever achieved in a first half, but were slightly down on last year largely due to reduced inflows into lower margin institutional areas such as traditional segregated bond funds. External funds under management grew by 8 per cent to GBP49 billion from the end of 2006 and represent over a quarter of M& G's total funds under management.

In the retail marketplace, continued high demand for M&G's high alpha equity and competitive fixed income and property offerings led to record gross fund inflows of GBP4.5 billion, up 26 per cent on the first half last year. Net fund inflows in the first six months were GBP1.7 billion, equalling last year's record.

Excellent retail sales momentum continued in the UK, with gross fund inflows increasing by 23 per cent and net inflows up 7 per cent compared with the same period last year. M&G was also named Best Overall Large Group at the 2007 Lipper Awards.

Growth was also strong in international markets. In Europe, where M&G is maximising the opportunity created by the continued opening of markets to foreign players, gross fund inflows increased by 15 per cent. While net fund inflows reduced by 25 per cent as a result of asset allocation shifts by European investors in the wake of equity market falls in late February, sales in May and June have been exceptionally strong. Asian markets, where M&G distributes funds in partnership with Prudential Corporation Asia (PCA), also saw significant growth with net inflows up 56 per cent in the first half compared to 2006. M&G's international markets now account for some 70 per cent of net retail fund inflows.

In its wholesale markets, M&G saw a continued shift towards higher margin products during the first half of 2007 and a fall in lower margin business such as traditional segregated bond funds. As a result, total gross institutional fund inflows fell by 6 per cent to GBP3.0 billion and net inflows fell 13 per cent to GBP1.6 billion.

However, gross fund inflows into higher margin products, such as leveraged loans, collateralised debt obligations (CDOs), infrastructure finance and the Episode global macro hedge fund, more than doubled during the first six months of the year and represented over half of all institutional flows. Net fund inflows into these areas more than tripled compared to the same period last year, producing a more profitable sales mix. The first half of the year has also seen M&G's infrastructure fund, InfraCapital, grow substantially, completing purchases of the Isle of Wight ferry business, Red Funnel, and investing in Zephyr, one of the UK's largest wind farm operators.

2. Outlook and forthcoming objectives

Looking ahead, M&G's priorities continue to be to deliver investment outperformance to its clients, extend distribution through existing channels and exploit new opportunities, and to leverage its scale and capabilities to develop innovative products for the retail and wholesale marketplaces.

Asia

1. Financial results and performance

	Half Year 2007 GBPm	Half Year CER 2006 GBPm	Change	Half Y 2 G
Net investment flows	1,662	1,603	4%	1,
Total IFRS operating profit	33	20	65%	

The Asian asset management business continues to deliver record net inflows. Net inflows of GBP1.7 billion were up 4 per cent on the same period in 2006. Of the GBP1.7 billion in net inflows, GBP1.3 billion was in longer term equity and fixed income products and GBP0.4 billion was in shorter term money market funds. Third party funds under management in Asia at the half year were GBP14.6 billion, up 42 per cent compared to the end of the first half of 2006. The main contributors to the growth were Japan, India, Korea and Taiwan.

PCA Asset Management Korea successfully launched the China A-Share fund under the Qualified Foreign Institutional Investor ("QFII") scheme and raised over GBP50 million in the second quarter of 2007. Introduced in May 2002, the QFII scheme allows qualified foreign institutional investors direct participation in China's domestic "A" share equity and fixed income markets.

Our innovative product strategy continues to deliver strong growth in net inflows for our operation in Japan. We have reached a significant milestone with our PCA India Infrastructure Equity Fund, which has now become our third POIT (Publicly Offered Investment Trust) crossing the Yen 100 billion mark (GBP 400 million). This makes us one of only three foreign asset management companies that have attained this achievement in Japan.

In Taiwan, PCA Securities Investment Trust (PSIT) had a successful launch of the Asian Infrastructure Fund, raising over GBP210 million. This is PSIT's third consecutive fund launch that has hit the fund cap and the success of these fund launches is evidence that the combination of providing innovative products together with a sound distribution strategy is working well in Taiwan. Following the successful product launches, PSIT's retail FUM has grown to over GBP1.9 billion up 68 per cent on the first half of 2006. In terms of overall domestic fund market ranking, PSIT's ranking has improved from 9th to 5th in the overall market. This increased the number of our funds operations in top five market positions from four to five as at the end of May 2007.

Our fund management businesses in India (ICICI Prudential Asset Management) and Singapore (Prudential Asset Management Singapore) both won Gold Awards in the Reader's Digest Trusted Brand Awards 2007. The top award being Gold for brands which score clearly above their competitors based on consumers' surveys. This achievement represents consumers' confidence in our brand and services in both markets.

Total funds under management as at 30 June 2007 were GBP32.8 billion, up 34 per cent on the first half of 2006. Operating profits grew 65 per cent, compared to the first half of 2006, to GBP33 million (2006 H1: GBP20 million) driven by strong contributions from the established markets of Hong Kong and Singapore. Hong Kong and Singapore account for 49 per cent of profit compared to 60 per cent a year ago, as newer operations such as India, Japan and Korea begin to make meaningful contributions.

2. Outlook and forthcoming objectives

Prudential remains confident that its fund management business is ideally positioned to capitalise on the opportunities to grow this business strongly and profitably.

United States

US broker dealer, fund management and Curian

1. Financial results and performance

	Half Year	Half Year CER	Change	Half

2007 2006

Funds under management (GBPbn)
Fund Management (PPMA) low:hidden;font-size:10pt;">

36,639
4

*

Ronald M. Bentley

47,923
12

1.02
%
Bruce W. Boyea

3,424
8

*

David J. Dalrymple

368,478
5

7.85
%
Robert H. Dalrymple

280,563
6

5.98
%
Clover M. Drinkwater

11,163

*

William D. Eggers

12,401
7

*

Stephen M. Lounsberry III

15,567
8

*

John F. Potter

55,443
8, 9

1.18
%
Eugene M. Sneeringer Jr.

68,435
10

1.46
%
Robert L. Storch

3,630
15

*

Richard W. Swan

76,033
11

1.62
%
Kevin B. Tully

0
14

*

G. Thomas Tranter Jr.

13,129

*

Thomas R. Tyrrell

3,599

*

Richard G. Carr

8,219[12]

*

Karl F. Krebs

3,601[12]

*

Karen R. Makowski

8,800[12]

*

Melinda A. Sartori

7,993[12]

*

Anders M. Tomson

16,984[12]

*

Directors and executive officers as a group (20 persons)

1,042,023[13]

22.21%

*Less than 1% based upon 4,691,564 outstanding as of March 14, 2016[1]

Under Rule 13d-3 of the Exchange Act, a person is considered a beneficial owner of a security if he/she has or shares voting power or investment power over the security or has the right to acquire beneficial ownership of the security within 60 days from the date of this filing. "Voting Power" is the power to vote or direct the voting of shares. "Investment Power" is the power to dispose or direct the disposition of shares.

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Held by the Bank in various fiduciary capacities, either alone or with others. Includes 19,125 shares held with sole voting and dispositive powers and 386,559 shares held with shared voting power. There are 231,943 shares held with shared dispositive powers. Shares held in a co-fiduciary capacity by the Bank are voted by the co-fiduciary in the same manner as if the co-fiduciary were the sole fiduciary. Shares held by the Bank as sole trustee will be voted by the Bank only if the trust instrument provides for voting of the shares at the direction of the grantor or a beneficiary and the Bank actually receives voting instructions.

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3 The Plan participants instruct the Bank, as trustee, how to vote these shares. If a participant fails to instruct the voting of the shares, the Bank votes these shares in the same proportion as it votes all of the shares for which it receives voting instructions. Plan participants have dispositive power over these shares subject to certain restrictions. This number does not include Messrs. Bentley, Krebs, Carr and Tomson and Madams Makowski and Sartori as their shares are reported in the table below.

4 Includes 13,007 shares held directly and 50% of the 47,265 shares held by Windsor Glens Falls Partnership LLC of which Mr. Becker is a general partner.

5 Includes 12,186 shares held directly; 21,350 shares held in trust over which Mr. Dalrymple has voting and dispositive powers; and, 334,942 shares held by the Dalrymple Family Limited Partnership of which David J. Dalrymple and his spouse are general partners.

6 Includes 244,182 shares held directly; 754 shares held in trust over which Mr. Dalrymple has voting and dispositive powers; and 24,758 shares held by Dalrymple Holding Corporation of which Robert H. Dalrymple is an officer, director and 50% principal shareholder. Includes 10,869 shares held by Mr. Dalrymple's spouse as to which he disclaims beneficial ownership.

7 Includes 7,754 shares held directly and 4,647 shares held by Mr. Eggers' spouse as Trustee FBO Mr. Eggers' daughter as to which Mr. Eggers disclaims beneficial ownership.

8 Excludes shares that Messrs. Boyea (1,819), Lounsberry (13,518) and Potter (30,704) have credited to their accounts in memorandum unit form under the Corporation's Directors' Deferred Fee Plan. The deferred fees held in memorandum unit form will be paid solely in shares of the Corporation's common stock pursuant to the terms of the Plan and the election of the Plan participants. Shares held in memorandum unit form under the Plan have no voting rights.

9 Includes 46,204 shares held directly and 9,238 shares held by Mr. Potter's spouse, as to which Mr. Potter disclaims beneficial ownership.

10 Includes 56,319 shares held directly and 12,116 shares owned by Mr. Sneeringer's spouse, as to which Mr. Sneeringer disclaims beneficial ownership.

11 Includes 33,988 shares held directly and 33,255 shares held in four trusts over which Mr. Swan has voting and dispositive power. Includes 4,316 shares held in trust for the benefit of Mr. Swan, as income beneficiary, and 4,474 shares held by Mr. Swan's spouse as to which Mr. Swan disclaims beneficial ownership to both.

12 Includes all shares of common stock of the Corporation held for the benefit of each executive officer by the Bank as trustee of the Bank's Profit Sharing, Savings and Investment Plan. Messrs. Bentley, Carr, Krebs, Tomson, Mrs. Makowski and Mrs. Sartori own 10,824, 3,713, 592, 4,741, 3,644 and 5,601 shares, respectively.

13 Includes 41,269 shares owned by spouses of certain officers and directors of which such officers and directors disclaim beneficial ownership.

14 Mr. Tully joined the Board on March 16, 2016.

15 Mr. Storch retired as a director on May 7, 2015.

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INFORMATION REGARDING THE BOARD

Board Organization and Operation

Chemung Financial is managed under the direction of its Board. All members of the Board also serve on the Board of the Bank. The Board establishes policies and strategies and regularly monitors the effectiveness of management in carrying out these policies and strategies. Members of the Board are kept informed of the Corporation's business activities through discussions with key members of the management team, by reviewing materials provided to the Board and by participating in meetings of the Board and its committees. The Board consists of fourteen members. The Company separates the roles of CEO and Chairman of the Board, which provides the appropriate balance between strategy development and independent oversight of management. The CEO is familiar with the Corporation's business and industry and is responsible for identifying strategic priorities and leading the discussion and execution of strategy. The Chairman of the Board presides at all executive sessions of the Board, facilitating teamwork and communication between management and the Board, while providing guidance to the CEO. Mr. David J. Dalrymple served as Chairman of the Board in 2015.

The Company's Governance Guidelines require that the Board consist of a majority of independent directors. Based upon a review of the responses of the directors to questions regarding affiliations, compensation history, employment, and relationships with family members and others, the Board determined that all directors except for Mr. Bentley meet the independence requirements of applicable laws and rules and NASDAQ listing requirements as determined by the Nominating and Governance Committee. A copy of the Corporate Governance Guidelines can be viewed on the Bank's website at:

• https://www.snl.com/IRWebLinkX/corporateprofile.aspx?iid=100690.

During 2015, the Board of the Corporation held twelve meetings. The Board of the Bank also held twelve meetings in 2015. Each director attended at least 75% of the total Board meetings and meetings of the Board committees on which he or she served.

Board Committees

The committees of the Corporation's Board are the Executive, Audit and Risk Management, Compensation and Personnel, and Nominating Committee.

Executive Committee: This committee serves in a dual capacity as the Executive Committee for the Corporation and the Bank. The Executive Committee may, during the interval between Board meetings, exercise all of the authority of the Board, except those powers that are expressly reserved to the Board under law or the Corporation's bylaws. In 2015, members of the Executive Committee included Messrs. D. Dalrymple (Chair), Bentley, R. Dalrymple, Swan and Ms. Drinkwater. There was one meeting of the Executive Committee in 2015.

Audit and Risk Management Committee: The responsibilities of the Audit and Risk Management Committee (the "Audit Committee") include the appointment of independent auditors, the pre-approval of all audit and non-audit services performed by the Corporation's independent auditors, the review of the adequacy of internal accounting and disclosure controls of the Corporation and the oversight of risk management. All Audit Committee members are independent as defined by applicable laws and regulations. In 2015, members of the Audit Committee included Messrs. Becker (Chair), Eggers, Potter, Sneeringer and Tranter. Mr. Becker served as the Audit Committee's "financial expert." The Audit Committee determined that Mr. Becker met all required qualifications within the meaning of pertinent regulations. There were five meetings of the Audit Committee in 2015. See the Audit Committee Report on page 31.

A copy of the Audit and Risk Management Committee Charter can be viewed on the Bank's website at:

- https://www.snl.com/IRWebLinkX/corporateprofile.aspx?iid=100690

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Compensation and Personnel Committee: The primary responsibilities of the Compensation and Personnel Committee (the "Compensation Committee") are to exercise authority, in its sole discretion, to retain and terminate, or obtain the advice of, any adviser to be used to assist it in the performance of its duties, but only after taking into consideration factors relevant to the adviser's independence from management as specified in NASDAQ Listing Rule 5605(d)(3), or any successor provision thereto; discharge the Board's duties relating to the compensation of the executive officers, including recommending to the Board the compensation of the CEO; review the Bank's compensation policies and programs affecting other employees; review management's proposals for the election and promotion of officers and make recommendations to the Board; monitor compensation trends; and, select a peer group of companies against which to compare the Bank's compensation for the CEO, executive officers and chief auditor. The Compensation Committee met five times in 2015. The members of the Compensation Committee meet the independence requirements of applicable laws and rules as determined by the Board. In 2015, members of the Compensation Committee included Messrs. Lounsberry (Chair), D. Dalrymple, R. Dalrymple, Eggers, Sneeringer and Swan.

A copy of the Compensation and Personnel Committee Charter can be viewed on the Bank's website at:

- https://www.snl.com/IRWebLinkX/corporateprofile.aspx?iid=100690.

Nominating and Governance Committee: The Nominating and Governance Committee consists of Messrs. Eggers (Chair), D. Dalrymple, R. Dalrymple, Lounsberry, Potter, Tyrrell and Ms. Drinkwater. The Nominating and Governance Committee met three times in 2015. The members of the Nominating and Governance Committee meet the independence requirements of applicable laws and rules as determined by the Board. In general, the Nominating and Governance Committee oversees the Corporation's corporate governance matters on behalf of the Board and is responsible for the identification and recommendation of individuals qualified to become members of the Board. The Nominating and Governance Committee's functions include: (i) identifying, evaluating and recommending qualified director nominees; (ii) considering shareholder nominees for election to the Board; (iii) reviewing the Nominating and Governance Committee structure and making recommendations to the Board for committee membership; (iv) recommending corporate governance guidelines to the Board; and (v) overseeing a self-evaluation process for the Board and its committees.

The Nominating and Governance Committee reviews annually with the Board the composition of the Board as a whole and considers whether the Board reflects an appropriate balance of knowledge, experience, skills, expertise and diversity. Among other factors, the Committee looks for director nominees who know the communities and industries that the Corporation serves. The Committee utilizes the following process when identifying and evaluating the individuals that it recommends to the Board as director nominees:

- The Committee reviews the qualifications of each candidate who has been properly recommended or nominated by the shareholders, as well as those candidates who have been identified by management, individual members of the Board or, if the Committee determines, a search firm.

- The Committee evaluates the performance and qualifications of individual members of the Board eligible for re-election at the annual meeting of shareholders.

- The Committee considers the suitability of each candidate, including the current members of the Board, in light of the current needs of the Board. In evaluating the suitability of the candidates, the Committee considers many factors including character, judgment, independence, business expertise, experience, other commitments, and such other factors as the Committee determines are pertinent. Diversity of experience, skills, gender, race, ethnicity and age are factors, among others, considered in this process.

- After such review and consideration, the Nominating and Governance Committee recommends that the Board select the slate of director nominees.

Shareholder recommendations for nominees to the Board must be directed in writing to the Corporate Secretary, One Chemung Canal Plaza, Elmira, New York 14901, and must include: (i) the name and address of the shareholder proposing a nominee for consideration; (ii) the number of shares owned by the notifying shareholder and the date the shares were acquired; (iii) any material interest of the notifying shareholder in the nomination and a statement in support of the nominee with references; (iv) the name, age, address and contact information for each proposed nominee; (v) the principal occupation or employment of each proposed nominee; (vi) the number of shares of the Corporation's common stock that are owned by the nominee as of a record date; (vii) detailed information about any relationship or understanding between the proposing shareholder and the nominee; (viii) detailed information of any relationship between the nominee and the Corporation within the last three years; and, (ix) other information regarding the nominee as would be required to be included in the Proxy Statement pursuant to Regulation 14A of the Exchange Act.

Chemung Financial's bylaws establish an advance notice procedure with regard to certain matters, including shareholder proposals and director nominations, which are properly brought before an annual meeting of shareholders. To be timely, a shareholder's notice must be delivered to or mailed and received at the Company's principal executive offices not less than 120 calendar days prior to the date Proxy Statements were mailed to shareholders in connection with the previous year's annual meeting of shareholders. In the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's Proxy Statement, notice by the shareholder to be timely must be so received a reasonable time before the solicitation is made.

A copy of the Nominating and Governance Committee Charter can be viewed on the Bank's website at:

• https://www.snl.com/IRWebLinkX/corporateprofile.aspx?iid=100690.

Compensation of Directors

The Compensation Committee periodically reviews the compensation of the Board and makes recommendations to the full Board with respect to the type and amounts of compensation payable to the directors for service on the Boards of Chemung Financial and the Bank and the respective Board committees.

Each non-employee director of the Corporation receives an annual retainer of $5,500. Each non-employee director receives a fee of $400 for each meeting of the Board and its committees attended and the chair of each committee receives $500 for each committee meeting attended. The Chairman of the Board receives an additional annual retainer of $2,750. One fee is paid for attendance at meetings that serve both the Corporation and the Bank. Mr. Bentley receives no cash compensation for his services as a director.

The Directors' Deferred Fee Plan allows non-employee directors of each of Chemung Financial and the Bank to elect to defer receipt of fees payable to the director for service as a member of the Board of Directors of each Chemung Financial and the Bank. At the election of a director, the deferred fees are converted into units and allocated to a unit value account, which appreciates or depreciates, as would an actual share of common stock of the Corporation. A director's unit value account is credited with declared dividends pursuant to a formula described in the Plan. The units are paid to the director in the form of common stock of the Corporation. The common stock of the Corporation payable under the Directors' Deferred Fee Plan is paid to the director, either at a specified age or time elected by the director, at the termination of the director's service with Chemung Financial and/or the Bank, or upon the occurrence of a change in control as defined in the Directors' Deferred Fee Plan. The number of shares of common stock of the Corporation payable to a director with a unit value account under the Plan represents at all times a general unfunded obligation of the Bank, and each director participating in the Directors' Deferred Fee Plan will be a general creditor of the Bank with respect to the value of his or her unit value account.

Pursuant to the provisions of the Chemung Financial Corporation Directors' Compensation Plan, additional compensation is paid to each non-employee director in shares of the Corporation's common stock in an amount equal to the total amount of cash fees earned by each director during the year, valued as of December 31, and paid in January. For his service as a director on the respective Boards of the Corporation and the Bank, Mr. Bentley is paid a director's fee in shares of common stock of the Corporation in an amount equal in value to the average cash compensation awarded to non-employee directors who served as directors for twelve (12) months in the previous year.

Director Compensation Table

Directors	Fees Earned or Paid in Cash	Number of Shares Awarded [1]	Market Value of Shares [2]	Total
Larry Becker	$18,900	689	$18,900	$37,800
Bruce W. Boyea	$15,900	579	$15,900	$31,800
David J. Dalrymple	$25,150	916	$25,150	$50,300
Robert H. Dalrymple	$20,600	750	$20,600	$41,200
Clover M. Drinkwater	$16,700	608	$16,700	$33,400
William D. Eggers	$22,700	827	$22,700	$45,400
Stephen M. Lounsberry III	$22,300	812	$22,300	$44,600
John F. Potter	$19,800	721	$19,800	$39,600
Eugene M. Sneeringer Jr.	$17,100	623	$17,100	$34,200
Robert L. Storch[3]	$7,150	261	$7,150	$14,300
Richard W. Swan	$21,600	787	$21,600	$43,200
G. Thomas Tranter Jr.	$17,100	623	$17,100	$34,200
Thomas R. Tyrrell	$17,100	623	$17,100	$34,200

(1) The total number of shares awarded are determined by dividing the total amount of the annual retainer and fees by the grant price of the shares, as described in footnote (2) below. Any fractional shares are rounded up to the next whole share.

(2) These amounts are based on the grant price of the shares, which is determined as the average of the closing prices of a share of the Corporation's common stock as quoted on the NASDAQ Stock Market for each of the prior thirty trading days ending on December 31, 2015. Pursuant to this formula, the rounded, per share market value is equal to $27.47.

(3) Mr. Storch retired as a director on May 7, 2015.

Communicating with the Board

Shareholders may communicate in writing with the Board or with individual directors by contacting the Corporation's Corporate Secretary at Chemung Financial Corporation, One Chemung Canal Plaza, Elmira, New York 14901. The Corporate Secretary will relay the question or message to the specific director identified by the shareholder or, if no specific director is requested, to the CEO.

Directors Attendance at Annual Meetings

The Corporation does not have a formal policy regarding attendance by a member of the Board at the Corporation's annual meeting. The Corporation will continue to encourage such attendance. In 2015, twelve directors attended the Annual Meeting of Shareholders.

The Board's Role in Risk Oversight

The Board has charged the Audit Committee with the oversight of risk management including cybersecurity risk. In 2009, the Board created the position of Chief Risk Officer (the "CRO") reporting to the CEO and the Audit Committee. The CRO is responsible for developing and maintaining a comprehensive process for identifying, assessing, monitoring, and reporting key risks to the organization. The CRO ensures that risk limits are appropriate for the nature and complexity of the Bank's business activities and are consistent with the risk parameters established by the Board. The CRO makes regular reports to the Board and Audit Committee regarding the status of risk management.

As it relates to the risks inherent in the Corporation’s incentive compensation plans, Audit Committee meetings are held to determine if the Corporation’s incentive compensation plans encourage excessive risk-taking. At the present time, the Audit Committee and the Board do not believe these plans create risks that are reasonably likely to have a material adverse effect on the Corporation due to the existence of internal controls and the fact that the incentive payments comprise a moderate portion of employees’ total compensation. See the “Compensation Discussion and Analysis” section for more information about the Corporation’s incentive compensation plans.

PROPOSAL 2:
APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION
OF THE NAMED EXECUTIVE OFFICERS

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) added Section 14A to the Exchange Act, which requires the Corporation to provide our shareholders an opportunity to vote to approve, on a non-binding advisory basis, the compensation of our NEOs (Say-On-Pay), as disclosed in this Proxy Statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission (“SEC”). As described in greater detail under the heading “Compensation Discussion and Analysis”, the Corporation seeks to align the interests of our NEOs with the interests of the shareholders.

This vote is advisory, which means that the vote on executive compensation is not binding on the Corporation, our Board or the Compensation Committee of the Board. The vote on the resolution is not intended to address any specific element of compensation, but rather relates to the overall compensation of the Corporation’s NEOs, as described in this Proxy Statement in accordance with the compensation disclosure rules of the SEC. At the 2015 annual meeting, shareholders voted to approve the compensation program of the Corporation’s NEOs for the fiscal year ended December 31, 2014, including 2014 bonuses that were paid in 2015. The Corporation asks that shareholders again vote to approve the Corporation’s compensation program for its NEOs as described in this Proxy Statement.

The compensation of the Corporation’s NEOs is disclosed in the Compensation Discussion and Analysis, the summary compensation table and the other related tables and narrative disclosures contained elsewhere in this Proxy Statement. As discussed in those disclosures, the Board believes that our executive compensation philosophy, policies, and procedures provide a strong link between each NEOs’ compensation and our short and long-term performance. The objective of our executive compensation program is to provide compensation which is competitive based on our performance and aligned with the long-term interest of our shareholders.

The Corporation asks shareholders to indicate their support of our NEOs’ compensation as described in this Proxy Statement. This proposal will be presented at the Annual Meeting as a resolution in substantially the following form:

“RESOLVED, that the Company’s shareholders approve, on a non-binding advisory basis, the compensation of the Company’s NEOs, as disclosed in the Corporation’s Proxy Statement for the 2016 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the Summary Compensation Table and narrative discussion, and other related tables and disclosure.”

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE, ON A NON-BINDING ADVISORY BASIS, “FOR” THE APPROVAL OF THE COMPENSATION OF OUR NEOS, AS DISCLOSED IN THIS PROXY STATEMENT

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Committee

The Compensation Committee, currently consisting of Directors Lounsberry (Chair), D. Dalrymple, R. Dalrymple, Eggers, Sneeringer and Swan, met five times in 2015. The members of the Committee meet the independence requirements of applicable laws and rules as determined by the Board.

Compensation Philosophy and Objectives

As discussed previously, the Compensation Committee reviews and administers the Corporation's compensation policies and practices for the NEOs. The NEOs named in the Summary Compensation Table are: Ronald M. Bentley, CEO; and Karl F. Krebs, Executive Vice President, Chief Financial Officer and Treasurer. The other NEOs are: Bank executive officers Richard G. Carr, Karen R. Makowski, Melinda A. Sartori and Anders M. Tomson. Any reference to NEOs in this Proxy Statement is to the individuals listed in the preceding sentence.

The Corporation's compensation philosophy is designed to attract, motivate and retain highly qualified financial services' professionals capable of maximizing business performance for the benefit of shareholders. The Compensation Committee believes in a simple, straightforward approach to executive compensation and, therefore, has limited the number and types of plans used to compensate NEOs, as discussed below in the Elements of Compensation subsection.

The Bank's compensation plans are designed to reward NEOs for satisfying both Bank and individual performance goals. In 2015, compensation components of NEO compensation consisted of: 1) base salary; 2) short and long term performance-based incentives; and 3) retirement and other benefits. The Compensation Committee reviews quantitative and qualitative/subjective measures before applying its judgment to determine appropriate compensation for its NEOs. As a result, incentive plan pay is not tied directly to any specific set of metrics. As such, the Compensation Committee has not established rigid formulas for the allocation between cash and non-cash components, the allocation of short-term and long-term equity incentive compensation, or the percentage by which other NEOs' compensation opportunity should be in relation to the CEO's compensation. In 2015, the relationship between the NEOs' total compensation (base salary plus cash and stock-based incentive compensation) and the Corporation's financial results demonstrates the alignment the Corporation has established between pay and business performance. At the annual meeting of shareholders in 2015, shareholders approved NEO compensation as in effect in fiscal year ended December 31, 2014. The Compensation Committee considered the shareholders' positive vote in determining NEO compensation in 2015.

Setting Executive Compensation

The Compensation and Personnel Committee engaged McLagan to conduct an Executive Compensation Review in 2015. After receiving the Report of Findings from McLagan, the Bank's peer group for compensation of the executive officers and the peer group for financial benchmarking are now one in the same as reflected below.

The Compensation Committee analyzes and uses compensation data provided by a peer group comprised of banks in the Northeast, New York and Pennsylvania with assets between $1.0 - $3.6 billion (plus Tompkins Financial Corporation due to location). The Compensation Committee believes that the total compensation paid to the NEOs in 2015 approximates the average total compensation for similar positions at the peer banks. The following is the peer group used in 2015: ACNB Corp., AmeriServ Financial Inc., Arrow Financial Corp., Bar Harbor Bankshares, Bridge Bancorp Inc., Bryn Mawr Bank Corp., Camden National Corp., Citizens & Northern Corp., Civista Bcshs Inc., CNB Financial Corp., Codorus Valley Bancorp Inc., Enterprise Bancorp Inc., Farmers National Banc Corp., Financial Institutions Inc., First Bancorp Inc., First of Long Island Corp., Franklin Financial Services, Merchants Bancshares Inc., Orrstown Financial Services, Peoples Bancorp Inc., Suffolk Bancorp, Tompkins Financial Corp., Univest Corporation of Pennsylvania, Washington Trust Bancorp. The Company does not target any specific element of compensation to compare to amounts paid by the peer group with respect to that element. Rather, the Company uses the peer bank data to inform it of the pay levels and practices of the Bank's peers as they most closely represent the labor market in which the Bank competes for key talent. Informed by this data, the Compensation Committee's goal is to provide a competitive level of total compensation targeted at the average level of comparably-sized financial institutions. In 2015, the total compensation for the NEOs approximates the average of the peer group.

Elements of Compensation

In 2015, the Company's mix of base salary and incentive compensation places the average variable pay received by NEOs, other than the CEO, at approximately 37% of the NEOs' base salary. The CEO's incentive pay, comprised of cash and unrestricted stock, represented approximately 66% of his base pay. Awards under the incentive plans are based on the Compensation Committee's independent business judgment after evaluating the performance of each executive officer against pre-established Bank and individual goals. The Compensation Committee regularly reviews these elements of compensation in order to ensure that, as a whole, they conform to the Corporation's philosophy and objectives.

Base Salary: Base salary paid to executives is reviewed against market on an annual basis. Base salary levels reflect the Compensation Committee's perceived value of the position, both in the context of the market data for similar positions, as well as the individual fulfilling the duties of the position. Mr. Bentley reviews the base salaries of the other NEOs with the Compensation Committee and a recommendation for approval is submitted to the full Board. The recommendations are based upon an evaluation process, which includes professional and leadership performance as well as the attainment of goals set forth in the Corporation's annual business plan.

The actual base salaries for 2015 are reported in the Summary Compensation Table on page 20. Similarly in December 2015, the Compensation Committee reviewed the NEOs' base salaries utilizing the same methodology (relevant market data and individual performance) and increased the base salaries as follows: Mr. Carr $0; Mr. Krebs $6,180; Mrs. Makowski $5,681; Mrs. Sartori $0; and, Mr. Tomson $90,938 (when he became President & COO of the Bank). Mr. Carr and Mrs. Sartori retired on December 31, 2015.

The Compensation Committee conducts an annual performance review of the CEO. The CEO's performance objectives are defined consistent with, and in support of, the Bank's annual business plan. Performance is also measured against progress towards the attainment of the Bank's long-term strategic plan. These goals include, but are not limited to, metrics related to net income, return on equity, efficiency, asset quality, bank performance against a peer group and progress in achieving long-term strategic objectives. For purposes of comparing the relevant financial metrics, the peer group consists of publicly traded banks in the Northeast, New York and Pennsylvania with total assets between $1.0 to 3.6 billion (plus Tompkins Financial Corp. due to location). In 2015 the following banks were included in the peer group: ACNB Corp., AmeriServ Financial Inc., Arrow Financial Corp., Bar Harbor Bankshares, Bridge Bancorp Inc., Bryn Mawr Bank Corp., Camden National Corp., Citizens & Northern Corp., Civista Bcshs Inc., CNB Financial Corp., Codorus Valley Bancorp Inc., Enterprise Bancorp Inc., Farmers National Banc Corp., Financial Institutions Inc., First Bancorp Inc., First of Long Island Corp., Franklin Financial Services, Merchants Bancshares Inc., Orrstown Financial Services, Peoples Bancorp Inc., Suffolk Bancorp, Tompkins Financial Corp., Univest Corporation of Pennsylvania, Washington Trust Bancorp.

In January 2016, the Compensation Committee determined that Mr. Bentley achieved his 2015 goals and he received a base salary increase of $12,250. Based on a similar assessment of the CEO's performance in 2014, the Compensation Committee increased Mr. Bentley's base salary by $12,750 in 2015. The total base salary earned by Mr. Bentley in 2015 is reported in the Summary Compensation Table on page 20.

Short and Long-Term Performance-Based Incentive Compensation: The Bank has created incentive compensation plans to motivate and reward senior officers (including the NEOs) for achieving predefined goals. The Compensation Committee and the Board do not subscribe to formula-driven incentive plans, but believe in maintaining discretion over the payment of incentive compensation. This discretion permits the Compensation Committee to make compensation decisions in the best interests of the Corporation and shareholders when events beyond the control of management positively or negatively influence financial results. In such circumstances, the Compensation Committee may reduce or increase incentive payments but in no event may the payments be materially greater than the levels described below. Each executive officer's incentive award opportunity is not limited to a specified percentage of the incentive pool.

The Compensation Committee and the Board do not believe these incentive plans are reasonably likely to have a material adverse effect on the Corporation. These plans are believed to be of low risk as they provide for payments that comprise a moderate percentage of total compensation and, therefore, do not encourage excessive risk taking. Furthermore, the Corporation has decided to limit equity incentive awards to restricted stock grants, thereby reducing any motivation to take unnecessary or excessive risk to increase the Corporation's stock price, as may be the case with stock options. Additionally, restricted stock awards are not tied to formulas that could focus NEOs on only short-term results. Finally, these programs generally conform to sound incentive compensation policies as prescribed by the Federal Reserve Board.

The Compensation Committee employs cash and restricted stock awards to recognize significant efforts or individual contributions of senior officers, including the NEOs. In determining these awards, many factors are considered including, but not limited to, the Corporation's net earnings vs. original plan, the financial results delivered by the senior officer's division against goal, service quality results vs. goal, individual success in implementing business plan initiatives, and other contributions made by the senior officer to the Bank's success. The senior officers eligible for an award, the criteria used to determine individual awards, and actual awards are reviewed with the Compensation Committee. There is no expectation that these awards will be paid each year. In 2014, the Corporation established a cash bonus pool representing 30% of the aggregate base salaries of participants and a restricted stock pool representing 20% of the aggregate base salaries of participants. In 2015, the cash awards were $350,000 and the value of the restricted stock awards were $210,000, for a total of $560,000 representing approximately 22% of the aggregate base salaries of plan participants. As previously stated, these two components of incentive compensation for NEOs (other than the CEO and the President & COO) represent approximately 37% of the NEO's base salary.

The following paragraphs provide a further description of these plans.

Chemung Financial Corporation Amended and Restated Restricted Stock Plan (the "Restricted Stock Plan"): In 2010, the Board approved a Restricted Stock Plan for officers of the Bank, excluding the CEO. The Board may make discretionary grants of restricted shares of the Corporation's common stock to officers selected to participate in the Plan. The Board believes that these awards: 1) align the interests of the Bank's executives and senior managers with the interests of the Bank and its shareholders; 2) ensure that the Corporation's compensation practices are competitive and comparable with its peers; and 3) promote retention of select management level employees. The awards are based on the performance, responsibility and contributions of the NEOs and other senior officers. Mr. Bentley recommends the number of shares to be awarded to senior officers, including the NEOs, which is subject to the approval of the Compensation Committee and the Board. The awards may not exceed 15,000 shares per year in the aggregate. Fifteen senior officers including Mrs. Makowski and Mr. Krebs were awarded restricted stock in 2015. These shares vest over a five-year period, lapse with termination of employment, with or without cause, and vest immediately in case of death, disability or a change of control.

Chemung Financial Corporation Incentive Compensation Plan (the "Incentive Compensation Plan"): The Incentive Compensation Plan provides for the grant of unrestricted stock and/or cash awards to select officers and key employees designated annually in the sole discretion of the Board as a reward for attainment of annual and long-term performance goals. The maximum number of shares that can be awarded as unrestricted stock is ten thousand (10,000) per calendar year. The maximum cash bonus is $300,000 per calendar year. In 2016, the Compensation Committee recommended, and the Board approved, granting an Incentive Plan award of $290,000 to the CEO and $120,000 to the President and COO. The awards were based on Messrs. Bentley's and Tomson's 2015 performance measured against their pre-determined individual and Bank goals and other qualitative information considered by the Compensation Committee and the Board. The awards were paid in January 2016: Mr. Bentley received $120,000 in cash and $150,421 in the Corporation's common stock, which amounted to 5,476 shares and Mr. Tomson received $60,000 in cash and $60,000 in the Corporation's common stock, which amounted to 2,185 shares. Messrs. Bentley and Tomson were the only executives approved by the Board to participate in the Plan in 2015.

Retirement and Other Benefits: The Bank provides retirement benefits through a combination of the Chemung Canal Trust Company Pension Plan (the "Pension Plan") and the Chemung Canal Trust Company 401(k) Profit Sharing, Savings and Investment Plan (the "401(k) Plan"). The Bank instituted a "soft freeze" of the Pension Plan after June 30, 2010. Employees hired after June 30, 2010 are not eligible to participate. All NEOs, except Mrs. Makowski and Messrs. Krebs and Tomson, participate in the Pension Plan. The Pension Plan is funded solely through Bank contributions and the benefits are determined based upon years of service and a calculation of final average compensation, which is further described on page 27.

The Bank's 401(k) Plan allows employees to contribute up to 70% of base pay on a pre-tax basis up to the statutory limits. Because Mrs. Makowski and Messrs. Krebs and Tomson do not participate in the Pension Plan, they receive a 4% non-discretionary contribution to the 401(k) Plan subject to limitations imposed by the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations. Company contributions to the 401(k) Plan for employees hired prior to July 30, 2010 are discretionary in accordance with the business plan approved by the Board each year.

In June 2012, the Compensation Committee adopted a Defined Contribution Supplemental Executive Retirement Plan (the "Defined Contribution SERP") to attract and retain high-quality talent. The Defined Contribution SERP is intended to provide a retirement benefit comparable to that received by other executive officers participating in the Bank's Pension Plan. Because Mrs. Makowski and Messrs. Krebs and Tomson do not participate in the Pension Plan, they are credited with an annual Company contribution in an amount equal to 20% of their base salary until the earlier of: (i) their termination of employment for any reason; or (ii) the discontinuation of their participation in the Defined Contribution SERP. The Bank may discontinue future contributions to any participant at any time. Benefits are payable upon retirement, disability, death or a change in control. The annual Bank contribution is credited as of the last day of the applicable plan year, provided that the participant is actively employed on that date. Based on a review of CEO compensation and retirement plan data of peer banks, the Board has approved Mr. Bentley's participation in the Defined Contribution SERP. The Corporation also maintains the Chemung Canal Trust Company Executive Supplemental Pension Plan (the "Pension Plan SERP"), described more fully on page 27 and 28, to provide eligible executives pension benefits that are not payable under the Pension Plan because of limitations imposed by the Code.

The NEOs are eligible for the same benefits available to all other employees of the Bank including life and health insurance, vacations, holidays, and personal and sick leave.

The Bank maintains the Chemung Canal Trust Company Deferred Compensation Plan (the “Deferred Compensation Plan”) that allows the NEOs, and other senior officers that the Compensation Committee may approve annually, to defer amounts up to all of their compensation to a future date. Although all of the NEOs are eligible to participate, Messrs. Carr and Krebs and Madams Makowski and Sartori are the only NEOs who participate in this plan. The Deferred Compensation Plan is described more fully on page 27.

The NEOs are granted perquisites, which the Compensation Committee believes are modest, reasonable and similar to those provided to executive officers at peer financial institutions, and are designed to assist the executives in carrying out their duties. Club memberships are provided to the NEOs to enable them to interact and foster relationships with clients and local business people. Mr. Bentley has the use of a Bank-owned vehicle for business purposes. His personal use of the vehicle is subject to tax. Madams Makowski and Sartori and Messrs. Carr and Krebs each received a car allowance during 2015 which is taxed as additional compensation in accordance with IRS regulations. For the first six months of 2015, Mr. Tomson received payment for mileage and for the last six months of the year, the Bank paid Mr. Tomson’s car payment, car maintenance and gas expense.

The Bank entered into a Severance Agreement and a Change of Control Agreement with Mr. Bentley upon his joining the Company in 2006. Under the Severance Agreement, if Mr. Bentley’s employment is terminated without cause or for good reason by him, he would receive his base salary for one year and would remain covered under the Company’s employee benefit programs for one year. Under the Change of Control Agreement, Mr. Bentley would receive a range of different payments depending on the circumstances, which are further described on page 29.

The Bank has entered into Change in Control Agreements with Messrs. Carr, Krebs and Tomson and Madams Sartori and Makowski. The purpose of the agreements is to retain and secure key employees and encourage their continued attention and dedication to their assigned duties. In the event of his/her termination following a change in control, Messrs. Carr and Krebs and Madams Makowski and Sartori would receive a severance benefit equal to 2.0 times his/her highest annual compensation, including salary and bonuses, paid by the Bank to the Executive for any of the two calendar years ending with the year in which Executive’s employment terminated. Under Mr. Tomson’s Change in Control Agreement, he would receive a severance benefit equal to 2.99 times his highest annual compensation, including salary and bonuses, paid by the Bank to Mr. Tomson for any of the two calendar years ending with the year in which Mr. Tomson’s employment terminated. Under the terms of the Restricted Stock Plan, if there is a change in control, all stock awards would automatically vest and all restrictions would lapse.

COMPENSATION AND PERSONNEL COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management and, based on its review and discussion, recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation and Personnel Committee:

Stephen M. Lounsberry III, Chairman	William D. Eggers
David J. Dalrymple	Eugene M. Sneeringer Jr.
Robert H. Dalrymple	Richard W. Swan

TAX AND ACCOUNTING MATTERS

Section 162(m). Section 162(m) of the Code generally disallows a tax deduction to the Corporation for compensation in excess of one million dollars paid to the Company’s CEO, and to the next four highest paid officers of the Corporation, unless the compensation qualifies as “performance-based compensation” or falls under certain other specified exceptions under Section 162(m). Generally, to qualify as performance-based compensation, the plan or arrangement must contain specific performance criteria, specific limits on awards and amounts and must have shareholder approval.

Section 409A. Section 409A of the Code generally provides that unless certain requirements are met, amounts deferred under a nonqualified deferred compensation plan are currently includible in an employee's gross income to the extent not subject to a substantial risk of forfeiture. Section 409A applies to most forms of deferred compensation, including but not limited to, nonqualified deferred compensation plans or arrangements, certain equity based performance awards, and severance plans or individual severance arrangements contained within employment agreements. Generally, under Section 409A, any severance arrangement not in compliance with Section 409A covering a NEO pursuant to an employment or change in control agreement which is effective upon termination of employment and any deferrals under a nonqualified deferred compensation plan that do not comply with Section 409A may subject the NEO to: (i) current income inclusion of the relevant amounts; (ii) interest at the IRS underpayment rate; and (iii) an additional 20% excise tax. The Corporation believes it is operating in compliance with the statutory and regulatory provisions currently in effect.

Sections 4999 and 280G. Section 4999 of the Code imposes a 20% excise tax on certain “excess parachute payments” made to “disqualified individuals.” Under Section 280G of the Code, such excess parachute payments are also nondeductible to the Company. If payments that are contingent on a change of control to a disqualified individual (which terms include the NEOs) exceed 2.99 times the individual’s “base amount,” they constitute “excess parachute payments” to the extent they exceed one times the individual’s base amount.

Pursuant to the change in control agreement with Mr. Bentley, the Company will make an indemnification payment to him in the event an excise tax is imposed on “excessive parachute payments” paid to him pursuant to his change in control agreement. Neither the Company nor the Bank is permitted to claim a federal income tax deduction for the portion of the change in control payment that constitutes an “excess parachute payment” or the indemnification payment.

Accounting Considerations. The Audit Committee is informed of the financial statement implications of the components of the compensation program for NEOs.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION
None of the members of the Compensation Committee was an officer or an employee of the Corporation or any of its subsidiaries during 2015 or any prior period. None of the Bank’s executive officers has served as a member of a compensation committee or board of directors of any entity that has an executive officer serving as a member of the Corporation’s Board or Compensation Committee.

EXECUTIVE OFFICERS

The following sets forth certain information regarding the NEOs and other executive officers of the Company and the Bank.

Name	Age	Position
Ronald M. Bentley	63	CEO of the Corporation and the Bank (2015); President and CEO of both the Corporation and the Bank (2007); COO of the Bank (2006); President, Retail Banking at NBT Bancorp, Inc. (2005); Executive Vice President, Retail Banking and Regional President at NBT Bancorp, Inc. (2003). Mr. Bentley has been with the Bank since 2006.
Karl F. Krebs	59	Chief Financial Officer and Treasurer of the Corporation and Executive Vice President, Chief Financial Officer and Treasurer of the Bank (commencing October 16, 2013); Executive Vice President and Chief Financial Officer of Financial Institutions (2009); Senior Financial Specialist at West Valley Environmental Services, LLC, an environmental remediation services firm, prior to joining Financial Institutions in 2009. President of Robar General Funding Corp., a mortgage and construction loan broker, from 2006 to 2008; Senior Vice President and Line-of-Business Finance Director at Five Star Bank from 2005 to 2006.
Richard G. Carr	62	Executive Vice President of the Bank (2011) responsible for Business Client Services; Senior Vice President of the Bank (2004). Mr. Carr has been with the Bank since 1997. Mr. Carr retired from the Bank on December 31, 2015.
Louis C. DiFabio	52	Vice President of the Corporation (2015) and Executive Vice President of the Bank responsible for Business Client Services (2015); Executive Vice President of the Bank (2011) responsible for Retail Client Services; Senior Vice President of the Bank (2005). Mr. DiFabio has been with the Company since 1987.
Karen R. Makowski	59	Executive Vice President, Chief Administrative Officer and Chief Risk Officer of the Bank (2011); Consultant in regulatory compliance and strategic planning (2009); President & CEO, Panther Community Bank Florida (2006). Mrs. Makowski has been with the Bank since 2011.
Melinda A. Sartori	58	Executive Vice President of the Bank (2002) responsible for the Wealth Management Group. Mrs. Sartori has been with the Bank since 1994. Mrs. Sartori retired from the Bank on December 31, 2015.
Anders M. Tomson	48	President and Chief Operating Officer of the Bank (2015) also responsible for Retail Client Services and President, Capital Bank, a Division of Chemung Canal Trust Company (2011); Senior Vice President and Commercial Real Estate Division Executive at Citizens Bank in Albany (2006-2010). Mr. Tomson has been with the Bank since 2011.
Thomas W. Wirth	50	Executive Vice President of the Bank (2015) responsible for the Wealth Management Group; Senior Vice President of the Bank (2004) responsible for Investment Services. Mr. Wirth has been with the Bank since 1987.

EXECUTIVE COMPENSATION

The following tables summarize compensation information paid or earned by NEOs of the Corporation and the Bank for the fiscal year ended December 31, 2015, with comparative information for 2014 and 2013 relating to the summary compensation table.

Summary Compensation Table

Name and Principal Position	Year	Salary(1)	Bonus(1)	Stock Awards	Non-Equity Incentive Plan Compensation(4)	Change in Pension Value(5)	All Other Compensation(6)	Total
Ronald M. Bentley President & CEO	2015	$437,750	$98,112	$170,000(2)	$21,888	$105,411	$115,740	$948,901
	2014	$425,458	$91,227	$112,500(2)	$21,273	$303,563	$110,997	$1,065,018
	2013	$428,988(7)	$128,551	$138,000(2)	$21,449	$69,252	$105,744	$891,984
Karl F. Krebs Executive Vice President, Chief Financial Officer and Treasurer	2015	$206,238	$45,000	$35,000(3)	-	-	$69,124	$355,362
	2014	$200,231	$50,000	$30,000(3)	-	-	$64,874	$345,105
	2013	$36,923	-	-	-	-	$8,385	$45,308
Richard G. Carr Executive Vice President	2015	$191,351	$50,000	-	-	$70,726	$25,055	$337,132
	2014	$168,494	$50,000	$30,000(3)	-	$136,786	$23,352	$408,632
	2013	$159,473(7)	$35,000	$30,000(3)	-	$37,483	$21,683	$283,639
Karen R. Makowski Executive Vice President, Chief Administrative & Risk Officer	2015	$189,590	$45,000	$30,000(3)	-	-	$62,086	$326,676
	2014	$184,067	$50,000	$30,000(3)	-	-	$59,094	$323,161
	2013	$185,571(7)	$35,000	$30,000(3)	-	-	$56,701	$307,272
Melinda A. Sartori Executive Vice President	2015	$171,335	$50,000	-	-	$29,603	$24,076	$275,014
	2014	$166,537	$50,000	$30,000(3)	-	$155,737	$22,788	$425,062
	2013	$167,898(7)	$35,000	$30,000(3)	-	$9,638	$22,639	$265,175
Anders M. Tomson President & COO	2015	$276,033	$60,000	$60,000(8)	-	-	$93,890	$489,923
	2014	$227,507	$50,000	$30,000(3)	-	-	$73,454	$380,961
	2013	$229,366(7)	$45,000	$30,000(3)	-	-	$70,269	$374,635

(1) The amounts shown for salary and bonus represent amounts earned in 2015.

(2) The awards to Mr. Bentley were made under the terms of the Incentive Compensation Plan. The awards are fully vested upon grant and reflect the grant date fair value of the stock calculated as the average of the closing prices of a

share of common stock of the Corporation as quoted on the NASDAQ stock market for each of the prior thirty days ending on December 31, 2015. The 2015 stock awards granted to Mr. Bentley include director fees in the amount of $19,579.

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(3) The amounts shown for Messrs. Krebs, Carr and Tomson and Madams Makowski and Sartori represent shares granted under the Restricted Stock Plan and reflect the grant date fair value computed in accordance with the formula set forth in the Plan, and as reported in Note 13 of the Corporation's audited consolidated financial statements contained in the corporation's Form 10-K for the year ended December 31, 2015. Twenty percent of the restricted stock awarded vests each year commencing with the first anniversary date of the award and is 100 percent vested on the fifth anniversary date. See table on page 22 captioned "Grants of Plan-Based Awards." The amount of the awards are determined in the discretion of the Board and there are no specific formulaic targets.
(4) This is an additional cash bonus awarded to Mr. Bentley pursuant to a Bank-wide 5% cash bonus plan in which all non-sales employees participate. Other NEOs are not eligible to participate in this 5% cash bonus pool.
(5) The amounts shown represent the aggregate change, from December 31, 2014 to December 31, 2015, in the present value of the named executive officers' accumulated pension benefit from the Chemung Canal Trust Company Pension Plan and, for Mr. Bentley, from the Chemung Canal Trust Company Executive Supplemental Retirement Plan.
(6) The amounts shown include matching contributions made by the Bank to the 401(k) Plan, dividends paid on unvested restricted stock, Defined Contribution SERP contributions, and perquisites, such as car and club memberships. The NEOs participate in certain group health, life, disability and medical reimbursement plans, not disclosed in the Summary Compensation Table, that are generally available to salaried employees and do not discriminate in scope, terms and operation. See the table below captioned "All Other Compensation Table."
(7) This amount reflects one extra pay period during 2013.
(8) The awards to Mr. Tomson were made under the terms of the Incentive Compensation Plan. The awards are fully vested upon grant and reflect the grant date fair value of the stock calculated as the average of the closing prices of a share of common stock of the Corporation as quoted on the NASDAQ stock market for each of the prior thirty days ending on December 31, 2015.

All Other Compensation

Name	401(k) Match	Dividends on Restricted Stock	Automobile Allowance/Usage	Club Memberships	Defined Contribution SERP	Total
Ronald M. Bentley	$7,950	$—	$ 3,273	$13,035	$91,482	$115,740
Karl F. Krebs	$10,353	$1,107	$ 6,000	$9,684	$41,980	$69,124
Richard G. Carr	$7,077	$2,798	$ 6,000	$9,180	$—	$25,055
Karen R. Makowski	$9,676	$3,006	$ 6,000	$3,784	$39,620	$62,086
Melinda A. Sartori	$6,838	$2,798	$ 6,000	$8,440	$—	$24,076
Anders M. Tomson	$10,600	$3,258	$ 7,730	$14,993	$57,309	$93,890

Grants of Plan-Based Awards

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock	Grant Date Fair Value of Stock Awards	
Ronald M. Bentley	01/20/2016	5,476	$150,426	(1)
	01/11/2016	713	$19,586	(12)
	01/21/2015	3,303	$92,649	(1)
	01/15/2015	709	$19,887	(12)
	01/16/2014	645	$21,001	(12)
	01/15/2014	3,595	$117,053	(1)
	01/16/2013	4,116	$112,161	(1)
	01/10/2013	582	$15,859	(12)
	01/13/2012	707	$16,084	(12)
	01/15/2011	741	$16,524	(12)
	01/15/2010	745	$15,831	(12)
	02/06/2009	837	$17,075	(12)
	01/18/2008	633	$17,249	(12)
Karl F. Krebs	12/16/2015	1,271	$35,016	(11)
	12/17/2014	1,064	$30,015	(8)
Richard G. Carr	12/16/2015	0	$—	(10)
	12/17/2014	1,064	$30,015	(8)
	12/20/2013	933	$30,024	(5)
	12/19/2012	788	$20,023	(4)
	12/21/2011	653	$15,019	(3)
	12/15/2010	706	$15,003	(2)
Karen R. Makowski	12/16/2015	1,089	$30,002	(11)
	12/17/2014	1,064	$30,015	(8)
	12/20/2013	933	$30,024	(5)
	12/19/2012	984	$25,003	(4)
	02/06/2012	1,079	$25,011	(6)
Melinda A. Sartori	12/16/2015	0	$—	(10)
	12/17/2014	1,064	$30,015	(8)
	12/20/2013	933	$30,024	(5)
	12/19/2012	788	$20,023	(4)
	12/21/2011	653	$15,019	(3)
	12/15/2010	706	$15,003	(2)
Anders M. Tomson	01/13/2016	2,185	$60,022	(9)
	12/17/2014	1,064	$30,015	(8)
	12/20/2013	933	$30,024	(5)
	12/19/2012	1,181	$30,009	(4)
	12/21/2011	653	$15,019	(3)
	07/08/2011	1,000	$22,950	(7)

(1) This grant was awarded to Mr. Bentley as part of a year-end bonus pursuant to the Incentive Compensation Plan. The stock award is based on the average of the closing prices of a share of the Corporation's common stock as quoted on the NASDAQ Stock Market for each of the prior thirty trading days ending on December 31, 2015, which calculates to a grant price of $27.47 in 2016, $28.05 in 2015, $32.56 in 2014 and $27.25 in 2013.

(2) These amounts represent the market value of $21.25, the closing price for the Corporation's common stock on the grant date, December 15, 2010. The stock was awarded under the Restricted Stock Plan.

(3) These amounts represent the market value of $23.00, the closing price for the Corporation's common stock on the grant date, December 21, 2011. The stock was awarded under the Restricted Stock Plan.

(4) These amounts represent the market value of $25.41, the closing price for the Corporation's common stock on the grant date, December 19, 2012. The stock was awarded under the Restricted Stock Plan.
(5) These amounts represent the market value of $32.18, the average of the closing prices of a share of Corporation's common stock as quoted on the NASDAQ Stock Market for each of the prior thirty trading days ending on 12/20/2013. The stock was awarded under the Restricted Stock Plan.
(6) Under the terms of her offer of employment, this amount was granted to Mrs. Makowski upon completion of 90 days of employment and is based on a market value of $23.18, the closing price of a share of the Corporation's common stock on February 6, 2012.
(7) Under the terms of his offer of employment, this amount was granted to Mr. Tomson upon completion of 90 days of employment and is based on the market value of $22.95, the closing price of a share of the Corporation's common stock on July 8, 2011.
(8) These amounts represent the market value of $28.21, the average of the closing prices of a share of the Corporation's common stock as quoted on the NASDAQ Stock Market for each of the prior thirty trading days ending on 12/20/2014. The stock was awarded under the Restricted Stock Plan.
(9) This grant was awarded to Mr. Tomson as part of a year-end bonus pursuant to the Incentive Compensation Plan. The stock award is based on the average of the closing prices of a share of the Corporation's common stock as quoted on the NASDAQ Stock Market for each of the prior thirty trading days ending on December 31, 2015, which calculates to a grant price of $27.47 in 2016.
(10) Mr. Carr and Mrs. Sartori retired on December 31, 2015.
(11) These amounts represent the market value of $27.55, the average of the closing prices of a share of the Corporation's common stock as quoted on the NASDAQ Stock Market for each of the prior thirty trading days ending on 12/16/2015. The stock was awarded under the Restricted Stock Plan.
(12) This grant was awarded to Mr. Bentley as part of the Directors' Compensation Plan for his service on the Boards of Directors of the Corporation and the Bank in an amount equal in value to the average compensation awarded to non-employee directors who have served twelve (12) months of the previous year. The stock award is based on the average of the closing prices of a share of the Corporation's common stock as quoted on the NASDAQ Stock Market for each of the prior thirty trading days ending on December 31st of the year of service, which calculates to a grant price of $27.25 in 2008, $20.40 in 2009, $21.25 in 2010, $22.30 in 2011, $22.75 in 2012, $27.25 in 2013, $32.56 in 2014, $28.05 in 2015 and $27.47 in 2016.

Outstanding Equity Awards at December 31, 2015
Restricted Stock Awards Under the Restricted Stock Plan

Name	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)[1]	Market Value of Shares or Units of Stock That Have Not Vested ($) [2]
Karl F. Krebs	12/16/2015	1,271	$34,953
	12/17/2014	852	$23,430
Richard G. Carr[3]	12/16/2015	0	$0
	12/17/2014	0	$0
	12/20/2013	0	$0
	12/19/2012	0	$0
	12/21/2011	0	$0
	12/15/2010	0	$0
Karen R. Makowski	12/16/2015	1,089	$29,948
	12/17/2014	852	$23,430
	12/20/2013	561	$15,428
	12/19/2012	395	$10,863
	02/06/2012	434	$11,935
Melinda A. Sartori[3]	12/16/2015	0	$0
	12/17/2014	0	$0
	12/20/2013	0	$0
	12/19/2012	0	$0
	12/21/2011	0	$0
	12/15/2010	0	$0
Anders M. Tomson	12/17/2014	852	$23,430
	12/20/2013	561	$15,428
	12/19/2012	473	$13,008
	12/21/2011	132	$3,630
	07/08/2011	200	$5,500

[1] Restricted stock awards vest over a five year period after the date of the grant.
[2] These amounts represent the market value of $27.50, the closing price for the Corporation common stock on December 31, 2015.
[3] Mr. Carr and Mrs. Sartori retired on 12/31/2015. The Board of Directors approved a resolution on December 16, 2015 to vest, effective December 31, 2015, the unvested portion of the restricted stock granted to Mr. Carr and Mrs. Sartori, respectively, in years 2011, 2012, 2013 and 2014, in recognition of their years of service to the Bank.

Stock Vested as of December 31, 2015

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock	Grant Date Fair Value of Stock Awards	
Karl F. Krebs	12/17/2015	212	$5,896	(12)
Richard G. Carr	12/31/2015	1,861	$51,178	(11)
	12/17/2015	212	$5,896	(12)
	12/21/2015	186	$4,998	(13)
	12/21/2015	158	$4,245	(14)
	12/21/2015	131	$3,503	(15)
	12/15/2015	142	$3,909	(16)
	12/19/2014	186	$5,093	(10)
	12/19/2014	157	$4,299	(10)
	12/19/2014	130	$3,559	(10)
	12/15/2014	141	$3,983	(9)
	12/23/2013	130	$4,311	(5)
	12/19/2013	157	$5,135	(6)
	12/16/2013	141	$4,621	(7)
	12/21/2012	130	$3,907	(1)
	12/15/2012	141	$3,588	(2)
	12/15/2011	141	$3,314	(3)
Karen R. Makowski	12/17/2015	212	$5,896	(12)
	12/21/2015	186	$4,998	(13)
	12/21/2015	197	$5,293	(14)
	02/06/2015	215	$5,824	(4)
	12/19/2014	186	$5,093	(10)
	12/19/2014	196	$5,366	(10)
	02/06/2014	215	$6,115	(4)
	12/19/2013	196	$6,411	(6)
	02/06/2013	215	$6,343	(4)
Melinda A. Sartori	12/31/2015	1,861	$51,178	(11)
	12/17/2015	212	$5,896	(12)
	12/21/2015	186	$4,998	(13)
	12/21/2015	158	$4,245	(14)
	12/21/2015	131	$3,503	(15)
	12/15/2015	142	$3,909	(16)
	12/19/2014	186	$5,093	(10)
	12/19/2014	157	$4,299	(10)
	12/19/2014	130	$3,559	(10)
	12/15/2014	141	$3,983	(9)
	12/23/2013	130	$4,311	(5)
	12/19/2013	157	$5,135	(6)
	12/16/2013	141	$4,621	(7)
	12/21/2012	130	$3,907	(1)
	12/14/2012	141	$3,588	(2)
	12/15/2011	141	$3,314	(3)

	12/17/2015	212	$5,896	(12)
	12/21/2015	186	$4,998	(13)
	12/21/2015	236	$6,341	(14)
	12/21/2015	131	$3,503	(15)
	07/08/2015	200	$5,340	(8)
	12/19/2014	186	$5,093	(10)
	12/19/2014	236	$6,462	(10)
Anders M. Tomson	12/19/2014	130	$3,559	(10)
	07/08/2014	200	$6,128	(8)
	12/23/2013	130	$4,311	(5)
	12/19/2013	236	$7,720	(6)
	07/08/2013	200	$6,556	(8)
	12/21/2012	130	$3,907	(1)
	07/09/2012	200	$5,140	(8)

(1) These amounts represent the market value of $30.05, the closing price for the Corporation's common stock on the 12/21/2012 vesting date.

(2) These amounts represent the market value of $25.45, the closing price for the Corporation's common stock on the 12/14/2012 vesting date.

(3) These amounts represent the market value of $23.50, the closing price for the Corporation's common stock on the 12/15/2011 vesting date.

(4) In accordance with the terms of Mrs. Makowski's offer of employment, these amounts represent the market value of $27.09, $28.44 and $29.50, respectively, the closing prices for the Corporation's common stock on the 2/6/2015, 2/6/2014 and 2/6/2013 vesting dates.

(5) These amounts represent the market value of $33.16, the closing price for the Corporation's common stock on the 12/23/2013 vesting date.

(6) These amounts represent the market value of $32.71, the closing price for the Corporation's common stock on the 12/19/2013 vesting date.

(7) These amounts represent the market value of $32.77, the closing price for the Corporation's common stock on the 12/16/2013 vesting date.

(8) In accordance with the terms of Mr. Tomson's offer of employment, these amounts represent the market value of $26.70, $30.64, $32.78 and $25.70, the closing price for the Corporation's common stock on the 7/8/2015, 7/8/2014, 7/8/2013 and 7/9/2012 vesting dates.

(9) These amounts represent the market value of $28.25, the closing price for the Corporation's commons stock on the 12/15/2014 vesting date.

(10) These amounts represent the market value of $27.38, the closing price for the Corporation's common stock on the 12/19/2014 vesting date.

(11) These amounts represent the market value of $27.50, the closing price for the Corporation's common stock on the 12/31/2015 vesting date.

(12) These amounts represent the market value of $27.81, the closing price for the Corporation's common stock on the 12/17/2015 vesting date.

(13) These amounts represent the market value of $26.87, the closing price for the Corporation's common stock on the 12/21/2015 vesting date.

(14) These amounts represent the market value of $26.87, the closing price for the Corporation's common stock on the 12/21/2015 vesting date.

(15) These amounts represent the market value of $26.74, the closing price for the Corporation's common stock on the 12/21/2015 vesting date.

(16) These amounts represent the market value of $27.53, the closing price for the Corporation's common stock on the 12/15/2015 vesting date.

Deferred Compensation Plan

The Deferred Compensation Plan is a nonqualified plan that allows a select group of management, including the NEOs, to defer all of their annual compensation, to a future date. Eligible employees are generally highly compensated employees and are designated by the Board from time to time. Deferred amounts are an unfunded liability of the Bank. The Plan requires deferral elections be made before the beginning of the calendar year during which the participant will perform the services to which the compensation relates. Participants in the Plan are required to elect a form of distribution, either lump sum payment or annual installments not to exceed ten years, and a time of distribution, either a specified age or a specified date. The terms and conditions for the deferral of compensation are subject to the provisions of 409A of the Code. As noted on page 17, only Messrs. Carr and Krebs and Madams Makowski and Sartori participate in this Plan.

Pension Benefits

Tax Qualified Pension Plan: Messrs. Bentley and Carr and Mrs. Sartori are participants in the Pension Plan, a non-contributory defined benefit pension plan. The Pension Plan is a “qualified plan” under the Code and therefore must be funded. Contributions are deposited to the Plan and held in trust. The Pension Plan assets may only be used to pay retirement benefits and eligible plan expenses. As of December 31, 2015, Messrs. Bentley and Carr and Mrs. Sartori had reached age 55 and had completed five years of service to be eligible for early retirement.

Under the Pension Plan, pension benefits are based upon final average annual compensation where the annual compensation is total base earnings paid plus 401(k) salary deferrals. Bonuses, overtime, commissions and dividends are excluded. The normal retirement benefit equals 1.2% of final average compensation (highest consecutive five years of annual compensation in the prior ten years) times years of service (up to a maximum of 25 years), plus 1% of average monthly compensation for each additional year of service (up to a maximum of 35 years), plus .65% of average monthly compensation in excess of covered compensation for each year of credited service up to 35 years. Covered compensation is the average of the social security taxable wage bases in effect for the 35 year period prior to normal social security retirement age. Compensation for purposes of determining benefits under the Pension Plan is reviewed annually.

Normal retirement age under the Plan is 65. Participants may commence their retirement benefit prior to the age of 65 if they have at least five years of credited service and have attained age 55. The retirement benefit payable before age 65 is reduced to recognize the greater number of years during which the participant will receive the retirement benefit. The reduction is 6 2/3% for each year between age 60 and 65 that the benefit commences prior to the age of 65. The reduction prior to age 60, if the benefit commences between age 55 and 60, is 5.33% per year.

Nonqualified Pension Plan SERP: As described above, the Code places limitations on compensation amounts that may be included under the Pension Plan. The Pension Plan SERP is provided to executives in order to produce total retirement benefits, as a percentage of compensation that is comparable to employees whose compensation is not restricted by the annual compensation limit. Pension amounts based upon the Pension Plan formula, which exceed the applicable limitations, will be paid under the Pension Plan SERP. Currently, Mr. Bentley is the only active participant.

The Pension Plan SERP is a “nonqualified plan” under the Code. Contributions to the Plan are not held in trust; therefore, they may be subject to the claims of creditors in the event of bankruptcy or insolvency. When payments come due under the Plan, cash is distributed from general assets.

Nonqualified Defined Contribution SERP: The Defined Contribution SERP is provided to certain executives to motivate and retain key management employees by providing a nonqualified retirement benefit that is payable at retirement, disability, death and certain other events. The Defined Contribution SERP will deliver a retirement benefit comparable to that received by other executive officers participating in the Bank's Defined Benefit Plan. Currently, Messrs. Bentley, Krebs, Tomson and Mrs. Makowski are the only active participants.

The Pension Plan SERP is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees.

Pension Benefits Table

The table below sets forth the accumulated benefits to which the executives would be entitled had they terminated employment on December 31, 2015 and elected to commence their benefit at the earliest age at which they would receive an unreduced benefit, payable as a monthly benefit for as long as the executive lived. The expected benefit payments are discounted using interest and mortality assumptions to produce the present value of the accumulated benefit as of December 31, 2015. The assumed interest rate is 4.39% and the mortality assumptions are based upon the RP2014 Mortality Table projected with mortality improvement scale MP2015, to the expected year of benefit commencement.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit ($)
Ronald M. Bentley	Chemung Canal Trust Company Pension Plan	10	$509,245
	Chemung Canal Trust Company Executive Supplemental Pension Plan	10	$363,618
Richard G. Carr	Chemung Canal Trust Company Pension Plan	18	$525,240
Melinda A. Sartori	Chemung Canal Trust Company Pension Plan	21	$544,066

The aggregate increase in the actuarial present value of accumulated benefits under both the Chemung Canal Trust Company Pension Plan and the Chemung Canal Trust Company Executive Supplemental Pension Plan are set forth in the Summary Compensation Table. The table below shows the breakdown of the increase in the actuarial present value of accumulated benefits for each Plan.

Name	Plan Name	Increase in the Actuarial Present Value of the Pension Benefit as of 12/31/15
Ronald M. Bentley	Chemung Canal Trust Company Pension Plan	$54,934
	Chemung Canal Trust Company Executive Supplemental Pension Plan	$50,477
Richard G. Carr	Chemung Canal Trust Company Pension Plan	$70,726
	Chemung Canal Trust Company Executive Supplemental Pension Plan	-
Melinda Sartori	Chemung Canal Trust Company Pension Plan	$29,603
	Chemung Canal Trust Company Executive Supplemental Pension Plan	-

Mr. Carr and Mrs. Sartori retired from the Company on December 31, 2015.

Defined Contribution SERP

As previously discussed on page 27, the Bank maintains a Defined Contribution SERP to provide additional retirement income to select, key employees that cannot be provided through the qualified Pension Plan because of the “soft freeze” in effect after July 30, 2012. Additionally, Mr. Bentley participates in the SERP in order to provide retirement benefits to him comparable to other peer group chief executive officers. The annual contributions are approved by the Board. The Plan was first adopted in June of 2012. The following Table sets forth the Bank contributions for 2015 on behalf of the NEOs.

Name	Registrant Contribution	Aggregate Balance
Ronald M. Bentley	$91,482	$346,856
Karl F. Krebs	$41,980	$89,532
Karen R. Makowski	$39,620	$150,156
Anders M. Tomson	$57,309	$193,832

Potential Payments upon Termination of Employment or Change in Control

The following paragraphs summarize the estimated amounts payable to each of the NEOs under an employment agreement or change in control agreement assuming employment was terminated December 31, 2015.

Mr. Bentley is covered under a Severance Agreement and a Change of Control Agreement. Under the Severance Agreement, if terminated involuntarily without cause, or for good reason by him, he would receive one year’s salary equal to $450,000 and employee benefits for one year equal to $884,308.

Under the Change of Control Agreement, Mr. Bentley would receive a number of payments and benefits under different circumstances: 1) Within two years following a change of control if there is (a) involuntary termination without cause or by him for good reason, or (b) there is a termination by him for any reason within one year of the change of control, he would receive cash severance equal to 2.99 times the highest annual compensation paid to him, based upon the prior two years, in the amount of $1,667,673, the present value of employee retirement plan benefits in the amount of $1,801,590 and a potential tax gross-up of excise tax; and 2) if he voluntarily terminates his employment more than one year after a change of control, his payments would total $2,035,490 comprised of cash severance of $570,000 and the present value of employee and retirement plan benefits of $1,465,490.

Under the Bank’s executive supplemental disability benefit program Mr. Bentley, if terminated due to disability, would receive benefits that would continue until the earlier of recovery, death or age 67 with a present value of $964,994.

The Corporation has entered into a new Change of Control Agreement with Mr. Tomson, President & Chief Operating Officer. Following a change in control, if Mr. Tomson’s employment is terminated within twelve months or if he resigns for any reason, the agreement provides for a payment of 2.99 times Mr. Tomson’s highest annual compensation (including only salary and bonus) paid by the Bank to the executive for any of the two calendar years ending with the year in which Mr. Tomson’s employment ended. Payments would be made in equal monthly installments for twenty-four (24) months following his effective date of termination. The amount of severance pay that Mr. Tomson would be entitled to, pursuant to the Change in Control Agreement, if termination had occurred on December 31, 2015 would be $1,259,567. The Corporation has entered into Change of Control Agreements with executive officers Krebs and Makowski. Following a change in control, if the executive’s employment is terminated within twelve months or if the executive resigns for any reason, the agreements provide for payments of two (2) times the executive’s highest annual compensation (including only salary and bonus) paid by the Bank to the executive for any of the two calendar years ending with the year in which the executive’s employment ended. Payments would be made in equal monthly installments for twenty-four (24) months following the effective date of the termination. The amount of severance pay that each of the executive officers would be entitled to, pursuant to the Change in Control Agreements, if termination had occurred on December 31, 2015 is as follows: Mr. Krebs $650,391 and Mrs. Makowski $710,938.

RELATED MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act of 1934 requires directors and certain officers of Chemung Financial and persons who beneficially own more than ten percent of the outstanding shares of the Corporation's common stock to file reports of beneficial ownership and changes of beneficial ownership of shares of common stock of the Company with the SEC. SEC regulations require such persons to furnish the Corporation with copies of all Section 16(a) reports they file. Based solely upon review of the copies of such reports furnished to the Corporation and its representatives and certain representations that no other reports were required, all persons subject to the SEC reporting requirements filed the required reports on a timely basis except Robert H. Dalrymple who purchased shares of the Corporation's common stock on May 12, 2015 and reported it on May 14, 2015.

Certain Transactions with Related Parties

A number of the Corporation's directors, members of executive management and their associates are customers of the Bank. Any extensions of credit made to them are made in the ordinary course of business, are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable loans with persons not related to the Corporation and do not involve more than normal risk of collectability or present other unfavorable features to the Bank.

The law firm of Sayles & Evans, of which Ms. Drinkwater is a partner, provided legal services to the Corporation in 2015. The amount paid to this entity was less than the established reporting thresholds. In accordance with applicable law, the Bank's policy requires that a review of related party transactions over $120,000 be conducted for potential conflict of interest and all such transactions be approved by the Board.

Code of Ethics

The Board of Directors has adopted a Code of Ethics for Senior Financial Officers, which applies to Chemung Financial's chief executive officer, the chief auditor and other senior officers performing accounting, auditing, financial management or similar functions. This Code of Ethics supplements a Code of Business Conduct and Ethics, which governs all employees, officers and directors. Both codes can be viewed on the Bank's website at:

- https://www.snl.com/IRWebLinkX/corporateprofile.aspx?iid=100690.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors, the Chemung Financial Corporation's Audit and Risk Management Committee (the "Committee") assists the Board in fulfilling its oversight responsibilities for the integrity of the Corporation's financial statements, systems of internal accounting and financial controls, compliance with legal and regulatory requirements, and the independent auditor's qualifications, independence and performance, as well as the performance of its internal audit function. The members of the Committee meet the independence requirements of applicable laws and rules as determined by the Board. Five meetings of the Committee were held during 2015. The charter was approved in February 2016 and can be viewed on the Bank's website at:

• https://www.snl.com/IRWebLinkX/corporateprofile.aspx?iid=100690.

On March 8, 2016, the Committee appointed the independent registered public accounting firm, Crowe Horwath LLP, as the Corporation's independent auditors for the fiscal year ending December 31, 2016.

The Committee has reviewed and discussed with management and with Crowe Horwath, the Corporation's audited consolidated financial statements for the year ended December 31, 2015. The Committee has received from Crowe Horwath the written disclosures and the letter required by Independence Standards Board No. 1, Independence Discussions with Audit Committees, relating to auditor independence. The Committee also discussed the quality and adequacy of the Corporation's internal controls with management and the independent auditors. In addition, the Committee also reviewed with Crowe Horwath their audit plans, audit scope and identification of audit risks.

The Committee discussed and reviewed with Crowe Horwath all communications required by Statement on Auditing Standards No. 61, Communications with Audit Committees, and has discussed and reviewed the results of their examination of the financial statements.

Based upon the above-mentioned reviews and discussions with management and Crowe Horwath, the Committee recommended to the Board of Directors that the audited consolidated financial statements be included in Chemung Financial Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 to be filed with the Securities and Exchange Commission.

The Audit Committee:
Larry H. Becker, Chairman
William D. Eggers
John F. Potter
Eugene M. Sneeringer Jr.
G. Thomas Tranter Jr.

Fees Paid to Independent Registered Public Accounting Firm

Fees billed by Crowe Horwath LLP relating to the years ending in 2014 and 2015 are provided in the following table. All services provided by Crowe Horwath in 2014 and 2015 were pre-approved by the Audit Committee.

Type of Service	Fiscal Years Ended December 31, 2014	2015
Audit Fees	$237,000	$274,000
Audit-Related Fees	10,850	7,500
Tax Fees	-	-
All Other Fees	2,495	2,495
Total Fees	$250,345	$283,995

The audit fees were for professional services rendered for the audit of the Corporation's annual financial statements, management's report on internal control over financial reporting and review of financial statements included in the Corporation's Quarterly Reports on Form 10-Q, and services that are normally provided by Crowe Horwath in connection with statutory and regulatory filings or engagements.

The "Audit Related Fees" for 2015 were for S-8 consent procedures. The 2014 amount was related to additional services required for the filing of the September 30, 2014 10-Q and S-8 consent procedures.

The "All Other Fees" billed to the Corporation by Crowe Horwath for software licenses and audit work paper fees.

Audit Committee Pre-Approval Policies and Procedures

The Committee pre-approves the audit and permissible non-audit services provided by the independent auditors. These services may include audit services, non-audit services, audit-related services, tax services and other services. Crowe Horwath and management periodically report to the Committee regarding the extent of services provided by the independent auditor in accordance with this pre-approval, and the fees for the services performed to date. The Committee may also pre-approve additional services on a case-by-case basis. In the period between meetings of the Audit Committee, the Committee Chair or a delegated sub-committee is authorized to pre-approve such services provided that such pre-approval is ratified by the Committee at its next regularly scheduled meeting.

PROPOSAL 3:
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Crowe Horwath LLP as the Corporation’s independent registered public accounting firm for the fiscal year ending December 31, 2016. Although shareholder approval of the appointment of Crowe Horwath is not required, the Board believes that it is important to give shareholders an opportunity to ratify this selection. If it is not ratified, the Audit Committee will consider the shareholders’ views in future selections of the Corporation’s independent auditors.

A representative of Crowe Horwath is expected to be present at the Annual Meeting and available to respond to appropriate questions from shareholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE APPOINTMENT OF CROWE HORWATH LLP AS THE CORPORATION’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2016.

SHAREHOLDER PROPOSALS AT THE ANNUAL MEETING IN THE YEAR 2017

The Company's Board will establish the date for the 2017 Annual Meeting of Shareholders. Under SEC regulations, in order for a shareholder to be entitled to have a shareholder proposal included in the Company's proxy statement for the 2017 meeting, the proposal must be received by the Corporate Secretary of Chemung Financial Corporation at its principal executive offices, One Chemung Canal Plaza, Elmira, New York 14901, no later than December 1, 2016, which is 120 days prior to the date the proxy statement for the 2017 Annual Meeting will be first mailed. The shareholder must also satisfy the other requirements of SEC Rule 14a-8. Note that this requirement is separate from the notice requirements described in this Proxy Statement regarding the advance notice that is required before a shareholder is permitted to present a proposal for a vote at any annual meeting pursuant to the Corporation's bylaws.

GENERAL

The Corporation's 2015 Annual Report to Shareholders on Form 10-K, together with an abbreviated report for the twelve-month period accompanies this Proxy Statement, which was mailed to shareholders on or about March 31, 2016. The annual report is not part of the proxy solicitation materials. The Annual Report on Form 10-K is also available on the Bank's website, https://www.snl.com/IRWebLinkX/corporateprofile.aspx?iid=100690 and will be furnished to any shareholder upon written request to the Corporate Secretary, One Chemung Canal Plaza, Elmira, New York 14901.

OTHER MATTERS

The Board is not aware of any other matters to be brought before the Annual Meeting other than as specified above. If, however, any other matters should come before the 2016 Annual Meeting, it is intended that the persons named in the enclosed proxy, or their substitutes, will vote such proxy in accordance with their best judgment on such matters.

By Order of the Board of Directors
Kathleen S. McKillip
Secretary

Date: March 31, 2016
One Chemung Canal Plaza
Elmira, New York 14901

CHEMUNG FINANCIAL CORPORATION
Annual Meeting of Shareholders – May 12, 2016
This proxy is solicited on behalf of the Board of Directors

The undersigned shareholder(s) hereby appoint(s) Karl F. Krebs and Thomas J. Whitaker as proxies, with power to act without the other and with the power to appoint his substitute, and hereby authorizes them to represent and vote as designated on the items on the reverse side, and at the discretion of said proxies on such other matters as may properly come before the meeting, all the shares of stock of Chemung Financial Corporation held on record by the undersigned on March 14, 2016, standing in the name of the undersigned with all powers which the undersigned would possess if present at the Annual Meeting of Shareholders of the Corporation to be held May 12, 2016 or any adjournment thereof.

(Continued and to be marked, signed and dated on reverse side)

ANNUAL MEETING OF SHAREHOLDERS OF
CHEMUNG FINANCIAL CORPORATION
MAY 12, 2016
PROXY VOTING INSTRUCTIONS

INTERNET – Access www.voteproxy.com and follow the on-screen instructions. Have your Proxy Card available when you access the web page.

TELEPHONE – Call toll-free 1-800-PROXIES from any touch-tone telephone and follow the instructions. Have your Proxy Card available when you call.

Vote online/phone until 11:59 PM EST the day before the meeting.

1) MAIL – Date, sign and mail your proxy card in the
Envelope provided as soon as possible.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS: The Notice of Meeting, Proxy Statement and Proxy Card are available at http://www.astproxyportal.com/ast/01079

If you are not voting via telephone or internet, detach along perforated line and mail in the envelope provided.

IF VOTING BY MAIL, PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.
PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x
THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2 AND 3.

1. Election of Directors: o For all Nominees o Withhold Authority For All Nominees o For All Except (see instructions below)	NOMINEES: Three-Year Term: m Ronald M. Bentley m Robert H. Dalrymple m Clover M. Drinkwater m Richard W. Swan Two-Year Term: m Kevin B. Tully	2. To approve, on a non-binding advisory basis, the compensation of the Named Executive Officers of the Company ("Say on Pay"). 3. To ratify the appointment of Crowe Horwath LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016.	FOR AGAINST ABSTAIN o o o FOR AGAINST ABSTAIN o o o

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: l

This proxy will, when properly executed, be voted as directed by the shareholder.

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof.

To change the address on your account, please check the box and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

If no direction is given, this proxy will be voted 'FOR' the election of the nominees in Proposal 1, 'FOR' Proposal 2, and 'FOR' Proposal 3.

Signature of Shareholder Date Signature of Shareholder Date

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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