PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

PRESS RELEASE AND ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

NEWS RELEASE

03 March 2021

PRUDENTIAL PLC FULL YEAR 2020 RESULTS

DOUBLE-DIGIT INCREASE IN ASIA ADJUSTED OPERATING PROFIT AND RECOVERY IN SALES IN H2 2020
CONFIRMATION OF PLANNED DEMERGER TIMETABLE FOR JACKSON

Performance highlights on a constant (and actual) exchange rate basis

- Asia adjusted operating profit[2] up 13 per cent (12 per cent) to $3.7 billion
- Asia embedded value up 13 per cent[3] to $44.2 billion
- Asia 2020 full year APE sales[4] down (28) per cent[5] to $3.7 billion, with H2 APE sales[4] 20 per cent[10] up on H1 2020
- Pulse downloads around 20 million as of February 2021[6], with $211 million of sales referrals[7] in 2020
- Demerger of Jackson expected to complete in the second quarter of 2021 with bank finance now committed
- Jackson local statutory RBC ratio[8] 347 per cent at 31 December 2020 in line with guidance
- Central costs reduction of $180 million achieved with effect from 1 January 2021[9]
- Second interim ordinary dividend of 10.73 cents per share, making 16.10 cents per share for the full year
- Considering raising equity of $2.5-3 billion through global offering to institutions and Hong Kong retail investors, after the demerger

Mike Wells, Prudential plc's Group Chief Executive, said: "Facing challenging conditions, our people, working with our valued partners, have performed extraordinary feats during 2020, meeting the essential needs of our customers and communities, innovating with new services, and delivering on our long-term strategic priorities. With Covid-19 continuing to have a major impact on many of our markets, I would like to pay tribute to all my colleagues for their dedication.

"These efforts are reflected in our operational performance in Asia. Our agents and other distribution partners are employing virtual tools with ever-increasing confidence. APE sales[4] in the second half of 2020 were 20 per cent[10] higher than in the first half of the year. Overall, Asia APE sales[4] fell by (28) per cent[10] compared with 2019, largely as a result of a significant reduction in sales in Hong Kong, where the border with Mainland China was closed for much of 2020. Excluding Hong Kong, Asia APE sales[4] were down just (6) per cent[10] in 2020. New business profit[11] was down for the year, reflecting sales interruption especially in the first half and in the higher-margin market of Hong Kong. During these uncertain times, the Asia results are a great achievement by our people and evidence of the high value that customers place on our services.

"Our digital transformation continues at pace, with downloads of Pulse, our health and wealth super-app, now around 20 million[6], up from just over 1 million in early 2020. Pulse not only meets important social needs by making good healthcare more accessible, but has helped generate APE sales[4,7] of $211 million in 2020, substantially through referrals to agents.

"The high quality of our in-force business, combined with the continued loyalty of our existing customers, have supported a double-digit rise in adjusted operating profit[2] in Asia, up 13 per cent[10] to $3.7 billion. Operating free surplus generation[12] is up 8 per cent[10] in Asia to $1.9 billion.

"Jackson, our US business, delivered a 13 per cent increase in variable annuity sales during 2020, which helped it maintain its leading position in the US retail market[13]. This was more than offset by lower institutional sales and lower sales of fixed and fixed index annuity sales, as anticipated, following recent pricing actions. Overall, Jackson APE sales[4] fell by (13) per cent to $1,923 million in 2020. US adjusted operating profit[1,2] was down (9) per cent compared with the prior year.

"We are making good progress on the proposed separation of Jackson from the Group. Committed term loan facilities are in place to ensure Jackson has certainty that its targeted level of debt will be in place at the time of the demerger, and we continue to expect to complete the demerger in the second quarter of 2021, subject to shareholder and regulatory approvals. We expect Jackson, under the new management team led by Laura Prieskorn, to pursue a focused strategy which prioritises optimisation and stability of capital resources while protecting franchise value.

"The proposed demerger will complete Prudential's structural shift from a diversified global group to a growth business focusing exclusively on the unmet health, financial protection and savings needs of people in Asia and Africa. In order to enhance financial flexibility and de-lever the balance sheet, Prudential is considering raising new equity of around $2.5-3 billion following the completion of the Jackson demerger. Our preferred route is a fully marketed global offering to institutional investors concurrent with a public offering in Hong Kong to retail investors. As an Asia focused company, the Group believes there are clear benefits from increasing both its Asian shareholder base and the liquidity of its shares in Hong Kong. The allocation of any offering will take into account a number of criteria including the interests of existing shareholders.

"We have a resilient capital position, with a Group LCSM surplus[14] of $11.0 billion, equivalent to a cover ratio of 328 per cent.

"While Covid-19 will continue to create social disruption and market volatility during 2021, the past year has proven our ability to operate successfully in the pandemic environment, and in various markets where social distancing rules are starting to be relaxed we are seeing a recovery in activity. Over the longer term, the rising prosperity of people in Asia and Africa, the scale of the unmet need for the services we provide, our leadership positions in our chosen markets and our ability to innovate at scale all give us confidence that we can continue to outperform."

Summary financials	**2020 $m**	**2019 $m**	**Change on AER basis**	**Change on CER basis**
Life new business profit from continuing operations[11]	**2,802**	4,405	(36)%	(37)%
Operating free surplus generated from continuing operations[12]	**2,886**	2,861	1%	1%
Adjusted operating profit from continuing operations[1,2]	**5,507**	5,310	4%	4%
IFRS profit after tax from continuing operations[1,15]	**2,185**	1,953	12%	12%

	31 December 2020		**31 December 2019**	
	Total	**Per share**	**Total**	**Per share**
EEV shareholders' funds	**$54.0bn**	**2,070¢**	$54.7bn	2,103¢
IFRS shareholders' funds	**$20.9bn**	**800¢**	$19.5bn	749¢
LCSM shareholder surplus over Group minimum capital requirement[14]	**$11.0bn**	**n/a**	$9.5bn	n/a

Notes
1 Attributed to the shareholders of the Group before deducting the amount attributable to the non-controlling interests. This presentation is applied consistently throughout the document.
2 In this press release 'adjusted operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns from continuing operations. This alternative performance measure is reconciled to IFRS profit for the year in note B1.1 of the IFRS financial statements.
3 On an actual exchange rate basis.
4 APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. See note II of the Additional unaudited financial information for further explanation.
5 On both constant and actual exchange rate bases.
6 As of 22 February 2021.
7 APE sales substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
8 Representing the RBC ratio of Jackson National Life that reflects the capital and capital requirements of Jackson National Life and its subsidiaries, including Jackson National Life NY.
9 Approximately half of the corporate expenditure is incurred in sterling and our assumptions forecast an exchange rate of £1=$1.2599. As compared with head office expenditure of $(490) million in 2018 and before a planned $10 million increase in Africa costs as previously disclosed.
10 Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated.
11 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV Principles.
12 Operating free surplus generated from insurance and asset management operations. For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the year less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Further information is set out in 'movement in Group free surplus' of the EEV basis results.
13 LIMRA: through the third quarter of 2020, Jackson accounted for 16.5% of new sales in the U.S. retail variable annuity market and ranked number 1 in variable annuity sales.
14 Shareholder surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum requirement of participating business in Hong Kong, Singapore and Malaysia. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.
15 IFRS profit after tax from continuing operations reflects the combined effects of operating results determined on the basis of longer-term investment returns, together with short-term investment variances which for 2020 were driven by the negative effects in the US and Asia, and gains arising on the reinsurance of fixed and fixed index annuity business in the US and other corporate transactions.

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Notes to editors:

a. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The results prepared under IFRS form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the amended European Embedded Value Principles issued by the European Insurance CFO Forum in 2016. The Group's EEV basis results are stated on a post-tax basis and include the post-tax IFRS basis results of the Group's asset management and other operations. The IFRS and EEV results are presented in US dollars and the basis of translation is discussed in note A1 of the IFRS financial statements. Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated. Constant exchange rates are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

b. EEV and adjusted IFRS operating profit based on longer-term investment returns are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, which for IFRS in 2020 were driven by the negative effects in the US and Asia, and gains arising on the reinsurance of fixed and fixed index annuity business in the US and other corporate transactions. Furthermore, for EEV basis results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions and the mark-to-market value movement on core borrowings. Separately on the IFRS basis, adjusted operating profit also excludes amortisation of accounting adjustments arising principally on the acquisition of REALIC completed in 2012. The amounts shown are for continuing operations only (being Asia, US and central operations including Africa but excluding M&G plc) unless otherwise stated.

c. Total number of Prudential plc shares in issue as at 31 December 2020 was 2,609,489,702.

d. We expect to announce our 2020 Full Year Results to the London Stock Exchange **at 8.30am (UK time) on Wednesday, 3 March 2021.**

A pre-recorded presentation for analysts and investors will be available on-demand from 8.30am (UK time) using the following link: https://www.investis-live.com/prudential/6025193f49aa2a0e00f067f3/thsd A copy of the script used in the recorded video will also be available from 8.30am (UK time) on 3 March 2021 on Prudential plc's website.

A Q&A call for analysts and investors will be held on the same day at 11.30am (UK time).

Registration to a "listen in" only and online question facility
To register to listen into the conference call and submit questions online, please do so via the following link: https://www.investis-live.com/prudential/6005aa669a138810004417eb/omna The call will be available to replay afterwards using the same link.

Dial-in details
A dial-in facility will be available to listen to the call and ask questions: please allow 15 minutes ahead of the start time to join the call (lines open half an hour before the call is due to start, ie from 11.00am (UK time)).

Dial-in: +44 (0) 20 3936 2999 (UK and international) / 0800 640 6441 (Freephone UK), Participant access code: **085909**. Once participants have entered this code their name and company details will be taken.

Transcript
Following the call a transcript will be published on the results and business updates centre page of Prudential plc's website on 5 March 2021.

Playback facility
Please use the following for a playback facility: +44 (0) 20 3936 3001 (UK and international), replay code **901333**. This will be available from approximately 3.00pm (UK time) on 3 March 2021 until 11.59pm (UK time) on 17 March 2021.

e. 2020 Second interim ordinary dividend

Ex-dividend date	25 March 2021 (UK, Hong Kong and Singapore)
Record date	26 March 2021
Payment of dividend	14 May 2021 (UK, Hong Kong and ADR holders) On or about 21 May 2021 (Singapore)

f. About Prudential plc
Prudential plc is an Asia-led portfolio of businesses focused on structural growth markets. The business helps people get the most out of life through life and health insurance, and retirement and asset management solutions. Prudential plc has more than 20 million customers and is listed on stock exchanges in London, Hong Kong, Singapore and New York. 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, nor with The Prudential Assurance Company Limited, a subsidiary of M&G plc, a company incorporated in the United Kingdom.

g. Discontinued operations
Throughout this results announcement 'discontinued operations' refers to the demerged UK and Europe operations (referred to as M&G plc). All amounts presented refer to continuing operations unless otherwise stated, which reflect the Group following the demerger of M&G plc in the fourth quarter of 2019, and do not give effect to the proposed demerger of Jackson.

h. Regulatory disclosures
Pursuant to Practice Note 15 ("PN15") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"), the Hong Kong Stock Exchange has confirmed that Prudential may proceed with the proposed demerger of Jackson.

Jackson is progressing the registration process with the U.S. Securities and Exchange Commission ("SEC") in connection with the proposed demerger. The proposed demerger is subject, among other things, to a registration statement under the Securities Exchange of 1934 being declared effective by the SEC.

In accordance with the requirements of paragraph 3(f) of PN15, Prudential proposes to give due regard to the interests of its shareholders by providing qualifying shareholders with an assured entitlement to shares in Jackson by way of a distribution in specie of shares in Jackson (or cash alternative under certain circumstances) in proportion to their respective shareholdings in Prudential, if the proposed demerger proceeds. Details of the terms of the distribution in specie have not yet been finalised, and will be announced by Prudential in due course. As the demerger will be implemented by way of a distribution in specie of shares in Jackson by Prudential, the demerger will not constitute a transaction for Prudential under Chapter 14 of the Hong Kong Listing Rules.

i. **Forward-Looking Statements**

This announcement may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its and Jackson's future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty.

A number of important factors could cause Prudential's and Jackson's actual future financial condition or performance or other indicated results of the entity referred to in any forward-looking statement to differ materially from those indicated in such forward-looking statement. Such factors include, but are not limited to, the ability to complete the proposed demerger of Jackson Financial Inc. on the anticipated timeframe or at all; the ability of the management of Jackson Financial Inc. and its group to deliver on its business plan post-separation; the impact of the current Covid-19 pandemic, including adverse financial market and liquidity impacts, responses and actions taken by regulators and supervisors, the impact to sales, claims and assumptions and increased product lapses, disruption to Prudential's operations (and those of its suppliers and partners), risks associated with new sales processes and information security risks; future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the impact of economic uncertainty, asset valuation impacts from the transition to a lower carbon economy, derivative instruments not effectively hedging exposures arising from product guarantees, inflation and deflation and the performance of financial markets generally; global political uncertainties, including the potential for increased friction in cross-border trade and the exercise of executive powers to restrict trade, financial transactions, capital movements and/or investment; the policies and actions of regulatory authorities, including, in particular, the policies and actions of the Hong Kong Insurance Authority, as Prudential's Group-wide supervisor, as well as new government initiatives generally; given its designation as an Internationally Active Insurance Group ("IAIG"), the impact on Prudential of systemic risk and other group supervision policy standards adopted by the International Association of Insurance Supervisors; the impact of competition and fast-paced technological change; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the physical, social and financial impacts of climate change and global health crises on Prudential's business and operations; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal transformation projects and other strategic actions failing to meet their objectives; the effectiveness of reinsurance for Prudential's businesses; the risk that Prudential's operational resilience (or that of its suppliers and partners) may prove to be inadequate, including in relation to operational disruption due to external events; disruption to the availability, confidentiality or integrity of Prudential's information technology, digital systems and data (or those of its suppliers and partners); any ongoing impact on Prudential of the demerger of M&G plc and, if and when completed, the demerger of Jackson Financial Inc.; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; the impact of legal and regulatory actions, investigations and disputes; and the impact of not adequately responding to environmental, social and governance issues. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results of the entity referred to in any forward-looking statements to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading of this document.

Any forward-looking statements contained in this announcement speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this announcement or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

j. **Cautionary Statements**

This announcement does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to purchase, acquire, subscribe for, sell or dispose of, any securities in any jurisdiction nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor.

Group Chief Executive's report

Like all businesses, we faced new and unexpected challenges throughout 2020, but I am pleased to say that, thanks to the dedication of our people, we made considerable progress on all fronts. We are well placed to weather the continuing effects of Covid-19 and to deliver for our customers and shareholders over the longer term. Our wide range of innovative products, diverse and flexible approach to distribution, and relentless focus on operating efficiency enabled us to continue to operate profitably, and at the same time continue to invest heavily in organic and inorganic growth initiatives.

In 2020 we focused on three areas of activity. First, we have been meeting the urgent needs of our customers, colleagues and communities in light of the pandemic. Second, we advanced the pace and the extent of our plans in delivering more digitally enabled, scalable operations, and equipping us with the tools necessary for continued success in the future. This had the effect of enabling us to execute effectively during lockdown restrictions. Third, we accelerated the structural repositioning of the Group, in particular enlarging our footprint in the Asian markets with the most attractive structural opportunities, and working at pace towards the proposed separation of our US business, Jackson.

Supporting stakeholders through the pandemic

We have been working hard to support all our stakeholders throughout the year. For our customers, for our colleagues and distributors, and for the communities in which we work, we have introduced a range of innovative measures to both deal with the impact of the virus and provide the means for them to emerge in a stronger position once the effect of the virus has subsided.

For our customers, we have put in place measures to increase coverage during this difficult time and to mitigate financial stress resulting from the virus. In most of our markets we introduced free limited-time Covid-19 cover, and we made improvements to our offerings throughout the year, including providing cash relief upon diagnosis and hospitalisation, and paying out on death.

We have enabled our colleagues around the world to work remotely and have undertaken a number of new initiatives to find out about and respond to their concerns, in particular managing the risk of mental and physical health challenges of staff and their families. During the course of the year, we have ensured that our people working from home have had the necessary equipment and support to do their work safely and comfortably. With disruption to working patterns continuing into 2021, we are taking further measures to help colleagues manage the longer-term psychological strains of remote working by providing as much flexibility as possible, and offering sessions and support for psychological and physical wellbeing.

We also took a number of key steps throughout the year to support our distributors through the challenges presented by Covid-19. To support our agents, we worked with regulators in 2020 to virtualise the sales process, and 28 per cent of agency new cases since April 2020, where we focused our efforts initially, together with 27 per cent of bancassurance new cases since July 2020, have been made virtually. This compares with very low amounts in prior years. Our Mainland China joint venture, CITIC-Prudential, went a step further by creating a virtual reality 'meeting room' where clients can purchase our products.

In the communities in which we work, we launched a number of initiatives to provide support through the challenges of Covid-19 and beyond. In May we launched the Prudential Covid-19 Relief Fund to provide financial support for communities and for the volunteering efforts of our people in Asia, the US and Africa. The fund is being distributed among our markets around the world to support charitable and community projects tackling the immediate impact of the pandemic and its social and economic consequences.

Delivering on long-term strategic goals

We have had two key strategic objectives in 2020. The first has been to deliver the proposed separation of our US business, Jackson. The second has been to enable our shareholders to benefit to the maximum extent from the health, financial protection and savings opportunities in our chosen markets in Asia and Africa, while ensuring that we deliver more digitally enabled, scalable operations in those regions to position us well for future success.

In the US we are now able to provide clarity on the path and timing of Jackson's proposed separation. In January 2021 the Group announced an update on Jackson's capital position and that it had decided to pursue the separation of Jackson from the Group through a demerger, whereby shares in Jackson would be distributed to Prudential shareholders. Subject to shareholder and regulatory approvals, the planned demerger is expected to complete in the second quarter of 2021, and would lead to a significantly earlier separation of Jackson from the Group than would have been possible through a minority IPO and future sell-downs, which from market precedent may have lasted until 2023. This accelerated process will complete Prudential's structural shift from a diversified global group to a growth business focusing exclusively on the unmet health, financial protection and savings needs of people in Asia and Africa.

In order to accelerate de-levering during 2021 through the redemption of existing high coupon debt, Prudential is considering raising new equity of around $2.5-3 billion. Such a transaction, if executed, would maintain and enhance the Group's financial flexibility in light of the breadth of the opportunities to invest in growth and aim to increase the Group's investor base in Asia. Prudential believes that there are clear benefits to the Group, as an Asian focused company, of increasing its institutional ownership in Asia and enhancing the liquidity of its ordinary shares in Hong Kong. As a result, its preference is to raise new equity through a fully marketed global offering to institutional investors concurrent with a public offering in Hong Kong to retail investors, to be undertaken after the Jackson demerger, subject to market conditions. The Group has held discussions with shareholders and the allocation of any offering will take into account a number of criteria including the interests of existing shareholders and the strategic benefits of enhancing its shareholder base and liquidity in Hong Kong. The Group believes that there is potential for substantial value creation for all shareholders through the transformation of Prudential into a business purely focussed on profitable growth in Asia and Africa.

Prudential is planning to retain a 19.9 per cent non-controlling interest in Jackson[1] at the point of demerger, which will be reported within our IFRS balance sheet as a financial investment at fair value. Subject to market conditions, we intend to monetise a portion of this investment to support investment in Asia within 12 months of the planned demerger, such that the Group would own less than 10 per cent at the end of such period.

At the point of proposed separation and subject to market conditions, Jackson expects to have an RBC ratio[2] in excess of 450 per cent and Total Financial Leverage[3] in the range of 25 to 30 per cent. Jackson expects to achieve this level of RBC at the point of separation by contributing proceeds of debt and any hybrid capital raising to its regulated insurance subsidiaries. As a result, we do not expect that Prudential will receive a pre-separation dividend from Jackson.

Following the planned demerger, Jackson intends to pursue a focused strategy that prioritises optimisation and stability of capital resources while protecting franchise value. Jackson's financial goals as a standalone company will be designed to maintain a resilient balance sheet in order to provide shareholders with stable capital returns and profitable growth over the long-term.

In Asia, our focus is on strengthening our footprint in our key strategic markets, building our distribution and product range, and accelerating the digitalisation of our platform. Our businesses in Asia are aligned with supportive structural trends in the region, in particular rising prosperity and ageing populations, which are leading to significant and growing protection and savings gaps.

We have built top-three positions in nine Asian life insurance markets, and we have significant upside potential in the region's two largest markets, China and India. In Mainland China, our branch network with our local partner CITIC now covers 77 per cent of the country's 1.4 billion people[4], and we see a broad range of opportunities to participate more deeply in that market. In India the businesses continue to develop, with our life business recording a 17 per cent rise in health and protection APE sales and our asset management business increasing funds under management[5] by 6 per cent to $26.9 billion[20]. At 31 December 2020, our investment in ICICI Prudential Life Insurance was valued at $2.2 billion, in excess of the amount at which it is recorded in our IFRS and EEV financial statements.

Across our Asian markets, our comprehensive distribution network allows consumers to access our services how, where and when they choose. Our network of around 600,000 agents[6] is growing ever more skilled and productive. Agent recruits[7] in Asia (excluding India) rose 4 per cent in the year, and the number of agents qualifying for elite MDRT status doubled to more than 13,200. Our agent management has moved online across all markets, enhancing the effectiveness of agent communication and operation, and expanding sales capacity, with the number of cases per active agent[7] increasing by 8 per cent in 2020 from the prior year.

We have access to around 20,000 bank branches and are working closely with our partner banks to develop their online offerings. In 2020, we entered into a major strategic partnership with TMB Bank in Thailand and also began new relationships with banks in Vietnam, Laos, Cambodia and Ghana. We are also developing new distribution channels through our digital partnerships, including OVO, Indonesia's leading mobile payments platform, and The1, Thailand's largest loyalty platform.

The services we offer are equally broad. We meet the needs of everyone from affluent families looking for sophisticated financial advice to people considering saving and financial protection for the first time. Across Asia we have seen a heightened need for the health and protection products that we provide, due to the Covid-19 pandemic. In a survey, 58 per cent of consumers in our Asian markets stated that they were interested in products with value-added services, with 46 per cent of customers searching for new insurance products[8]. This has been converted into an increase in the proportions of APE sales represented by health and protection products in seven of our Asian markets.

We have East Asia's number-one Islamic life insurance business, which saw a 49 per cent growth in new policies in 2020, contributing to a 14 per cent growth in APE sales for these products in Malaysia and Indonesia combined. Malaysia Takaful is the leader in its market, with a 32 per cent share of the market in 2020, as is our sharia business in Indonesia, which has the largest Muslim population of any country[9], with a 35 per cent share of the sharia-compliant market. Our Business at Pulse (formerly PruWorks) proposition, which serves small and medium-sized enterprises, continues to develop, driving APE sales from group business up 17 per cent in 2020.

Our Asia asset manager, Eastspring, manages $247.8 billion in assets across 11 markets in Asia, and is a top-10 asset manager in seven of those markets. Eastspring has a broad product set and an unrivalled ability to serve the needs both of Asian savers and global investors seeking access to Asian opportunities, and we continue to diversify the product set.

Our investment in Africa gives us exposure to a growing, under-served continent whose population is expected to double to more than 2 billion people by 2050.

The pace of our innovation continues to accelerate, and that is translating into improved operational performance. In 2020, we launched or revamped 175 products[10] across our markets, contributing 20 per cent of APE sales. Of these, more than 115 were traditional and health and protection products, including Anxin, our digital health and protection solution for the China market, with 165,000 policies sold in 2020, around 50 per cent of them to new customers. In Indonesia several new launches of simplified standalone protection products saw their contribution rise to 37 per cent of APE, up from 8 per cent in 2019, which drove an overall increase in total new cases sold in 2020 of 12 per cent.

We have significant investment appetite in Asia and Africa that is based on the absolute size and demographic characteristics of each economy and our ability to build competitive advantage, leveraging our scale and expertise. While we will continue to build on our leading positions in Hong Kong and ASEAN, we see the greatest opportunities in the largest economies of China, India, Indonesia and Thailand. We expect this strategy to deliver profitable and sustainable compounding growth and high risk-adjusted returns for shareholders. Accordingly, our dividend policy announced in August reflects a rebalancing of capital allocation from cash dividends to reinvestment of capital into the Asia business.

Following the proposed separation of Jackson, our focus on Asia and Africa will support long-term delivery of future shareholder returns through value appreciation, with a focus on achieving sustained double-digit growth in embedded value per share. This will in turn be supported by the growth rates of new business profit, which are expected to substantially exceed GDP growth rates in the markets in which the post-demerger Prudential Group operates.

Pulse: building our digital capabilities

Our culture of innovation is exemplified by Pulse, our new digital platform, which is enhancing our digital capability across Asia and Africa.

The first iteration of the Pulse mobile app was launched in Malaysia in August 2019, with features focused on helping our customers – and the wider population – prevent and postpone ill-health. These initial services included an artificial intelligence-driven medical symptom checker, telemedicine and dengue fever alerts. Since then, Pulse has been launched in 11 languages across 11 Asian and four African markets. 58 per cent of Asian consumers desire access to healthcare value-added services[8], such as virtual GP, and new features have continued to be added to Pulse on a weekly basis to meet this demand. Covid-19 has stimulated interest in the health features of Pulse, as both consumers and policymakers embrace the flexibility and accessibility offered by digital health solutions in a period when travel and face-to-face contact has been restricted. By February 2021, Pulse had been downloaded around 20 million times[11]. Sales referrals from Pulse to our agents in 2020, together with a small amount of revenue from bite-sized products sold directly on Pulse, translated into $211 million of APE sales[12].

In 2021, as we continue to help customers become healthier, we intend to broaden our services to give greater support to people's wealth needs.

Financial performance

Our financial performance during 2020 provides tangible evidence of how we are successfully executing our strategy.

At a Group level, overall adjusted IFRS operating profit based on longer-term investment returns[13] (adjusted operating profit) for 2020 from our continuing operations was $5,507 million, 4 per cent higher than the prior year on a constant exchange rate basis, reflecting the continued growth of our Asia businesses, offset by lower US profits. Central expenses declined by 8 per cent, reflecting lower interest and head office costs. IFRS profit after tax from continuing operations[13] was $2,185 million in 2020 (2019: $1,953 million on an actual exchange rate basis).

In Asia, in a challenging environment, our diversified, high-quality, recurring-premium business model enabled us to continue to grow value and scale, with our total Asia embedded value reaching $44.2 billion, an increase of 13 per cent compared with 2019, and more than doubling over the last five years. Adjusted operating profit was 13 per cent higher than 2019 on a constant exchange rate basis, driven by the resilience of our in-force life business and the rebound of the level of funds managed by our asset manager Eastspring in the second half of 2020.

The quality of our historic book of insurance business contributed to resilient in-force growth, with a 6 per cent increase in renewal premiums[14] to $20.1 billion. The high level of renewal premiums is the result of the high level of regular-premium business we sell (representing 90 per cent of APE sales in 2020), the high mix of health and protection business, which formed 65 per cent of new business profit in the year, and a 90 per cent customer retention rate[15]. This contributed to life insurance adjusted operating profit in Asia growing by 14 per cent (on a constant exchange rate basis). The performance was broad-based, led by Hong Kong, up 20 per cent, with a further eight markets delivering double-digit growth.

Our Asia asset management business, Eastspring, saw total assets under management reach $247.8 billion, up 3 per cent from the end of 2019 and 13 per cent higher than 30 June 2020, on an actual exchange rate basis, with external net outflows moderating in the second half of year alongside improving equity markets. Eastspring's funds under management also benefited from net inflows from internal Asia life funds of $8.5 billion during 2020, representing a continuing source of reliable funds flows to the Eastspring business and a structural strength of our business model. Overall, this helped the adjusted operating profit increase by 2 per cent compared with the prior year. Continued cost discipline helped maintain the cost/income ratio[14] at 52 per cent.

Despite the continuing impact of the Covid-19 pandemic across our markets, we delivered a relatively resilient performance in respect of new business profit and APE sales. Outside Hong Kong, new business profit[17] was (4) per cent lower, in line with a (6) per cent reduction in APE sales[18]. In Hong Kong, new business profit was down (62) per cent, with APE sales (63) per cent lower, largely as a result of the impact of Covid-19-related restrictions on cross-border sales. Overall, this led to a (28) per cent fall in Asia APE sales as compared with 2019. China, our third-largest market by APE sales, was a particular highlight, with bancassurance APE sales up by 34 per cent compared with 2019. Agency APE sales rebounded by 15 per cent in the second quarter as restrictions were lifted, and overall APE sales in the second half increased by 4 per cent compared with the same period in the prior year. New business profit in China increased 3 per cent to $269 million and new business profit margins strengthened. This was led by the agency force focus on protection products, which accounted for 53 per cent of sales from this channel and as a result agency channel margins[16] climbed to 85 per cent (2019: 74 per cent).

The nature and timing of Covid-19-related disruption varied considerably across our markets. The ability of our franchise to grow as restrictions were lifted is evident from the sequential increase in APE sales in nine markets including Hong Kong, with the third-quarter total Asia APE sales above the second by 33 per cent, and the fourth quarter above the third by 18 per cent.

We continue to build our operations in Africa, with APE sales reaching $112 million, representing growth of 51 per cent. Our African businesses are progressing well with the adoption of our new digital sales management system, which has driven positive operating trends.

Jackson maintained its leading position in the US variable annuity market[19], with new variable annuity APE sales up 13 per cent to $1,662 million, reflecting customer demand for Jackson's products in this market and the breadth and expertise of its distribution force.

Jackson's adjusted operating profit was $2,796 million (2019: $3,070 million), reflecting DAC adjustment effects and the expected reduction in spread-related earnings following the reinsurance contract with Athene in June 2020 and lower asset yields, partially offset by higher fee income from increased average account balances. Overall Jackson incurred a $(247) million post-tax loss (2019: loss of $(380) million), where the economic nature of our hedging programme, and the related accounting mismatches, alongside the exceptional equity volatility seen over the year, resulted in the recognition of losses on equity derivatives taken out as part of Jackson's hedging programme.

Outlook

Throughout the Covid-19 crisis that dominated 2020, we demonstrated our ability to act at pace, our adaptability and the resilience of our underlying business. We will continue to apply these strengths as we move forward. With each cycle of lockdown and reopening, we have adopted varied responses depending on the local conditions, we have improved our agility as we have responded, and the strength of our business has remained apparent. We expect that vaccination programmes will be launched in a number of our markets in 2021, triggering a gradual return to more normal economic patterns. However, the pace of these programmes and their effect is likely to vary substantially and gives a degree of uncertainty over performance of the business in the short-term.

Our most significant market by new business profit and embedded value is Hong Kong. Sales to Mainland Chinese individuals in Hong Kong have been severely curtailed by the closure of the border with mainland China. There is at present unlikely to be a lifting of the border restrictions until the third quarter of 2021 at the earliest, but this depends on a number of factors. However, we believe there will continue to be demand from Mainland Chinese customers for the Hong Kong product suite once the border reopening occurs and we have been building on our existing product and digitalisation capabilities to continue to serve both these and domestic customers in the future. Since the second quarter of 2020 we have seen sequential quarterly increases in sales in Asia, but our continued success across all our markets will be dependent in part on government reaction to changes in the number and type of Covid-19 cases and the vaccine roll-out.

Nevertheless, we are confident that the demand for our products will continue to grow in line with the structural growth in our chosen markets, and that our expanding and increasingly digitalised distribution platforms will meet that demand.

That confidence in the future is underpinned by the clarity of our strategy for delivering long-term profitable growth. The Group aims to deliver outperformance by building leadership positions in the markets with the greatest scale, investing in people and innovating, and nurturing relationships with our key stakeholders.

If we execute successfully, the outcome of our strategy will be growth in new business profit that is expected to outpace the economic growth of the markets where we operate. We are confident that our clear and focused strategy, coupled with our proven execution ability, leaves us well placed to continue to deliver value for our shareholders and all our stakeholders over the long term, with a focus on achieving sustained double-digit growth in embedded value per share.

Notes
1 Prudential is planning to retain a 19.9 per cent voting interest and a 19.7 per cent economic interest.
2 Representing the RBC ratio of Jackson National Life that reflects the capital and capital requirements of Jackson National Life and its subsidiaries, including Jackson National Life NY.
3 Calculated on a US GAAP basis as the ratio of total debt (including senior debt, hybrid debt and preferred securities) to total debt and shareholders' equity (excluding Accumulated Other Comprehensive Income).
4 2019 data for population. Sources from National Bureau of Statistics and CBIRC.
5 Full year 2020 total funds under management, including external funds under management, money market funds, funds managed on behalf of M&G plc and internal funds under management, reported based on the country where the funds are managed.
6 Including India.
7 Excluding India.
8 Source: Swiss Re COVID-19 Consumer Survey, April 2020.
9 Source: Indonesia Ministry of Religion Data Centre.
10 Including 37 bite-sized digital products.
11 As of 22 February 2021.
12 APE sales substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
13 Attributed to the shareholders of the Group before deducting the amount attributable to the non-controlling interests. This presentation is applied consistently throughout the document.
14 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
15 Excluding India, Laos and Myanmar.
16 The value of new business on and EEV basis expressed as a percentage of APE sales. See note 1 of the EEV basis results.
17 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV principles.
18 APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. See note II of the Additional unaudited financial information for further explanation.
19 LIMRA: through the third quarter of 2020, Jackson accounted for 16.5% of new sales in the U.S. retail variable annuity market and ranked number 1 in variable annuity sales.
20 Representing Prudential's 49 per cent interest.

Group strategy and operations

Prudential's differentiated product and geographic portfolio is well positioned to meet the protection and savings needs of the growing populations in Asia and Africa, where insurance penetration is currently low and demand for savings solutions is rapidly developing. In the United States, Jackson remains a leading provider of variable annuities to retail investors. Following the proposed demerger of Jackson, Prudential intends to take full advantage of the long-term structural opportunities in Asia and Africa. It seeks to operate with discipline in allocating capital for long-term returns, and to deliver profitable and increasingly diversified growth.

Group overview

Our purpose is to help people get the most out of life. We make healthcare affordable and accessible and promote financial inclusion across our markets. We protect people's wealth and help them grow their assets, and we empower our customers to save for their goals. This purpose is served through implementing our business strategy, set out in this section and our environmental, social and governance (ESG) strategy set out in our ESG report.

With this purpose in mind, our intention is to take full advantage of the long-term structural opportunities in Asia and Africa and to pursue a path for a fully independent Jackson. In January 2021, the Board announced that it had decided to pursue the separation of Jackson from the Group in the first half of 2021 through a demerger, whereby shares in Jackson would be distributed to Prudential shareholders. The result of this separation will be two separately listed companies with distinct investment propositions, which the Group's Board believes will lead to improved strategic outcomes for both businesses.

The Prudential Group will focus exclusively on its high-growth Asia and Africa businesses. We will also accelerate our development of digitally enabled products and services to help prevent, postpone and protect our customers from threats to their health and wellbeing, as well as supporting them to achieve their savings goals.

Jackson will continue to help Americans grow and protect their retirement savings and income to enable them to pursue financial freedom for life through its differentiated products, well-known brand and industry-leading distribution network.

Further information on the Prudential Group's and Jackson's respective businesses are set out below. The result of the proposed separation of Jackson will be two separately listed companies with distinct investment propositions, which the Group's Board believes will lead to improved strategic outcomes for both businesses.

Asia and Africa

We have a pan-Asian footprint, with our largest life and protection operations in Hong Kong, Singapore, Indonesia and Malaysia as well as our joint venture in China. We also operate in Thailand, Vietnam, Taiwan, the Philippines, Cambodia, Laos and Myanmar and have a successful partnership in India. Within this footprint, Prudential has top three positions[1] in 9 out of 13 life markets and extensive distribution networks, across digital, agency and bancassurance channels. We focus on delivering profitable regular premium health and protection insurance products and fee-based earnings.

In asset management, Eastspring manages $247.8 billion across 11 markets in Asia and provides focused investment solutions to third-party retail and institutional clients as well as to our internally sourced life funds. Eastspring is a top 10 asset manager in 7 of the 11 markets in which it operates, and is the largest pan-Asian retail asset manager excluding Japan[2].

Since 2014 we have also built a rapidly growing multi-product, multi-distribution business in Africa, with operations now in eight countries across the continent, and have over one million customers. Starting in 2021 the regional office for Africa will be based in Nairobi, making East Africa our hub for the continued success of operating on the continent.

Our offering in Asia and Africa is evolving to respond to growing customer awareness and demand for products that address health and wellness, as well as providing life insurance cover. Pulse by Prudential, our health and wellness platform provides a compelling offering to address these needs, building on our existing distribution channels and trusted brand. Further information on Pulse by Prudential, and our markets, customers, products and distribution within the region is set out below.

Asia has grown significantly over the last 10 years, for example over the decade from 2010 to 2020, embedded value in Asia grew on average by 14 per cent[3] per annum and at 31 December 2020 was $44.2 billion. Since 2013, Prudential has committed almost $10 billion of capital to support growth in Asia, including around $5 billion of inorganic investments to grow our distribution reach and to build digital capability. Around one-third of the total investment has been made since January 2019. Investments in 2020 included establishing a 15-year strategic bancassurance partnership with TMB, which significantly strengthens our distribution capability in Thailand's fast-growing life insurance sector and strongly complements our top-five position[2] in the country's mutual fund market. In other markets we have also established a new bancassurance partnership with SeABank, a fast-growing bank in Vietnam with approximately 1.2 million customers and almost 170 branches, as well as signing new agreements with Banque Franco-Lao (BFL) BRED Group in Laos, and in early 2021 with Phnom Penh Commercial Bank Plc (PPCBank) in Cambodia.

We have significant investment appetite in Asia in the future that is based on the absolute size and demographic characteristics of each economy and our ability to build competitive advantage leveraging our scale and expertise. While we will continue to build on our leading positions in Hong Kong and members of the Association of Southeast Asia Nations ('ASEAN'), we see the greatest opportunities in the largest economies of China, India, Indonesia and Thailand. This investment is expected to deliver profitable and sustainable compounding growth and will support long-term delivery of future shareholder returns through value appreciation, with a focus on achieving sustained double-digit growth in embedded value per share.

Markets

The life insurance industry in Asia and Africa remains in the early stages of development, as characterised by the low penetration rates across the region for insurance. In particular, most of our Asia markets are approaching the level of per capita annual income when demand increases sharply. Around 50 per cent of the global population lacks access to essential health services[13], and across the Asia region specifically, there are significant health funding and wellness gaps; 80 per cent of Asians do not have insurance cover[14] and spend some $400 billion on healthcare as an out-of-pocket expense[15]. Similarly, in Africa, while mobile phone access has increased tremendously over the last 20 years, less than 50 per cent of Africans have access to modern health facilities[16], and 80 per cent have to rely on public health facilities, which are often understocked, understaffed, and difficult to reach due to the physical and financial burdens of transportation[17].

Our largest market in respect of APE sales is Hong Kong, which accounted for 21 per cent of our overall Asia APE sales in 2020, followed by Singapore, contributing 17 per cent and China which accounted for 16 per cent. The rest of our new business is diversified across 10 markets. Our adjusted operating profit is well balanced, with the largest contributions from Hong Kong, Singapore and Indonesia.

With regards to strategy, we see the most significant opportunities for growth potential in life insurance and asset management in the four largest economies in our footprint, namely China, India, Indonesia and Thailand. Our joint venture operations in China and India together with our businesses in Indonesia and Thailand, provide us with scaled access, where we can build leadership positions with competitive advantage and economies of scale. We also intend to continue building on our leading positions within Hong Kong and ASEAN.

In China, our China life business is a 50/50 joint venture with CITIC, a leading Chinese state owned conglomerate. Our China JV business performed well in 2020 after the Covid-19 disruption in the first quarter, increasing new business profit by 3 per cent. Building on our existing nationwide coverage of 20 branches and 99 cities (an increase of five since 2019), we expect our China JV business will continue to grow at pace by expanding and deepening our presence from our current geographical footprint, and by leveraging our multi-distribution platform. We operate our asset management business in China through CITIC-Prudential Fund Management Company Limited, a JV with CITIC with assets under management of $9.6 billion[19], as well as our wholly owned private fund manager operationalised in 2019 within Eastspring, which now has sourced and sub-advised assets under management of $743 million. Our Chinese life insurance joint venture has also established its own asset management company in 2020, Prudential-CITIC Asset Management Co, which further strengthens our capabilities in savings and retirement products.

In India, our business consists of our 22.1 per cent holding of the Indian Stock Exchange listed life insurance business, ICICI Prudential Life Insurance (with our investment valued at $2.2 billion as at 31 December 2020) and 49 per cent of the asset manager, ICICI Prudential Asset Management, which has total funds under management[7] of $26.9 billion[19]. Our India life business continues to pivot to health and protection, with a 17 per cent increase in health and protection APE sales, which now represent 24 per cent of total APE sales (up 9 percentage points on 2019). We will continue to capture the significant potential in the Indian life market, with an aspiration to double 2019 new business profit in three to four years, by continuing to grow the business, improving retention and enhancing productivity.

In Indonesia, we continue to strengthen our market leadership, including in the sharia market where we increased APE sales by 6 per cent and new business profit by 27 per cent in 2020, and propel growth by broadening our product offerings, as well as digitalising our business model. We added 60 products during 2020, doubled MDRT qualifiers to over 2,100, and launched digital products through both Pulse and our OVO partnership. We have seen positive momentum in the last quarter of 2020, being the highest sales quarter of 2020, and believe our business transformation will continue to drive growth in the future.

In Thailand our new distribution partnership with TMB will help us achieve top-three leadership in the bancassurance channel, and we will further accelerate growth by developing a holistic omni-channel business model. Coupled with the completion of the acquisition of TMBAM and TFund which gives us a top-five ranking in the mutual fund market, this will give us a high-quality platform to deliver best-in-class health and wealth solutions to serve the growing retirement and investment needs of both the rising middle class and the growing high net worth segments.

In our other large businesses, we also see ample opportunities to continue to grow at pace. In Hong Kong, we believe based on our own and third party surveys there is latent demand from Mainland Chinese customers for our Hong Kong product suite and that the eventual normalisation of visitor arrivals as the border reopening occurs will allow for the return of this important source of new business. For example, 61 per cent of Mainland Chinese visitor preference[20] is to receive critical illness medical treatment in Hong Kong. In the meantime, we continue to build our already strong and substantial Hong Kong domestic business through multi-channel expansion and increased digitalisation of our service offering. We also continue to broaden our product offerings, such as our mid-tier medical reimbursement product, the PRUHealth VHIS VIP Plan, to fulfil the protection needs of our customers. We will also broaden access to Mainland China consumers through Greater Bay Area initiatives and remain a destination of choice through our market-leading products and service propositions.

In Singapore, we see significant opportunities in expanding the servicing of the high net-worth and small and medium enterprise (SME) markets, alongside supporting a fast ageing population to address under-covered retirement and health needs. In Malaysia, we have leading market positions in both the conventional and Takaful markets. In particular, in the underprovided Takaful segment where we see substantial opportunity for growth, we increased our APE sales by 26 per cent and our new business profit by 29 per cent in 2020.

In our other high-potential growth markets of Vietnam, the Philippines, Cambodia, Laos and Myanmar, we see the opportunity for rapid growth through the roll-out of our efficient and scalable business model, multi-channel distribution networks and the provision of market leading digital products and services through Pulse. These markets currently have very low levels of life insurance penetration, for example with life insurance penetration[5] of just 1.4 per cent in Vietnam and 1.2 per cent in the Philippines. However, with rising GDP per capita at or reaching a threshold of $10,000 to $20,000, and supported by our proven and market leading positions, we are confident of delivering new life insurance sales growth well in excess of GDP growth in these markets.

We see substantial opportunities to accelerate our asset management business, Eastspring, building on its leading market position as Asia's largest retail asset manager (excluding Japan)[2] and structural advantages of reliable and predictable inflows from our life businesses. The completion of the TMBAM and TFund acquisitions in Thailand and successful development of its China business, mentioned above, have strengthened its strategic portfolio.

Since 2014 we have also built a rapidly growing multi-product business in Africa, with operations now in eight countries across the continent. Despite the Covid-19 pandemic, APE sales at Prudential Africa have grown by 51 per cent[21] to $112 million during 2020, with the number of active agents significantly ahead of the same period last year. In Ghana, we have renewed our exclusive agreement with Fidelity Bank for an additional 10 years, building on a successful partnership over the past five years. We also announced a new partnership with Vodafone Ghana to provide an innovative microinsurance product to their 9 million plus subscribers. Meanwhile, our team in Nigeria has launched a new partnership with the largest mobile operator in the country, MTN, in an effort to reach its subscriber base of over 70 million people and provide protection to the millions of uninsured Nigerians.

Products and brands

We offer a wide range of insurance products that are tailored to local market requirements and fast-changing individual needs. We focus on health and protection and savings products with 65 per cent of new business profit contributed by health and protection solutions and the rest by savings products that include participating, linked and other traditional products.

The diversity and resilience of our business is supported by the continued innovations and enhancements we make to our product range, which include broadening coverage for new risks and adding innovative features. In 2020, we introduced or revamped 175 new products[22] contributing 20 per cent of APE sales, including simplified lower case-sized protection offerings.
The Covid-19 pandemic has reinforced customer interest in health and protection products, with 58 per cent of consumers across our Asian markets desiring access to healthcare value-added services, such as access to a virtual GP[23]. This has been converted into an increase in the proportions of APE represented by health and protection products in 7 of our Asian markets, led by India (up 9 percentage points to 24 per cent of APE sales), Singapore (up 5 percentage points to 25 per cent of APE sales), Thailand (up 9 percentage points to 25 per cent of APE sales) and Vietnam (up 3 percentage points to 17 per cent of APE sales), in turn resulting in increased margins for our Asia markets excluding Hong Kong. Of the 175 new or revamped products noted above, more than 115 were traditional and health and protection products.

Our Hong Kong business offers domestic Hong Kong residents and mainland visitors sophisticated critical illness, medical benefits and life insurance protection business. 91 per cent of all Hong Kong consumers[23] indicated they would retain life insurance even if their financial position is disadvantaged by Covid-19 re-enforcing the resilience of this market. The investment proposition provides access to international equities and bonds. In particular, our main with-profits product offering uses a with-profits structure, which pools the investments of policyholders and allocates returns based on long-term investment performance (similar to that historically used in the UK), and leads to attractive margins. The business has a high level of renewals that is substantially higher than the premiums from new business. Singapore offers a similar type of product mix and also uses a UK-style with-profits structure.

In China, Anxin, our digital health and protection solution generated 165,000 policies in 2020, with around 50 per cent to new customers. In Hong Kong, we launched in the second half of 2020 PRUHealth VHIS VIP Plan, a tax-efficient medical insurance targeting the mid-tier segment, which has contributed 10 per cent of new business profit for the domestic segment in the fourth quarter of 2020.

In Indonesia, we retain leadership in the sharia-compliant market, with 35 per cent share, accounting for 37 per cent of agency sales in Indonesia. Our PRUCinta product, the first traditional sharia product with specific cash value, accounts for 14 per cent of Indonesia agency sales. More widely, we have launched 60 products in Indonesia in 2020, including lower ticket standalone protection products which collectively accounted for 37 per cent of the APE mix (2019: 8 per cent) and 52 per cent of new case count mix (2019: 11 per cent).

Alongside offering products that meet customer needs, we invest in our brands to build trust, drive awareness and attract and retain customers.

Distribution and customer engagement
We believe in a multi-channel and integrated distribution strategy for our business which can adapt and respond flexibly depending on local market conditions. Our distribution network is one of the strongest and most diversified in the Asia region, across agency, bancassurance and non-traditional partnerships, including digital. In recent years, we have also established non-traditional partnerships to broaden our customer reach, particularly the digitally-savvy millennial segment. In total, we have more than 300 life insurance and asset management distribution partnerships in Asia. Alongside these distribution channels we also have Pulse by Prudential (discussed further below).

Agency
We have around 600,000 licensed tied agents[24] across our life insurance markets, and the productivity of active agents increased 8 per cent[25,26] in the year, based on number of cases, which are becoming smaller in size as we, and our customers, focus increasingly on standalone protection products. Our agency channel is a core component of our success, comprising 74 per cent of our new business profit given the high proportion of high margin protection products sold.

Our continued support for the agency channel positions us well for sustainable growth. Our agent management has moved online across all markets, enhancing effectiveness of agent communication and operation, and expanding sales capacity with agent recruits[26] of 143,000 in the year. We deployed virtual sales tools across all markets for almost all products, and 28 per cent of agency new cases since April 2020, together with 27 per cent of bancassurance new cases since July 2020 have been made virtually. Despite the gradual relaxation of Covid-19 containment measures in several markets, virtual selling tools have now become mainstream with distributors, and virtual sales in the fourth quarter represented 23 per cent of both agency and bancassurance sales.

We place great emphasis on agent professionalism and promote career progression by providing tailored training programmes that share experience and best practice across different markets. In addition, to further assist our agents during the sales process and enhance productivity we continually upgrade the tools at their disposal. During 2020, the number of agents qualifying for the Million Dollar Round Table (MDRT) doubled in the year to more than 13,200.

In Africa the number of active agents in 2020 significantly increased from the prior year. The increase in active agents is a direct result of implementing our Rookie Development Programme in each market, which helps with agent professionalism and customer focus, as well as transitioning new agents from the classroom to the field, and making those agents active within the first month of their recruitment. In most markets, as a response to Covid-19-related restrictions, we rapidly innovated to create an end-to-end virtual sales submission process, with a virtual recruitment and onboarding process for distributors as well as delivering training digitally. Moreover, 2020 marked the first time each market has had at least one agent qualify for the MDRT increasing the number of qualifiers to 38 from 15 in the prior year.

Bancassurance
We also have a leading bancassurance franchise that provides access to around 20,000 bank outlets through our strategic partnerships with multi-national banks and prominent domestic banks.

Our bancassurance partnerships made an important contribution to our business last year. Our new partnership with TMB in Thailand, which commenced on 1 January 2021, will give us access to an expanded network of 685 branches. In preparation we have trained more than 5,500 bank sellers and nearly doubled the number of sales support staff to 240. We have launched a refreshed set of propositions encompassing the high net-worth, retail, commercial and SME segments and rolled out a new e-POS system.

Outside of Hong Kong, our bancassurance channel APE sales remained stable despite Covid-19 related disruption. We were particularly pleased to see the positive momentum in our bancassurance channel in Indonesia, which saw APE sales up 15 per cent[21]. We continue to look for opportunities to expand our presence in this market. There were also particularly strong performances in our China JV (APE sales up 34 per cent[21]), Thailand (APE sales up 21 per cent[21]) and Vietnam (APE sales up 35 per cent[21]), demonstrating our channel strength in these markets.

We have also developed strategies to reach the digitally-savvy millennial segment through UOB Mighty, UOB's digital bank, and new partners such as Central in Thailand. Prudential Laos has also recently partnered with Star Fintech to launch payment services via its U-money platform. We anticipate that these partnerships will significantly enhance our reach to millennial consumers in the country through the joint development of digital propositions that encompass health, wellness and wealth products. The experience will also help us in designing and managing distribution strategies in our existing markets as well as in targeting new points of entry.

Pulse by Prudential
In 2020, we have been able to accelerate our digital development and associated customer-centric digital ecosystem.

The Covid-19 pandemic has accelerated growing awareness and demand for health and wellness solutions. For example, 46 per cent of Asian consumers searched for new insurance policies[23]. Our digital capabilities allow us to make healthcare more accessible and affordable in the countries where we operate.
Prudential meets this growing demand for health and wellness through its super-app Pulse by Prudential. Pulse is a free digital mobile application that offers holistic management, artificial intelligence (AI)-powered self-help tools, and information to serve users 24/7 and promotes health and wellbeing through a range of value-added services. These include telemedicine, health and wellness content and communities, health challenges and rewards, chronic disease management, as well as a self-diagnosis and self-help tools. Pulse has been launched[27] in 11 different languages across 11 markets in Asia (Malaysia, Indonesia, Singapore, Hong Kong, the Philippines, Thailand, Vietnam, Cambodia, Laos, Taiwan, and Myanmar) and most recently four markets in Africa (Kenya, Nigeria, Cameroon and Zambia), with varying levels of development.

Pulse has been downloaded around 20 million times[27] since its initial launch in 2019 in Malaysia. Through this single super-app, Pulse is being developed to offer an integrated health, wealth, and SME ecosystem. It has integrated 32 local and regional partners[27], including most recently, a signed partnership with Central Group, a leading retailer in Thailand, that will enable Pulse to access Central Group's existing digital engagement with customers to offer insurance and health solutions to them. We have also signed a partnership with HR Easily, an HR services digital platform which we make available to our SME customers through 'Business at Pulse'. We are seeing continued increase in the usage of AI assessment and triage, lifestyle management and wellness, and telemedicine consultation services, with over 1.5 million users[27] accessing at least one of the services in Asia, since launch.

Pulse also enables us to reach a younger customer demographic, with the majority of Pulse users in the 18 to 35 age group compared with the average age of an existing Prudential customer profile of around 40, and is broadening our potential customer base, with 70 per cent of Pulse consumers new to Prudential.

37 digital bite-sized products were made available in Pulse in 2020. Some examples of bite-sized products launched by Prudential within Pulse include products related to common critical illnesses in Asia (cancer, stroke, heart attack), tropical disease protection (dengue, malaria, measles), and daily care (food poisoning, minor burns, broken bones, and accident income support).

With greater customer touchpoints, we are also able to generate Pulse-led data-driven leads for agents. We saw over 2.2 million leads generated for agents in 2020 which together with a small amount of revenue from policies sold directly through Pulse, generated APE sales of $211 million[28] in 2020.

Recently, we introduced a subscription plan to help Pulse users eat healthier and promote a more active lifestyle, and even save for the future. These paid subscription plans, priced at a low cost of between $1-$3 per month, are currently available to users in Hong Kong, Indonesia, Malaysia, Thailand, Vietnam and the Philippines, with plans to expand on the offerings and launch in additional markets in 2021. The paid subscription plans have received 164,000 active subscribers during 2020.

We have undertaken steps to meet our objective for Pulse to provide a platform for end-to-end service, with the same app used by customers and distributors. Agents have the ability to sell Prudential products virtually within the Pulse platform in the Philippines, Malaysia and Indonesia. Meanwhile, e-claims are available in Indonesia, Malaysia, Cambodia, Myanmar and the Philippines. We believe the integration with the life value chain across sales, claims and payments will allow Pulse to enhance value to new and existing users and drive efficiencies in the business.

Customer service and loyalty
We believe that excellent customer service has been key to our strong reputation and leading pan-Asia franchise. Customer loyalty has remained high during the Covid-19 pandemic, with a retention ratio consistently in excess of 90 per cent. The satisfaction and trust our customers have in our business also translates into a high proportion of repeat sales, which comprised 47 per cent of APE sales in 2020. The result of these dynamics is a portfolio of over 25 million in-force policies, with each policyholder holding 1.6 policies on average.

We are focused on unlocking new customer segments through a broader proposition set. During 2020, we added a further 1.3 million new life customers from traditional channels. Our overall life customer numbers increased to 16 million, of which about 30 per cent are our health insurance customers.

We continue to identify and target new customer groups and segments outside our traditional focus in the Mass and Affluent space in order to accelerate our future growth. Within the Emerging segment, Pulse leads the customer acquisition as described above. Within the High Net Worth segment, we first expanded into this segment in 2018 with Opus in Singapore, providing a differentiated experience for our customers, including a dedicated service team, wealth planners and external experts covering trust and legal matters. Within the Group segment, we also developed tailored offerings for small and medium-sized enterprise (SME), a segment that remains under-served and offers significant growth potential. This strategy is advanced through our all-inclusive platform, Business at Pulse platform, which provides digitally-enabled insurance and HR solutions for business owners and their employees, supporting a 17 per cent increase in APE sales from group business in 2020. We have extended our Business at Pulse platform from Singapore and Indonesia to Hong Kong, the Philippines and Thailand, and will launch next in Malaysia.

Integrated asset management
Eastspring is a leading Asia-based asset manager, with operations across 11 markets in Asia, plus offices in Europe and North America. With $247.8 billion of assets under management and over 300 investment professionals, it is the largest pan-Asian retail asset manager excluding Japan[2] and is a top-10 asset manager in 7 of the 11 markets in which it operates.

Eastspring has a broad product set, as well as significant distribution capabilities and industry-leading operational efficiency. Eastspring provides focused investment solutions, across equity, bonds and multi-asset products, to our internally sourced life insurance funds and third-party retail and institutional clients. Distribution channels include wholesale, intermediary and direct online formats, which are tailored as required, depending on the geography involved. This means that Eastspring can continue to grow and develop through both market cycles and changes to individual investment styles. Operational efficiency has led to industry-leading margins, with investment in technology, for example the implementation of BlackRock's Aladdin system, to deliver common platforms, and world-class risk management and governance capabilities.

In terms of strategy, we see substantial growth opportunities to accelerate Eastspring, building on its leading market position as Asia's largest retail asset manager[2] (excluding Japan) and structural advantages of reliable and predictable inflows from our life business. In particular, we see China, India and Thailand as our most material market opportunities. Eastspring is well positioned to broaden its investment capabilities to serve the global needs of Asia-based clients, while offering global investors access to its expertise in investing in Asian markets. For example, in October 2020, Eastspring announced a strategic partnership with Atlantic Zagros Financial Partners to expand its offshore distribution capabilities to the Americas. To support this ambition Eastspring's strategic objectives include developing its distribution, product range and investment advisory capability, while continuing to enhance support for the asset management needs of Prudential's life insurance business.

To support these objectives, Eastspring has organised its operations into three pillars that will drive the expansion of its capabilities and growth in the future:

- Alpha engine – representing centralised investment capability with an emphasis on driving asset class return on investment after adjusting for market-related volatility. This pillar will focus on diversifying Eastspring's investment capabilities and styles.
- Advisory solutions – standalone advisory service for institutional clients; focusing on solutions & products for that market, including the growing need to support clients' Environmental, Social and Governance (ESG) requirements. This pillar will also focus on reinforcing the quality of service provided to the Group's life operations and supporting the Group's ESG strategy.
- Complementary partner solutions – this pillar will focus on complementary investment capabilities sourced from partners, in order to enhance strategies available to investors.

In developing its capabilities, Eastspring will further integrate its offerings with those of Prudential's life business, to enable the Group to seamlessly offer services across the full spectrum of Life, Health and Wealth products. Eastspring will leverage Prudential's established distribution channels.

We believe these developments will further enhance Eastspring's position as a leading asset manager in Asia.

Summary

There is a growing awareness and demand for wellness and insurance products across Asia, re-enforced by the global pandemic. We continue to invest in our chosen markets, building on our leading position in Hong Kong and ASEAN, and meeting the growing needs of customers in the largest economies of China, India, Indonesia and Thailand. This customer need is addressed by our wide range of insurance products, tailored to local markets, and extensive and diversified distribution network. We continue to amplify these existing capabilities through extending our China footprint, broadening our product offerings and enhancing our digital presence. Our innovative and customer-centric digital ecosystem increasingly complements our existing distribution channels and provides access to address the needs of new and fast growing customer segments. Our overall customer offering is supported by our integrated asset manager Eastspring, which has a clear strategy to expand its capabilities to deliver growth.

We believe these enhanced capabilities, alongside the resilience of our high quality and well diversified platform, mean our Asia business is well positioned to capture the structural opportunities open to us and therefore deliver profitable and sustainable compounding growth and high risk-adjusted returns for shareholders.

US operations

Jackson helps Americans grow and protect their retirement savings and income to enable them to pursue financial freedom for life. Following the planned demerger, Jackson intends to pursue a focused strategy which prioritises optimisation and stability of capital resources while protecting franchise value.

Maintaining a resilient balance sheet is critical to Jackson meeting its objectives of fulfilling its obligations to policyholders, providing stable capital returns to shareholders, supporting the development of the business and enabling profitable growth over the long-term.

In line with Jackson's disciplined approach to pricing and risk management, pricing actions taken in the first half of 2020 in response to changing market conditions and to preserve statutory capital, resulted in an expected and material reduction in new fixed annuity and fixed index annuities sales.

Jackson has identified three main areas for business development.

First, Jackson intends to maintain and enhance its comprehensive suite of retirement products that it believes are sought after by retail investors and Jackson's distribution partners.

Second, it plans to optimise the sales mix across its broad product portfolio by leveraging the strength of its industry-leading distribution network and entering into new distribution agreements.

Third, Jackson seeks to develop the overall market demand for retail annuities by partnering with wealth management solution providers that historically have not considered annuities as a solution to provide retirement savings and income protection.

These strategies are discussed further below.

Markets

Jackson believes that the US retirement savings and income solutions market presents a compelling growth opportunity and will support its development in the future. The primary drivers of the industry's trends are believed to be the following:

- **The target demographic is expected to continue to grow**. Over the next decade, the proportion of the US population aged 55 or older is expected to grow at a rate double that of the total US population, resulting in approximately 112 million individuals who will be aged 55 or older by the year 2030[29].

- **The need for new sources of retirement income is expected to grow.** Over the last few decades, there has been a pronounced shift from retirement income funded primarily by pension plans to retirement income funded primarily by individual savings. Of all private sector workers in the United States, only 15 per cent had access to a defined benefit pension plan in 2020 (down from 20 per cent in 2010), and 52 per cent only had access to a defined contribution retirement plan in 2020[30]. This trend has increased the burden on individuals to save for their retirement and to use those savings to generate income during retirement.

- **Annuities are underutilised in the world's largest retirement savings market**. The United States is the world's largest retirement savings market estimated to consist of approximately $51 trillion in professionally managed retail and institutional assets as of 31 December 2019[31]. However, only approximately $2.4 trillion of professionally managed assets were invested in annuities as of 31 December 2019. A key driver of this underutilisation is the historical lack of integration of annuities into wealth management platforms and financial planning tools available to retail investors. Jackson has been working actively with its distribution partners and financial technology firms to integrate annuities into the wealth management planning tools advisers use to select investments and build portfolios for their clients.

Products

Jackson offers a diverse suite of annuities to retail investors in the United States. The success of its variable annuity offerings reflects the differentiated features Jackson offers as compared with its competitors, in particular the wider range of investment options and greater freedom to invest across multiple investment options. Through the third quarter of 2020, Jackson accounted for 16.5 per cent of new sales in the US retail variable annuity market[32] and ranked number 1 in variable annuity sales. Jackson also offers fixed index annuities and fixed annuities and expects to offer a registered index-linked annuity in 2021. This diverse offering allows Jackson to meet the different needs of retail investors based on their risk tolerance and desired growth objectives, and to deliver customised, differentiated solutions to its distribution partners. Jackson's annuities offer investors the opportunity to grow their savings consistent with their objectives, ranging from full market participation with Jackson's variable annuities, to a guaranteed fixed return with Jackson's fixed annuities. Some of Jackson's annuities offer optional guarantee benefits for a fee, such as full or partial protection of principal, minimum payments for life and minimum payments to beneficiaries upon death. All annuities also provide investors with tax deferral benefits consistent with their purpose of providing financial security at, and through, retirement.

Distribution network

Jackson sells its products through an industry-leading distribution network that includes independent broker-dealers, wirehouses, regional broker-dealers, banks, and independent registered investment advisers, third-party platforms and insurance agents. Jackson's strong presence in multiple distribution channels has been essential to positioning it as a leading provider of retirement savings and income solutions. Each of these channels is supported by Jackson's sizeable wholesaler field force, which is among the most productive in the annuity industry. According to the Market Metrics Q3 2020 Sales, Staffing, and Productivity Report, Jackson's variable annuity sales per wholesaler are more than 10 per cent higher than its nearest competitor.

Operating platform

Jackson's operating platform is scalable and efficient. Jackson administers approximately 75 per cent of its in-force policies on its in-house policy administration platform. Jackson's in-house policy administration platform gives it flexibility to administer multiple product types through a single platform. To date, Jackson has converted over 3.5 million life and annuity policies to its in-house policy administration platform, eliminating the burdens, costs and inefficiencies that would be involved in maintaining multiple legacy administration systems. The remainder of Jackson's business is administered through scalable third-party arrangements. Jackson believes that its operating platform provides it with a competitive advantage by allowing it to grow efficiently and provide superior customer service. In 2020, Jackson received the 2019 Contact Center of the Year award from Service Quality Management and the number 1 overall operational ranking for 2019 from its broker-dealer partners, according to the Operations Managers' Roundtable.

Risk management

Product design and pricing are key aspects of Jackson's risk management approach. Jackson operates a sophisticated hedging program which seeks to balance three objectives: managing the economic impact of adverse market conditions, protecting statutory capital and providing stable distributable earnings throughout market cycles.

Jackson also uses third-party reinsurance to mitigate a portion of the risks that it faces, principally in certain of its in-force annuity and life insurance products with regard to longevity and mortality risks and its annuities with regard to the vast majority of its guaranteed minimum income optional benefit (GMIB) features.

Notes

1 Based on full year 2020 (calendar year 2020 for India), or the latest information available. Sources include formal (eg competitors' results release, local regulators and insurance association) and informal (industry exchange) market share data. Ranking based on new business (APE sales, weighted full year premium or full year premium depending on availability of data) or total weighted revenue premiums. Full year data is not yet available for Cambodia, or Laos, full year 2019 data has been used instead. For Hong Kong and the Philippines, ranking based on new business for the first nine months of 2020.
2 Source: Asia asset management – Fund manager surveys. Based on assets sourced in Asia, excluding Japan, Australia and New Zealand. Ranked according to participating firms only.
3 Increase stated on an actual exchange rate basis.
4 United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects 2019 Revision (2020 estimates).
5 Source: Swiss Re Institute; Sigma Explorer: World insurance, 2019 – life insurance penetration (premiums as a percentage of GDP).
6 Source: Swiss Re Institute: The health protection gap in Asia, October 2018. Average gap per household is calculated as 'total health protection gap divided by estimated number of households hospitalised under the mentioned gap range'. In this report, the definition/scope of 'Asia' is the 12 markets surveyed: China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.
7 Full year 2020 total funds under management, including external funds under management, money market funds, funds managed on behalf of M&G plc and internal funds under management, reported based on the country where the funds are managed.
8 Total joint venture/foreign players only.
9 Private players only.
10 Excludes Jiwasraya.
11 Includes Takaful, excludes Group business.
12 Includes onshore only.
13 Source: World Bank and WHO: Half the world lacks access to essential health services, 100 million still pushed into extreme poverty because of health expenses, December 2017.
14 Prudential estimate based on number of in-force policies over total population.
15 Source: World Health Organisation: Global Health Observatory data repository (2013). Out of pocket as % of total health expenditure. Asia calculated as average out-of-pocket.
16 Source: The World Bank 2017.
17 Source: The Borgen Project: Digital health apps in Africa aim to revolutionize medical care, September 2020.
18 Attributed to the shareholders of the Group before deducting the amount attributable to the non-controlling interests. This presentation is applied consistently throughout the document.
19 Representing Prudential's 49 per cent interest.
20 Based on 4Q20 MCH Sentiment Tracker conducted through online survey by Nielsen online panel on behalf of Prudential Hong Kong. Survey results are based on sample size of 451.
21 Increase stated on a constant exchange rate basis.
22 Including 37 bite-sized products.
23 Source: Swiss Re COVID-19 Consumer Survey, April 2020.
24 Including India.
25 Cases per active agent.
26 Excluding India.
27 As of 22 February 2021.
28 Substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
29 Source: Census Bureau's Current Population Survey, March 2017.
30 Source: Bureau of Labor Statistics.
31 Source: Estimated by Cerulli & Associates.
32 Source: LIMRA.

Group Chief Financial Officer and Chief Operating Officer's report on the 2020 financial performance

The Group has delivered positive operating results while supporting our colleagues, distributors, customers and communities during the disruption caused by Covid-19. Alongside, we have accelerated preparations for the proposed separation of Jackson and continue to develop our capabilities and presence in our chosen Asia and Africa markets, which will position the Group well for success in the future.

While Covid-19 restrictions led to new APE sales in Asia being (28) per cent[1] lower than the prior year, we have seen positive momentum in the second half of the year, with H2 2020 sales up 20 per cent[1] compared with the first half. Excluding Hong Kong, where restrictions between Mainland China and Hong Kong have been in place for much of 2020, new APE sales were down (6) per cent[1], with new business profit falling by only (4) per cent[1] as new business profit margins saw a small improvement over the prior year. Our businesses in Asia delivered a 13 per cent[1] increase in adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit[2]), reflecting the benefits of our well positioned and broad-based portfolio, which has long focused on high quality, recurring premium business. Operating free surplus generation was 8 per cent[1] higher, following the on-going growth of the in-force business and lower levels of new business which were offset by the impact of lower interest rates.

Lower asset returns and the effect of lower interest rates on the economic assumptions underpinning DAC amortisation contributed to US long-term business adjusted operating profit[2] being (8) per cent lower than the prior year. The RBC ratio of Jackson National Life[24], Jackson's principal operating subsidiary, was 347 per cent, with operating capital generation in line with expectations following the Athene reinsurance transaction. As announced on 28 January, the RBC ratio is after an 80 percentage point reduction following revisions to Jackson's hedge modelling for US regulatory purposes.

2020 saw high levels of macro volatility. In the US, the S&P 500 index fell (4) per cent over the first half before recovering by 20 per cent in the second, resulting in a 16 per cent increase over the year. In Asia, equity indices were similarly volatile, with the MSCI Asia ex Japan Index (6) per cent down in the first half and up 30 per cent in the second. Government bond yields were lower over the year, notably with the US 10-year government bond yield ending the year at 0.9 per cent (31 December 2019: 1.9 per cent). 2020 also saw significant volatility in credit spreads, for example spreads on US dollar denominated A-rated corporate bonds rose by 39 basis points in the first half and fell by (41) basis points in the second half.

Covid-19

The Group Chief Executive's report has set out how the Group has risen to the operational challenges presented by Covid-19. In terms of financial performance, the containment measures taken by governments across the globe have impacted sales levels and consequentially new business profitability in 2020, albeit many business units saw sales improve in the second half of the year as restrictions were removed. These impacts are discussed in more detail later in this report. Future sales level will depend on how governments respond to changing Covid-19 case levels and the success of vaccination and containment programmes in the markets in which we operate. Travel between Hong Kong and Mainland China remains severely restricted, with consequential effects on Mainland China visitor numbers and the level of APE sales in Hong Kong from this segment. The impact that Covid-19 has had on the macro-economic environment, with lower interest rates and volatile equity markets, has negatively impacted profitability in the year as discussed below. The sensitivity of our IFRS, EEV and capital metrics to further market movements are set out in the financial statements later in this document.

In Asia, where we focus on health and protection business, we continue to see low levels of Covid-19 claims, which were less than 1 per cent of total Asia claims paid in the year of $7.2 billion. We also provided our customers in 2020 with premium grace periods in line with local regulations. Our annual review of non-economic assumptions underpinning insurance liabilities did not identify the need for any significant strengthening as a result of the effects of Covid-19 and overall Asia operating experience remains positive. There have been no impairments to goodwill or intangible assets at 31 December 2020 and we will continue to review for triggers for impairment in line with our normal accounting procedures. Our investments are largely at fair value in the balance sheet and no significant changes to our valuation procedures have been applied. Losses on sales of impaired bonds by Jackson increased to $(148) million in the year (2019: loss of $(28) million) and bond write-downs increased to $(32) million (2019: $(15) million) reflecting volatility in credit spreads.

Finally, our liquidity position remains healthy with $1.5 billion of holding company cash and $0.5 billion of commercial paper in issue at 31 December 2020 alongside $2.6 billion of undrawn committed facilities. We have not breached any of the requirements of our core structural borrowings nor modified any of their terms.

Adjusted operating profit before tax from continuing operations

For full year 2020, Prudential's adjusted operating profit[2,7] from continuing operations was $5,507 million (4 per cent higher than 2019 on a constant and an actual exchange rate basis). Throughout this document the reference to continuing operations refers to results of the full Group in 2020 and the results of the Group in 2019 excluding the contribution from the discontinued UK life and asset management operations.

The increase in adjusted operating profit reflects the combination of a 13 per cent[1] increase in adjusted operating profit[2] from our Asia life and asset management operations, offset by a (9) per cent decrease in adjusted operating profit[2] from our US business (including asset management), and lower central expenses.

Central expenses[15] were 8 per cent[3] lower than the prior year reflecting a reduction in interest expense on core borrowings following the transfer of debt to M&G plc in 2019, partly offset by increased restructuring costs of $(208) million (2019: $(110) million[3]). Restructuring costs reflect the Group's substantial and ongoing IFRS 17 project and costs associated with actions to reduce central costs post the demerger of M&G plc. During 2020 our head office activities incurred costs of $(417) million (2019: $(460) million[3]). The Group continues to take action to right-size its head office costs alongside the evolving footprint of the business. The Group has delivered $180 million of cost savings effective from 1 January 2021[5] as previously targeted as a result of the M&G demerger[6]. In addition, as a result of the separation of Jackson from the Group, head office costs are targeted to reduce further by around $70 million from the start of 2023. We will continue to review the timing of the full realisation of these further savings following the completion of the US demerger.

Non-operating items from continuing operations[25]

Non-operating items in 2020 consist of short-term fluctuations in investment returns on shareholder-backed business of negative $(4,841) million (2019: $(3,203) million[3]), the net benefit from various corporate transactions of $1,521 million (2019: loss of $(142) million[3]), which are discussed further below, and the amortisation of acquisition accounting adjustments of negative $(39) million (2019: $(43) million[3]) arising mainly from the REALIC business acquired by Jackson in 2012.

Negative short-term fluctuations include negative $(607) million for Asia (2019: positive $657 million[3]) and negative $(4,262) million in the US (2019: $(3,757) million).

Falling interest rates in certain parts of Asia led to lower discount rates on certain policyholder liabilities under the local reserving basis applied, which were not fully offset by unrealised bond and equity gains in the year leading to negative fluctuations overall.

Within the US, falling interest rates, with yields on US treasuries falling by almost 1 percentage point over the year, and steeply rising equity markets following substantial falls in the first quarter of the year have led to $(4,262) million of negative short-term investment fluctuations in the US business. Further information is set out in the US section of this report.

After allowing for non-operating items, the total IFRS profit after tax from continuing operations was $2,185 million (2019: $1,944 million[1]).

IFRS effective tax rates

In 2020, the effective tax rate on adjusted operating profit based on longer-term investment returns from continuing operations was 15 per cent. This was unchanged from 2019.

The effective tax rate on total IFRS profit in 2020 was negative (2) per cent. This was unchanged from 2019 and reflects the tax credit on US derivative losses exceeding the tax charge on profits from Asia operations.

Total tax contribution from continuing operations

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with $2,114 million remitted to tax authorities in 2020. This was similar to the equivalent amount of $2,168 million[3] remitted in 2019.

Tax strategy

The Group publishes its tax strategy annually which, in addition to complying with the mandatory UK (Finance Act 2016) requirements, also includes a number of additional disclosures, including a country-by-country disclosure of revenues, profits, average employee numbers and taxes for all jurisdictions where more than $5 million tax was paid. This disclosure is included as a way of demonstrating that our tax footprint (ie where we pay taxes) is consistent with our business footprint. An updated version of the tax strategy, including 2020 data, will be available on the Group's website before 31 May 2021.

Corporate transactions

Jackson reinsurance of fixed and fixed index annuity business in June 2020

Jackson reinsured substantially all of its in-force portfolio of US fixed and fixed index annuities with Athene (circa $27.6 billion of liabilities). The transaction excluded liabilities relating to Jackson's legacy life and institutional business, the REALIC portfolio and group pay-out annuity business reinsured from John Hancock as well as investments in the general account by the variable annuity policyholders. The transaction improved the year-end capital position of Jackson by increasing the Jackson RBC ratio by 67 percentage points and the Group's LCSM cover ratio by 24 percentage points. The reinsurance agreement was effective on 1 June 2020 and resulted in an IFRS pre-tax gain recorded through the profit and loss account of $804 million, after transaction costs and post-closing adjustments. After allowing for tax and the reduction in unrealised gains recorded directly in other comprehensive income, the impact of the reinsurance transaction on IFRS shareholders' equity is a reduction of $(1.2) billion. This transaction reduced the Group's EEV by $(457) million, which largely reflects the loss of future profits recorded in the value of in-force business as a result of the reinsurance and the loss of unrealised gains on assets passed to Athene, partly offset by the reinsurance commission received after deducting tax.

Equity investment into Jackson by Athene

In July 2020, Athene Life Re Ltd invested $500 million in Prudential's US business in return for an 11.1 per cent economic interest for which the voting interest is 9.9 per cent. This has no impact on the income statement but resulted in a decline in IFRS shareholders' equity of $(514) million at the date of the transaction.

Other transactions

Other transactions in 2020 contributed $717 million to profit and principally include the reinsurance commission from a quota share reinsurance transaction undertaken by Hong Kong as part of the Group's on-going asset/liability management. Future surpluses (or losses) arising from the business being reinsured will be shared with the reinsurer in accordance with the terms of the treaty. Under EEV we recorded a loss of $91 million representing the frictional costs of the arrangement. This treaty helps mitigate the effect of the accounting mismatch under the existing regulatory framework in Hong Kong and is part of our management of the transition to the new RBC regime.

In the first half of the year, the Thailand business entered into a strategic bancassurance partnership with TMB Bank Public Company Limited with an initial period of 15 years which both expanded and extended the existing partnership with Thanachart Bank. The new arrangement commenced on 1 January 2021 and the fee paid for expanding and extending the existing arrangement was $0.8 billion.

In January 2021, the Group announced its intention to complete the demerger of Jackson in the first half of 2021. The total costs associated with this activity are estimated to be around $110 million to $120 million, of which around half is expected to be borne by Prudential plc and the remainder by Jackson. These largely relate to advisory and other professional fees and a small amount relates to the separation of Jackson's systems and processes from those of the remaining Prudential Group.

Of these total costs, $38 million has been incurred in 2020 ($20 million by Prudential plc and $18 million by Jackson) and has been included in non-operating profit as part of corporate transactions. The remainder of the costs are expected to be incurred in the first half of 2021.

IFRS profit

	Actual exchange rate			**Constant exchange rate**	
	2020 $m	**2019 $m**	**Change %**	**2019 $m**	**Change %**
Adjusted operating profit based on longer-term investment returns before tax from continuing operations					
Asia					
Long-term business	**3,384**	2,993	13	2,978	14
Asset management	**283**	283	-	278	2
Total Asia	**3,667**	3,276	12	3,256	13
US					
Long-term business	**2,787**	3,038	(8)	3,038	(8)
Asset management	**9**	32	(72)	32	(72)
Total US	**2,796**	3,070	(9)	3,070	(9)
Total segment profit from continuing operations	**6,463**	6,346	2	6,326	2
Other income and expenditure	**(748)**	(926)	19	(931)	20
Total adjusted operating profit before tax and restructuring costs	**5,715**	5,420	5	5,395	6
Restructuring and IFRS 17 implementation costs	**(208)**	(110)	(89)	(110)	(89)
Total adjusted operating profit before tax	**5,507**	5,310	4	5,285	4
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	**(4,841)**	(3,203)	(51)	(3,191)	(52)
Amortisation of acquisition accounting adjustments	**(39)**	(43)	9	(43)	9
Gain on disposal of businesses and corporate transactions	**1,521**	(142)	n/a	(143)	n/a
Profit from continuing operations before tax attributable to shareholders	**2,148**	1,922	12	1,908	13
Tax credit attributable to shareholders' returns	**37**	31	n/a	36	n/a
Profit from continuing operations for the year	**2,185**	1,953	12	1,944	12
Loss from discontinued operations for the year, net of related tax	**-**	(1,161)	100	(1,165)	100
Profit for the year	**2,185**	792	176	779	180

IFRS earnings per share

	Actual exchange rate			**Constant exchange rate**	
	2020 cents	**2019 cents**	**Change %**	**2019 cents**	**Change %**
Basic earnings per share based on adjusted operating profit after tax from continuing operations	**175.5**	175.0	-	174.6	1
Basic earnings per share based on:					
Total profit after tax from continuing operations	**81.6**	75.1	9	75.1	9
Total loss after tax from discontinued operations	**-**	(44.8)	n/a	(45.1)	n/a

IFRS shareholders' equity

	2020 $m	2019 $m
Adjusted operating profit after tax attributable to shareholders	**4,559**	4,528
Profit after tax for the year attributable to shareholders	**2,118**	783
Exchange movements, net of related tax	**239**	2,943
Unrealised gains and losses on US fixed income securities classified as available-for-sale (before the impact of Jackson's reinsurance with Athene)	**2,095**	2,679
Impact of Jackson's reinsurance of fixed and fixed index annuities to Athene	**(1,795)**	-
Sale of 11.1 per cent stake in Jackson to Athene	**(514)**	-
Demerger dividend in specie of M&G plc	**-**	(7,379)
Other external dividends	**(814)**	(1,634)
Other	**72**	117
Net increase (decrease) in shareholders' equity	**1,401**	(2,491)
Shareholders' equity at beginning of the year	**19,477**	21,968
Shareholders' equity at end of the year	**20,878**	19,477
Shareholders' value per share[8]	**800¢**	749¢

Group IFRS shareholders' equity in the 12 months to 31 December 2020 increased by 7 per cent[3] to $20.9 billion (31 December 2019: $19.5 billion[3]), largely reflecting profit after tax for the year and foreign exchange movements, partly offset by dividends paid in the year of $(0.8) billion and the impact of the sale of 11.1 per cent of the Group's economic interest in Jackson to Athene.

Group capital position

Prudential plc is applying the local capital summation method (LCSM) that has been agreed with the Hong Kong Insurance Authority (IA) to determine Group regulatory capital requirements until the Group-wide Supervision (GWS) Framework is effective for Prudential upon designation. The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. This legislation will be further supported by guidance material from the Hong Kong IA. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements.

The GWS methodology is largely consistent with that applied under LCSM with the exception of the treatment of debt instruments. Prudential's initial analysis indicates that all debt instruments (senior and subordinated) issued by Prudential will meet the transitional conditions set by the Hong Kong IA and will be included as eligible Group capital resources. If this were the case the 31 December 2020 shareholder LCSM ratio[10] (over GMCR) would increase by 35 percentage points to 363 per cent. This is subject to final approval by the Hong Kong IA.

The estimated shareholder LCSM cover ratio[10] at 31 December 2020 was 328 per cent (31 December 2019: 309 per cent). Excluding US operations, the cover ratio falls marginally to 323 per cent, before including the proposed retained 19.9 per cent non-controlling interest in Jackson.

Overall, LCSM shareholder surplus over group minimum capital requirements increased by $1.5 billion since 31 December 2019 to $11.0 billion at the end of December 2020. LCSM in-force operating capital generation in the year was $2.2 billion, which supported $(0.2) billion of investment in new business.

Overall non-operating items (excluding corporate transactions) reduced surplus by $(0.2) billion, with the negative effect of market movements in the year being offset by a $2.2 billion benefit from the introduction of the new Singapore risk-based capital framework (RBC2) effective 31 March 2020. Also included within non-operating items is a $(0.4) billion fall in surplus from changes made to Jackson VM-21 hedging model, further details of which are set out in the US section in the discussion of RBC changes.

The corporate transactions previously discussed were positive overall and contributed $0.5 billion to surplus and the payment of the 2019 second interim and 2020 first interim dividends reduced the surplus by $(0.8) billion.

The Group's LCSM position is resilient to external macro movements as demonstrated by the sensitivity disclosure contained in note I(i) of the Additional unaudited financial information, alongside further information on the basis of calculation of the LCSM measure.

	31 Dec 2020		31 Dec 2019	
Estimated Group LCSM capital position[10]	**Total**	**Shareholder***	**Total**	**Shareholder***
Available capital ($ billion)	**37.9**	**15.8**	33.1	14.0
Group minimum capital requirement (GMCR) ($ billion)	**11.5**	**4.8**	9.5	4.5
LCSM surplus (over GMCR) ($ billion)	**26.4**	**11.0**	23.6	9.5
LCSM ratio (over GMCR) (%)	**329%**	**328%**	348%	309%

*The shareholder LCSM amounts exclude the available capital and minimum capital requirements of the participating business in Hong Kong, Singapore and Malaysia.

Financing and liquidity

Net core structural borrowings of shareholder financed businesses

	31 Dec 2020 $m			31 Dec 2019 $m		
	IFRS basis	**Mark-to-market value**	**EEV basis**	**IFRS basis**	**Mark-to-market value**	**EEV basis**
Total borrowings of shareholder-financed businesses	**6,633**	**885**	**7,518**	5,594	633	6,227
Less: holding company cash and short-term investments	**(1,463)**	**-**	**(1,463)**	(2,207)	-	(2,207)
Net core structural borrowings of shareholder-financed businesses	**5,170**	**885**	**6,055**	3,387	633	4,020
Net gearing ratio*	**20%**			15%		

* Net core structural borrowings as proportion of IFRS shareholders' equity plus net debt, as set out in note II(ii) of the Additional unaudited financial information.

The total borrowings of the shareholder-financed businesses increased by $1.0 billion, from $5.6 billion to $6.6 billion in 2020. This reflected the issuance of $1,000 million 3.125 per cent notes in April 2020 raised for general corporate purposes including to support the growth of the business. The Group had central cash resources of $1.5 billion at 31 December 2020 (31 December 2019: $2.2 billion), resulting in net core structural borrowings of the shareholder-financed businesses of $5.2 billion at end of December 2020 (31 December 2019: $3.4 billion). Prudential plc seeks to maintain its financial strength rating which derives, in part, from the high level of financial flexibility to issue debt and equity instruments which is intended to be maintained and enhanced in the future.

At the 31 December 2020, the Group's net gearing ratio as defined in the table above was 20 per cent. We estimate that this will rise to circa 28 per cent post the separation of Jackson (based on the balance sheet at 31 December 2020, assuming no pre-separation dividend and before allowing for the 19.9 per cent retained stake in Jackson). On a Moody's basis, which is the basis management intend to use going forward to manage leverage and which differs to the above by taking into account gross debt, including commercial paper, and also allows for a proportion of the surplus within the Group's with-profits funds, the equivalent ratio is 33 per cent, before allowing for the 19.9 per cent retained stake in Jackson. Following the demerger, as a pure-play Asia and Africa business, Prudential will target a Moody's debt-leverage ratio of around 20 to 25 per cent[4] over the medium term. Prudential may operate outside this range temporarily to take advantage of growth opportunities with attractive risk-adjusted returns as they arise, while still preserving its strong credit ratings.

As discussed in the Chief Executive's report, Prudential is considering raising new equity of around $2.5-3 billion. Such a transaction, if executed, would maintain and enhance the Group's financial flexibility in light of the breadth of the opportunities to invest in growth and aim to increase the Group's investor base in Asia.

Other sources of liquidity

In addition to its net core structural borrowings of shareholder-financed businesses set out above, the Group has access to funding via the medium-term note programme, the US shelf programme (the platform for issuance of SEC-registered bonds in the US market), a commercial paper programme and committed revolving credit facilities. All of these are available for general corporate purposes.

Prudential plc has maintained a consistent presence as an issuer in the commercial paper market for the past decade and had $501 million in issue at the end of 2020 (31 December 2019: $520 million).

As at 31 December 2020, the Group had a total of $2.6 billion of undrawn committed facilities, expiring in 2025. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2020.

In addition to the Group's traditional sources of liquidity and financing, Jackson also has access to funding via the Federal Home Loan Bank of Indianapolis with advances secured against collateral posted by Jackson. Given the wide range of Jackson's product set and breadth of its customer base including retail, corporate and institutional clients, further sources of liquidity also include premiums and deposits.

Group free surplus generation from continuing operations[9]

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations and is based (with adjustments) on the capital regimes that apply locally in the various jurisdictions in which the Group operates. For life insurance operations, it represents amounts emerging from the in-force business during the year, net of amounts reinvested in writing new business. For asset management and other non-insurance operations (including the Group's central operations and Africa operations) it is taken to be IFRS basis shareholders' equity, net of goodwill attributable to shareholders, with central Group debt shown on a market value basis and subordinated debt recorded as free surplus to the extent that it is classified as available capital under the Group's capital regime.

Analysis of movement in Group free surplus[9]

	Actual exchange rate			Constant exchange rate	
	2020 $m	2019 $m	Change %	2019 $m	Change %
Asia - operating free surplus generated before restructuring costs	**1,895**	1,772	7	1,762	8
Central costs and eliminations (net of tax):					
Net interest paid on core structural borrowings	**(328)**	(451)	27	(453)	28
Corporate expenditure	**(419)**	(403)	(4)	(406)	(3)
Other items and eliminations	**(111)**	(69)	(61)	(69)	(61)
Net operating free surplus generated before restructuring costs and US	**1,037**	849	22	834	24
Restructuring and IFRS 17 implementation costs (net of tax)	**(147)**	(87)	(69)	(87)	(69)
US – operating free surplus generated net of restructuring costs	**1,073**	1,120	(4)	1,120	(4)
Net Group operating free surplus generated for continuing operations*	**1,963**	1,882	4	1,867	5
Redemption of subordinated debt for continuing operations	**-**	(529)			
External dividends	**(814)**	(1,634)			
Non-operating and other movements	**(1,200)**	654			
Net impact of Athene equity investment in Jackson	**63**	-			
Foreign exchange movements	**136**	190			
Increase in Group free surplus from continuing operations*	**148**	563			
Change in amounts attributable to non-controlling interests	**209**	(9)			
Free surplus at 1 Jan from continuing operations	**9,736**	9,182			
Free surplus at 31 Dec from continuing operations	**10,093**	9,736			
Comprising:					
Free surplus of life insurance and asset management operations	**7,679**	5,997			
Central operations (including Africa)	**2,414**	3,739			

* Before amounts attributable to non-controlling interests.

The total net Group operating free surplus generation, after including operating free surplus generated by the US business and deducting restructuring costs was $1,963 million (2019: $1,882 million[3]). This comprises $2,886 million (2019: $2,861 million[3]) operating free surplus generation from the life and asset management business (net of attributable restructuring costs) offset by centrally incurred costs and eliminations of $(923) million (2019: $(979) million[3]).

Asia operating free surplus generation[9,12] from insurance and asset management business increased by 8 per cent[1] to $1,895 million reflecting recent business growth, higher asset management earnings and lower levels of new business investment as Covid-19 containment measures introduced by the authorities across the region lowered sales in the year.

US operating free surplus generation (after deducting restructuring costs) fell (4) per cent compared with 2019, which included a $355 million benefit following the integration of the John Hancock business acquired in 2018.

Cash remittances

Holding company cash flow[13]

	Actual exchange rate		
	2020* $m	2019* $m	Change %
From continuing operations			
Asia	**716**	950	(25)
Jackson	**-**	509	(100)
Other operations	**55**	6	817
Total net cash remitted from continuing operations	**771**	1,465	(47)
From discontinued operations			
M&G plc	**-**	684	(100)
Net cash remitted by business units	**771**	2,149	(64)
Central outflows	**(435)**	(522)	
Dividends paid	**(814)**	(1,634)	
Other movements	**(264)**	(1,999)	
Total holding company cash flow	**(742)**	(2,006)	
Cash and short-term investments at the beginning of the year	**2,207**	4,121	
Foreign exchange and other movements	**(2)**	92	
Cash and short-term investments at the end of the year	**1,463**	2,207	

*The holding company cash flow describes the movement in the cash and short-term investments of the centrally managed Group holding companies.

Remittances from our Asia business were $716 million (2019: $950 million[3]). In order to support the planned separation process, there were no remittances from Jackson during the period. $55 million remittances from other operations reflects intragroup interest income which is not expected to recur.

Cash remittances were used to meet central costs of $(435) million and to pay dividends of $(814) million. Central costs include net interest paid of $(294) million and a net tax benefit, which is not expected to recur going forward, of $94 million.

Other movements of $(264) million includes the proceeds of the issuance of $1 billion of senior debt in April 2020 offset by central contributions to the funding of Asia strategic growth initiatives, principally payments for bancassurance distribution agreements, including TMB and UOB. Further information is contained in note I(iii) of the Additional unaudited financial information.

Cash and short-term investments totalled $1.5 billion at the end of December 2020 (31 December 2019: $2.2 billion[3]).

The Group will seek to manage its financial condition such that it has sufficient resources available to provide a buffer to support the retained businesses in stress scenarios and to provide liquidity to service central outflows.

Dividend policy

Reflecting the Group's capital allocation priorities, dividends will be determined primarily based on Asia's operating capital generation after allowing for the capital strain of writing new business and recurring central costs, with a portion of capital generation retained for reinvestment in the business. Dividends are expected to grow broadly in line with the growth in Asia operating free surplus generation net of right-sized central costs, and will be set taking into account financial prospects, investment opportunities and market conditions.

The Board has approved a 2020 second interim ordinary dividend of 10.73 cents per share. Combined with the first interim ordinary dividend of 5.37 cents per share the Group's total 2020 dividend is 16.10 cents per share.

Starting from the 2021 first interim dividend, the Board intends to apply a formulaic approach to first interim dividends, which will be calculated as one-third of the previous year's full-year ordinary dividend.

Asia

Operational and financial highlights

Prudential's Asia businesses delivered a resilient financial performance in 2020. While Covid-19 related containment measures impacted our new sales and associated new business profit levels, we also delivered a step-change in our digital capabilities. While the nature and severity of Covid-19 restrictions varied significantly across our markets, our enhanced digital and physical capabilities combined with our diversified and high quality platform supported a strong sequential quarterly recovery in sales in the third and fourth quarters of the year from a low in the second quarter, illustrating the strength of our franchise.

The resilience and quality of our business is also evident in customer retention levels of 90 per cent (2019: 90 per cent), which combined with our recurring premium, health and protection focused business model, with renewal premiums[8] increasing 6 per cent[1] to $20.1 billion, supported an overall 13 per cent[1] increase in adjusted life insurance operating profit[2] and an 8 per cent[1] increase in operating free surplus generation[9,12].

These qualities enabled us to continue to grow scale and value, even in more challenging operating conditions, with our overall Asia embedded value increasing to $44.2 billion at 31 December 2020 (31 December 2019: $39.2 billion[3]).

	Actual exchange rate			Constant exchange rate	
	2020 $m	**2019 $m**	**Change %**	**2019 $m**	**Change %**
New business profit	**2,201**	3,522	(38)	3,533	(38)
Adjusted operating profit*	**3,667**	3,276	12	3,256	13
EEV operating profit*	**4,387**	6,138	(29)	6,150	(29)
Operating free surplus generation*	**1,895**	1,772	7	1,762	8

*Before restructuring costs

New business performance

Life EEV new business profit and APE new business sales (APE sales)

	Actual exchange rate						Constant exchange rate			
	2020 $m		2019 $m		Change %		2019 $m		Change %	
	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit
Hong Kong	**758**	**787**	2,016	2,042	(62)	(61)	2,037	2,063	(63)	(62)
China JV	**582**	**269**	590	262	(1)	3	590	262	(1)	3
Indonesia	**267**	**155**	390	227	(32)	(32)	379	220	(30)	(30)
Malaysia	**346**	**209**	355	210	(3)	-	349	207	(1)	1
Singapore	**610**	**341**	660	387	(8)	(12)	653	383	(7)	(11)
Other life insurance markets	**1,133**	**440**	1,150	394	(1)	12	1,160	398	(2)	11
Total Asia	**3,696**	**2,201**	5,161	3,522	(28)	(38)	5,168	3,533	(28)	(38)
Total Asia excluding Hong Kong	**2,938**	**1,414**	3,145	1,480	(7)	(4)	3,131	1,470	(6)	(4)
Total new business margin		**60%**		68%				68%		

Life insurance new business APE sales decreased by (28) per cent[1] to $3,696 million and related new business profit decreased by (38) per cent[1]. Outside Hong Kong, overall new business APE sales were (6) per cent[1] lower and new business profit decreased by (4) per cent[1].

The impact of Covid-19 related disruption varied materially in terms of severity and duration across the region. Restrictions eased in many markets as the year progressed. In Mainland China internal travel and business activity resumed from the end of March and restrictions in Hong Kong eased from the end of August, though the border between Mainland China and Hong Kong remains closed. In Indonesia, after an initial relaxation of lockdown measures in June, a further four-week period of lockdown was imposed between mid-September and mid-October and the country re-entered lockdown again in early 2021. Significant containment restrictions remain in place in Malaysia, Vietnam, the Philippines and Thailand, with reduced restrictions in place in Hong Kong domestic, Taiwan, Singapore and India.

Over 2020, we continued to benefit from the resilience our diverse platform provides. Our diverse geographic portfolio saw four markets increase APE sales compared with the prior year, including Thailand up 16 per cent[1], Taiwan up 11 per cent[1] and Vietnam up 9 per cent[1]. This is also evident from a new business profit perspective, with seven markets reporting growth, led by China JV up 3 per cent[1] among our larger markets and Thailand and Vietnam, up 38 per cent[1] and 18 per cent[1] respectively, in other markets.

Outside of Hong Kong, sales from our bancassurance channel were stable with last year, underpinned by growth in China JV (APE bancassurance sales up 34 per cent[1]), Thailand (up 21 per cent[1]), Indonesia (up 15 per cent[1]) and Vietnam (up 35 per cent[1]). We also saw increased agency momentum in the second half of the year.

There has been a significant acceleration of our digital capabilities over 2020, with virtual sales accounting for 27 per cent of bank sales from July to December and 28 per cent of all agency sales from April to December. This compares with very low amounts in prior years. Our agency channel was supported by over 2.2 million of 'online to offline' leads generated by our Pulse health and wealth super-app, which, together with direct sales in Pulse, generated $211 million of APE sales[23] in the year.

The quality and diversity of our platform contributed to a strong sequential recovery in APE sales as Covid-19 related restrictions were lifted, with discrete third quarter production of $925 million[1] sequentially 33 per cent[1] higher than the second quarter and fourth quarter sales 18 per cent[1] above the third quarter and 10 per cent[1] higher than the first quarter of 2020, prior to Covid-19 restrictions being applied in many of the markets in which we operate.

The fourth quarter of 2020 was the highest APE sales quarter of the year for overall Asia and for 9 markets. As we pivoted to standalone protection products of lower case size to meet rising consumer demand, total new policies increased by 1 per cent and new protection policies grew by 10 per cent in the fourth quarter compared with the same period in the prior year.

The development of new business profit mainly reflects the impact of change in geographic mix, particularly sharply lower APE sales in Hong Kong where the reduction in new business profit was broadly in line with APE sales. Outside Hong Kong, new business profit was only (4) per cent[1] lower compared with a (6) per cent[1] reduction in APE sales, with improved new business margins partly driven by new health and protection product launches which saw seven markets increasing their health and protection mix. Health and protection products continue to be a significant proportion of sales, contributing 27 per cent of APE sales in 2020 (2019: 27 per cent).

Overall, Hong Kong APE sales were (63) per cent[1] below the prior year. This was principally a result of a very sharp reduction in APE sales to Mainland China customers, reflecting the impact of the border closure early in the year and consequent reduction in Mainland Chinese visitors and associated APE sales to these customers. While domestic Hong Kong APE sales were also impacted by Covid-19 related restrictions, new business production improved markedly over the course of the year, with APE sales in Q3 rising 20 per cent over Q2 and Q4 rising 60 per cent over Q3. The strong sequential sales growth was supported by product innovation and ongoing development of our broader digital capabilities. In particular, our increased focus on standalone protection products, with lower case sizes, to meet rising consumer demand saw domestic new sales policy count reach 98 per cent of prior year levels in the fourth quarter. Overall Hong Kong new business profit was (62) per cent[1] lower, broadly in line with the reduction in APE sales.

Our China JV delivered an encouraging performance despite Covid-19 related disruption, increasing new business profit by 3 per cent[1]. This was supported by the agency force focus on protection products, which accounted for 53 per cent of sales from this channel and as a result agency channel margins climbed to 85 per cent (2019: 74 per cent). We benefited materially from our diversified distribution model, particularly the strength in bancassurance which saw strong and accelerating growth of 34 per cent in APE sales throughout the year. Overall APE sales were only (1) per cent[1] lower compared with the prior year and second half APE sales 4 per cent[1] higher than the prior year.

The sales environment in Indonesia remained challenging following a deterioration of Covid-19 infections through the summer, culminating in the re-introduction of the highest-level movement restrictions in September, which remain in place today in parts of Indonesia. Despite the challenging environment, we achieved strong performance in the sharia segment with APE sales growing 6 per cent and new business profit 27 per cent. Meanwhile, the fourth quarter saw the highest overall sales of 2020 (19 per cent higher than APE sales in the first quarter) and was driven by 60 new products launched in 2020, including lower ticket standalone protection products. While this product strategy saw new sales case count rise by 12 per cent at FY20, overall APE sales volumes were (30) per cent[1] below the prior year driving a similar reduction in new business profit.

In Malaysia, APE sales were (1) per cent[1] below the prior year, with a decline in the first half sales largely offset by a recovery in the second half of 14 per cent (compared with the second half of the prior year), despite the reintroduction of partial Covid-19 related restrictions in October, driven by strong agency production across our traditional and takaful markets. The Takaful business grew APE sales by 26 per cent compared with 2019, with new business profit increasing by 29 per cent. Overall new business profit increased by 1 per cent[1], reflecting our increased focus on standalone smaller case size protection products.

In Singapore, APE sales fell by (7) per cent[1] reflecting Covid-19 restrictions with declines in the first half of the year partly offset by an increase in the second half of 5 per cent[1] when compared with the second half of the prior year. Strong agency momentum following the relaxation of Covid-19 restrictions saw APE sales in the second half of the year being 63 per cent higher than the level in the first half. New business profit reduced by (11) per cent[1], as lower interest rates resulted in a lower margin. Singapore continues to develop products and digital capabilities with the launch in December of 3 bite-sized digital products on Pulse (PRUSafe Dengue, PRUSafe BreastCancer, PRUSafe ProstateCancer) and the onboarding of the PRUCancer360 product on UOB's Mighty banking app.

We have made good initial progress with our recent investment in distribution in Thailand, where our APE sales were up 16 per cent[1], reflecting strong growth of 21 per cent in bancassurance channel. New business profit grew by a stronger 38 per cent, supported by the product mix shift to health and protection which accounted for 25 per cent of APE sales (2019: 16 per cent). Our distribution capability will be further strengthened by our partnership with TMB which commenced on 1 January 2021 and our digital partnership with The1, Thailand's largest loyalty platform.

EEV basis results

	Actual exchange rate			Constant exchange rate	
	2020 $m	**2019 $m**	**Change %**	**2019 $m**	**Change %**
New business profit	**2,201**	3,522	(38)	3,533	(38)
Profit from in-force business	**1,933**	2,366	(18)	2,371	(18)
Operating profit from long-term business	**4,134**	5,888	(30)	5,904	(30)
Asset management	**253**	250	1	246	3
Operating profit from long-term business and asset management before restructuring costs	**4,387**	6,138	(29)	6,150	(29)
Restructuring and IFRS 17 implementation costs	**(88)**	(31)	(184)	(31)	(184)
Non-operating profit	**822**	1,962	(58)	1,968	(58)
Profit for the year	**5,121**	8,069	(37)	8,087	(37)
Other movements	**(115)**	(842)			
Net increase in embedded value	**5,006**	7,227			
Embedded value at 1 Jan	**39,235**	32,008			
Embedded value at 31 Dec	**44,241**	39,235			
% New business profit/average embedded value	**5%**	10%			
% Operating profit/average embedded value	**10%**	17%			

Asia EEV operating profit decreased compared with the prior year to $4,387 million (2019: $6,150 million[1]), driven by lower new business profit and a lower profit from in-force business.

The profit from in-force business reflects the expected return and effects of operating assumption changes and operating experience variances, which in combination, were (18) per cent[1] below the prior year. The expected return was (9) per cent[1] below the prior year reflecting the impact of lower interest rates in reducing the risk discount rate under our active basis European Embedded Value methodology. Reflecting the high quality of our in-force business and prudent assumption setting, operating assumption changes and operating experience variances are again positive, driven by product repricing effects as well as positive claims variances across our businesses, among other factors.

Asset management segment operating profit after tax was up 3 per cent[1] on the prior year at $253 million (2019: $246 million[1]), which is discussed in more detail below.

The non-operating profit of $822 million (2019: $1,968 million[1]) largely comprises increases in asset values following the fall in interest rates and higher equity markets, partially offset by the impact of lower interest rates on expectations of future asset returns.

Overall, Asia segment embedded value increased by 13 per cent[3] to $44.2 billion in the 12 months to 31 December 2020 (31 December 2019: $39.2 billion[3]). Of this, $42.8 billion (31 December 2019: $37.8 billion[3]) relates to the value of the long-term business and includes our share of our India associate valued using embedded value principles which is lower than its market capitalisation. The remainder represents Asia asset management and goodwill attributable to shareholders which are carried at IFRS net asset value within the Group's EEV. At 31 December 2020, 47 per cent (31 December 2019: 48 per cent[3]) of total Asia long-term embedded value excluding goodwill is attributable to Hong Kong.

Total embedded value for Asia long-term business operations, excluding goodwill

	31 Dec 2020 $m	**31 Dec 2019 $m**
Free surplus	**5,295**	3,624
Required capital	**3,445**	3,182
Net worth	**8,740**	6,806
Value of in-force business before deduction of cost of capital and time value of options and guarantees	**36,729**	32,396
Cost of capital	**(749)**	(866)
Time value of options and guarantees*	**(1,912)**	(493)
Net value of in-force business	**34,068**	31,037
Embedded value	**42,808**	37,843

Asia analysis of movement in free surplus[9]

	Actual exchange rate			Constant exchange rate	
	2020 $m	**2019 $m**	**Change %**	**2019 $m**	**Change %**
Existing business – transfer to net worth	**1,878**	1,914	(2)	1,901	(1)
Expected return on existing business	**101**	80	26	79	28
Changes in operating assumptions and experience variances	**222**	147	51	151	47
Operating free surplus generated from in-force life business before restructuring costs	**2,201**	2,141	3	2,131	3
Asset management	**253**	250	1	246	3
Operating free surplus generated from in-force life business and asset management before restructuring costs	**2,454**	2,391	3	2,377	3
Investment in new business	**(559)**	(619)	10	(615)	9
Operating free surplus generated before restructuring costs	**1,895**	1,772	7	1,762	8
Restructuring and IFRS 17 implementation costs	**(82)**	(31)	(165)	(31)	(165)
Operating free surplus generated	**1,813**	1,741	4	1,731	5
Non-operating profit	**444**	1,195			
Net cash flows paid to parent company	**(716)**	(950)			
Foreign exchange movements on foreign operations, timing differences and other items	**169**	(357)			
Total movement in free surplus	**1,710**	1,629			
Free surplus at 1 Jan	**4,220**	2,591			
Free surplus at 31 Dec	**5,930**	4,220			
Representing:					
Long-term business	**5,295**	3,624			
Asset management	**635**	596			
Free surplus at 31 Dec	**5,930**	4,220			

In-force operating free surplus generation[9,12] was $2,201 million, up 3 per cent[1] compared with the prior year. Excluding the effect of operating assumption changes and experience variances, in-force free surplus generation was in line with the prior year[1] with the growth of the in-force portfolio being dampened by the effect of lower interest rates compared with the prior year. Operating assumption changes and experience variances were positive, again illustrating the high quality nature of the in-force business.

Investment in new business was $(559) million, 9 per cent[1] below that in 2019. This reflects lower APE sales volumes, offset by business mix effects and lower interest rates.

Overall higher in-force generation and lower investment in new business led to operating free surplus generated[9] before restructuring costs increasing by 8 per cent[1] to $1,895 million.

The non-operating profit of $444 million includes the benefit of the reinsurance transaction undertaken by Hong Kong as part of the Group's on-going asset/liability management as discussed earlier under corporate transactions. 2019 non-operating profits included $278 million[3] of gains from the reduction in the Group's stake in ICICI Prudential Life Insurance Company and the disposal of Prudential Vietnam Finance Company.

Local statutory capital

We maintained a strong balance sheet with a shareholder LCSM surplus over the regulatory minimum capital requirement of $8.2 billion and coverage ratio of 338 per cent at 31 December 2020 (31 December 2019: $4.7 billion and 253 per cent). If our with-profits funds in Hong Kong, Singapore and Malaysia are added the surplus increases to $23.6 billion (31 December 2019: $18.8 billion). We seek to safeguard our business from market volatility through our strong focus on protection products and our prudent asset and liability management strategy.

IFRS profit

Overall Asia adjusted operating profit[2] increased by 13 per cent[1] to $3,667 million, driven by a 14 per cent[1] increase in life insurance adjusted operating profit[2], alongside a 2 per cent[1] increase at Eastspring.

This growth reflects the benefits of our focus on high quality recurring premium business, which accounts for 90 per cent of our new business, and diversified portfolio of scale businesses, with over 88 per cent of our total life income[14] (excluding other income described below) driven by insurance margin and fee income (2019: 86 per cent[1]), again supporting profit progression across market cycles.

Our Asia life insurance adjusted operating profit[2] growth is broad-based and at scale. Overall, nine insurance markets reported double-digit growth[1], with three insurance markets delivering growth of 20 per cent[1] or more. At a market level, highlights include Hong Kong up 20 per cent[1] to $891 million, Singapore up 18 per cent[1] to $574 million, Malaysia up 14 per cent[1] to $309 million, China up 15 per cent[1] to $251 million and Thailand up 24 per cent[1] to $210 million. Adjusted operating profit[2] in Indonesia was $519 million, marginally lower than the prior year.

Profit margin analysis of Asia long-term insurance and asset management operations[17]

	Actual exchange rate				Constant exchange rate	
	2020		2019		2019	
	$m	Margin bps	$m	Margin bps	$m	Margin bps
Spread income	**296**	**74**	321	108	319	106
Fee income[11]	**282**	**101**	286	104	283	104
With-profits	**117**	**16**	107	18	107	18
Insurance margin	**2,648**		2,244		2,234	
Other income	**3,148**		3,229		3,225	
Total life income	**6,491**		6,187		6,168	
Expenses:						
Acquisition costs	**(1,904)**	**(52)%**	(2,156)	(42)%	(2,156)	(42)%
Administration expenses	**(1,539)**	**(227)**	(1,437)	(252)	(1,430)	(249)
DAC adjustments	**382**		430		426	
Share of related tax charges from joint ventures and associates	**(46)**		(31)		(30)	
Long-term insurance business pre-tax adjusted operating profit	**3,384**		2,993		2,978	
Eastspring	**283**		283		278	
Adjusted operating profit from long-term business and asset management before restructuring costs	**3,667**		3,276		3,256	
Tax charge	**(495)**		(436)		(432)	
Adjusted operating profit after tax for the year before restructuring costs	**3,172**		2,840		2,824	
Non-operating profit after tax	**210**		885		899	
Profit for the year after tax before restructuring costs	**3,382**		3,725		3,723	

Our adjusted operating profit[2] continues to be based on high-quality drivers. The overall 14 per cent[1] growth in Asia life insurance adjusted operating profit[2] to $3,384 million (2019: $2,978 million[1]) was driven principally by 19 per cent[1] growth in insurance margin-related revenues and reflects our ongoing focus on recurring premium health and protection products and the associated continued growth of our in-force business.

Fee income was in line with the prior year, while spread income decreased by (7) per cent[1] driven by lower interest rates in the year.

With-profits earnings relate principally to the shareholders' share in bonuses declared to policyholders. As these bonuses are typically weighted to the end of a contract, under IFRS, with-profits earnings consequently emerge only gradually over time. The 9 per cent[1] growth in with-profits earnings reflects the ongoing growth in these portfolios.

Other income primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses. As such, the (2) per cent[1] decrease from 2019 largely reflects lower new business volumes, whereas new business acquisition expense fell 12 per cent[1] to $(1,904) million. The ratio of shareholder acquisition costs to shareholder-related APE sales (excluding with-profits-related sales) increased to 68 per cent (2019: 66 per cent on an actual exchange rate basis), reflecting changes to product and geographical mix. Administration expenses, including renewal commissions, increased by 8 per cent[1] reflecting in-force business growth.

Asset management

	Actual exchange rate		
	2020 $m	2019 $m	Change %
Total external net flows*	**(9,972)**	8,340	n/a
External funds under management* ($bn)	**93.9**	98.0	(4)
Funds managed on behalf of M&G plc ($bn)	**15.7**	26.7	(41)
Internal funds under management ($bn)	**138.2**	116.4	19
Total funds under management ($bn)	**247.8**	241.1	3
Analysis of adjusted operating profit			
Retail operating income	**390**	392	(1)
Institutional operating income	**256**	244	5
Operating income before performance-related fees	**646**	636	2
Performance-related fees	**7**	12	(42)
Operating income (net of commission)	**653**	648	1
Operating expense	**(336)**	(329)	(2)
Group's share of tax on joint ventures' adjusted operating profit	**(34)**	(36)	6
Adjusted operating profit	**283**	283	-
Adjusted operating profit after tax	**253**	250	1
Average funds managed by Eastspring	**$227.1bn**	$214.0bn	6
Fee margin based on operating income	**28bps**	30bps	-2bps
Cost/income ratio[8]	**52%**	52%	-

* Excluding $15.7 billion of funds managed on behalf of M&G plc.

Eastspring's total funds under management were $247.8 billion at 31 December (31 December 2019: $241.1 billion[3]), reflecting favourable internal net inflows and higher equity markets, partly offset by external net outflows. Compared with 2019, Eastspring's average funds under management increased by 6 per cent[3] (7 per cent[16] on a constant exchange rate basis). Funds under management were 13 per cent[3] higher than at the end of June ($219.7 billion[3]) as equity markets recovered and asset flows began to recover from the volatility in the first half.

Eastspring continues to benefit from strong, positive net flows from internal insurance funds, recording $8.5 billion (2019: $9.7 billion). Overall third-party flows related to external funds under management were negative $(10.0) billion, reflecting the adverse impact of higher market volatility, as a result of Covid-19, on retail funds, most notably in a number of retail bond funds in Thailand in the first half of 2020. Highlights included strong flows into our China A Fund, and Global Innovation Fund in respect of our equity products, and Income Plus and Active Bond Fund Plus on the fixed income side. As market volatility subsided over the second half of the year, third-party net flows[22] improved materially, with the fourth quarter seeing net inflows of $0.5 billion. In addition, as anticipated, there were net outflows from funds managed on behalf of M&G plc of $(10.0) billion in 2020, with further outflows of around $(6) billion expected in the first half of 2021.

Eastspring's adjusted operating profit[2] of $283 million was up 2 per cent compared with the prior year on a constant exchange rate basis (level on an actual exchange rate basis). Operating income (net of commission) increased by 1 per cent[3] with the benefit of higher average funds under management being partly offset by adverse client and asset mix effects that reduced the fee margin based on operating income to 28 basis points (2019: 30 basis points[3]). Cost discipline remains robust, with operating costs in line with the prior year, with the resulting cost/income ratio[8] the same at 52 per cent.

Return on segment equity

The benefit of our focus on profitable health and protection, with-profit and asset management businesses is evident in the attractive 26 per cent (2019: 30 per cent) operating return delivered on average segment equity[8] over 2020.

United States

Operational and financial highlights

All of the results below reflect Jackson Financial Inc. (which we refer to as Jackson), the entity that is proposed to be demerged, except for the discussion on local statutory capital which covers Jackson Financial Inc.'s subsidiary, Jackson National Life, only. Post its separation from the Group, Jackson will no longer publish EEV results and the discussion below therefore focuses on IFRS and capital measures. All amounts have been prepared on the basis of the Prudential Group's accounting policies and methodologies and are consistent with the Group's reporting in 2019. This will differ from the financial information that Jackson will report as part of the demerger process, which will be prepared under US GAAP and will include certain non-GAAP financial measures which Jackson management believes will be more relevant to manage the business as a standalone entity.

At 31 December 2020, Jackson National Life's RBC ratio was 347 per cent (31 December 2019: 366 per cent). At the point of proposed separation, Jackson expects to have an RBC ratio[24] in excess of 450 per cent and total financial leverage[21] in the range of 25 to 30 per cent, subject to market conditions. Jackson expects to achieve this level of RBC at the point of separation by contributing proceeds of its debt and hybrid capital raising to its regulated insurance subsidiaries.

	2020 $m	2019 $m	Change %
APE new business sales (APE sales)	**1,923**	2,223	(13)
Adjusted operating profit*	**2,796**	3,070	(9)
RBC ratio (%)	**347**	366	(19) ppts

*Before restructuring costs

New business

APE sales

	2020 $m	2019 $m	Change %
Variable annuities	**1,662**	1,470	13
Fixed annuities	**33**	119	(72)
Fixed index annuities	**100**	382	(74)
Total retail annuity APE sales	**1,795**	1,971	(9)
Total institutional product APE sales	**128**	252	(49)
Total APE sales	**1,923**	2,223	(13)

Despite challenging market conditions, Jackson delivered a 13 per cent increase in variable annuity sales, reflecting the strength and depth of its leading distribution franchise and value-added customer proposition. Jackson believes that the investment freedom and optional guaranteed benefits Jackson offers its customers support its strong brand recognition with distributors and advisers[18].

Jackson has maintained its leading position in the US retail variable annuity market[19]. This market position reflects the attractiveness of its product, breadth of distribution across multiple channels, and the productivity of Jackson's wholesaler field force, which is among the most productive in the industry, with sales per agent over 10 per cent higher than the nearest competitor[20].

In line with Jackson's disciplined approach to pricing and risk management, pricing actions taken in the first half of 2020 in response to changing market conditions and to preserve statutory capital, resulted in an expected and material reduction in new fixed annuity and fixed index annuities sales, evident particularly from the beginning of the second quarter. This, combined with lower institutional sales, resulted in an overall (13) per cent reduction in APE sales.

IFRS profit

Adjusted operating profit

US segment adjusted operating profit[2,7] was $2,796 million in 2020, down (9) per cent from the prior year. This reduction largely reflects the impact of DAC adjustment effects in the current and prior year, alongside the expected reduction in spread related earnings following the reinsurance contract with Athene in June 2020. Offsetting these falls, fee income was $3,386 million, 3 per cent higher than the prior year as result of higher average account balances.

A further breakdown of the drivers of IFRS profitability is set out below.

Profit margin analysis of US long-term insurance and asset management operations[17]

	2020		2019	
	$m	**Margin bps**	**$m**	**Margin bps**
Spread income	**521**	**112**	642	112
Fee income	**3,386**	**178**	3,292	182
Insurance margin	**1,298**		1,317	
Other income	**-**		26	
Total life income	**5,205**		5,277	
Expenses:				
Acquisition costs	**(991)**	**(52)%**	(1,074)	(48)%
Administration expenses	**(1,744)**	**(71)**	(1,675)	(68)
DAC adjustments	**317**		510	
Long-term insurance business pre-tax adjusted operating profit	**2,787**		3,038	
Asset management	**9**		32	
Adjusted operating profit from long-term business and asset management before restructuring costs	**2,796**		3,070	
Tax charge	**(313)**		(437)	
Adjusted operating profit after tax for the year before restructuring costs	**2,483**		2,633	
Non-operating loss after tax	**(2,730)**		(3,013)	
Loss for the year after tax before restructuring costs	**(247)**		(380)	

Spread income declined (19) per cent in 2020, primarily as a result of the Athene reinsurance transaction, as well as lower asset yields, partially offset by lower interest credited reflecting lower average crediting rates compared with 2019. The margin of 112 basis points benefited from prior year swap transactions. Excluding that benefit, the spread margin would have been 88 basis points (2019: 101 basis points).

Insurance margin represents profits from insurance risks, including variable annuity guarantees and profits from the legacy life businesses and was marginally lower than that earned in 2019.

Acquisition costs have fallen by 8 per cent following lower sales in the year. Administration expenses increased by 4 per cent to $(1,744) million in 2020 as a result of higher asset-based commissions, as average separate account balances increased, and the non-recurrence of commission income (treated as a negative expense) earned under the John Hancock reinsurance arrangement in 2019. Excluding the asset-based commission, the administration expense ratio would be 34 basis points (2019: 33 basis points).

DAC adjustments, being the cost deferred on sales in the period net of amortisation of amounts deferred previously, have fallen by $(193) million to $317 million. This follows lower deferrals from lower sales and higher amortisation of prior period DAC. DAC amortisation increased as the impact of changes to the longer-term economic assumptions underpinning the amortisation calculation, following an expectation of lower interest rates in the future, more than offset the benefits of increases in DAC deceleration in the period as a result of higher equity markets at the end of 2020 as compared with the start of the year.

Non-operating items

The non-operating result was negative $(3,510) million pre-tax (2019: $(3,795) million) and contributed to a net loss after tax of $(247) million (2019: $(380) million). The non-operating result over 2020 includes a loss of $(4,296) million from short-term investment fluctuations and amortisation of previous acquisition accounting adjustments offset by a $786 million pre-tax gain as a result of the Athene reinsurance transaction.

In the US, Jackson provides certain guarantees on its annuity products, the value of which would typically rise when equity markets fall and long-term interest rates decline. Jackson charges fees for these guarantees which are in turn used to purchase downside protection, in particular options and futures to mitigate the effect of equity market falls.

Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and does not seek to hedge on an accounting basis. It therefore accepts a degree of variability in the accounting results.

The $(4,296) million discussed above principally arises from the steep rise in equity markets following the low at the end of the first quarter of 2020 that led to equity derivative losses taken out as part of Jackson's hedging programme being in excess of the corresponding reduction in guarantee liabilities and the effect of lower interest rates on the value of its guarantees. Hedge costs were also elevated due to the high levels of volatility observed in the period.

Local statutory capital – Jackson National Life (Jackson)

	2020				2019	
	Total Adjusted Capital (TAC) $m	Required capital at 'Company Action Level' (CAL) $m	Surplus $m	Ratio %	Surplus $m	Ratio %
1 Jan	5,221	1,426	3,795	366	4,315	458
Capital generation from new business written	191	153	38	(23)	(144)	(75)
Operating capital generation from business in force	798	(177)	975	100	1,531	141
Operating capital generation	989	(24)	1,013	77	1,387	66
Other non-operating movements	(1,832)	115	(1,947)	(108)	(1,524)	(104)
US reinsurance transaction	524	(251)	775	67	-	-
Investment by Athene	500	-	500	25	-	-
Adoption of NAIC reforms	-	-	-	-	142	(17)
Hedge modelling revision	(139)	251	(390)	(80)	-	-
Dividends paid	-	-	-	-	(525)	(37)
31 Dec	**5,263**	**1,517**	**3,746**	**347**	**3,795**	**366**

The movement in surplus over the course of 2020 was driven by;

- Operating capital generation from the in-force business was $975 million, in line with our expectations post the Athene transaction. This is lower than 2019 which benefited from a $355 million release of incremental reserves following the integration of the John Hancock business acquired in 2018. The impact of new business improved by $182 million, largely as a result of expected fall in fixed annuity and fixed index annuity sales following repricing actions in the first half of 2020.
- Non-operating items reduced surplus by $(1,947) million driven primarily by the impact of market movements where falling interest rates, rising equity markets and elevated volatility have combined to result in derivative losses, net of reserve changes, and an increase in required capital. This included a reduction of $(193) million in deferred tax assets being admitted into statutory surplus and an increase in surplus of $140 million from changes in respect of formal recognition by the regulator of guaranteed asset management revenue.
- Surplus benefited from a $500 million investment by Athene and a further $775 million as a result of the reinsurance of the in-force fixed annuity and fixed index annuity portfolio in June.
- At 31 December 2019, Jackson early adopted the provisions of the National Association of Insurance Commissioners Valuation Manual Minimum Standards No. VM-21 (VM-21). As announced on 28 January 2021, Jackson determined that a simplifying modelling assumption was not consistent with its intent in the adoption of VM-21 and the revised modelling adopted for calculating reserves and capital reduced surplus by $(390) million through a reduction in TAC and an increase in CAL.

Group reporting segments after proposed separation of Jackson

In presenting its results for 2020, the Group continues to report its business using the following segments:
- Asia (including insurance and asset management business); and
- US (including Jackson and US asset management business).

Other operations are classified as unallocated to a segment, which includes the Group's head office functions in London and Hong Kong and Africa insurance operations.

In preparation for the planned separation of Jackson, from 2021 the Group has revised its internal management information to focus on the following revised segments, which will be used for external reporting from half year 2021.

- China JV
- Hong Kong
- Indonesia
- Malaysia
- Singapore
- Growth markets and other (including Africa)
- Eastspring

The Group's head office functions will continue to be unallocated to a segment. The US has been classified as discontinued following the Board's decision to proceed with a demerger in the second quarter of 2021.

A summary of the Group's key performance indicators by these segments going forward are as set out below.

	Actual exchange rate							
	APE sales		New business profit		Adjusted operating profit**		EEV for long-term business	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
China JV	**582**	590	**269**	262	**251**	219	**2,798**	2,180
Hong Kong	**758**	2,016	**787**	2,042	**891**	734	**20,156**	18,255
Indonesia	**267**	390	**155**	227	**519**	540	**2,630**	2,737
Malaysia	**346**	355	**209**	210	**309**	276	**4,142**	3,535
Singapore	**610**	660	**341**	387	**574**	493	**8,160**	7,337
Growth markets and other***	**1,245***	1,232*	**440**	394	**835***	737*	**4,975***	3,858*
Eastspring	**n/a**	n/a	**n/a**	n/a	**283**	283	**n/a**	n/a
Total	**3,808***	5,243*	**2,201**	3,522	**3,662***	3,282*	**42,861***	37,902*

* Includes amounts relating to Africa.
** Further analysis of Adjusted operating profit for Asia is set out in note I(v) in the Additional unaudited financial information.
*** Adjusted operating profit includes other of $119 million (2019: $125 million) and primarily comprises of taxes for joint ventures and associates and other non-recurring items.

Notes

1 On a constant exchange rate basis.
2 Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the year is set out in note B1.1 of the IFRS financial statements.
3 On an actual exchange rate basis.
4 Calculated on a Moody's total leverage basis.
5 Approximately half of the corporate expenditure is incurred in sterling and our assumptions forecast an exchange rate of £1=$1.2599.
6 As compared with head office expenditure of $(490) million in 2018 and before a planned $10 million increase in Africa costs as previously disclosed.
7 Attributed to the shareholders of the Group before deducting the amount attributable to the non-controlling interests. This presentation is applied consistently throughout the document.
8 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
9 For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the year less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Further information is set out in 'movement in Group free surplus' of the EEV basis results.
10 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum requirement of participating business in Hong Kong, Singapore and Malaysia. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.
11 In 2020, given the significant market volatility in certain months during the year, average liabilities used to derive the margin for fee income in Asia have been calculated using quarter-end balances throughout the year as opposed to opening and closing balances only to provide a more meaningful analysis. The 2019 margin have been amended for consistency albeit impacts are minimal.
12 Operating free surplus generated before restructuring costs.
13 Net cash amounts remitted by business units are included in the holding company cash flow, which is disclosed in detail in note I(iii) of the Additional unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
14 Total insurance margin ($2,648 million) and fee income ($282 million) of $2,930 million divided by total life income excluding other income of $3,343 million (Comprised of total life income of $6,491 million less other income of $3,148 million).
15 Central expenses comprises other income and expenditure of $(748) million (2019: $(926) million on an actual exchange rate basis) and restructuring and IFRS 17 implementation costs of $(208) million (2019: $(110) million on an actual exchange rate basis).
16 On a constant exchange rates basis Eastspring average funds under management over the year to 31 December 2019 were $211.5 billion (actual exchange rate basis: $214.0 billion). Average funds under management over the year to 31 December 2020 were $227.1 billion.
17 For discussion on the basis of preparation of the sources of earnings in the table see note I(iv) of the Additional unaudited financial information.
18 Cogent Annuity Brandscape+37 Net Promoter Score ('NPS') for Jackson variable annuities, compared to an industry average NPS of 0.
19 LIMRA: through the third quarter of 2020, Jackson accounted for 16.5% of new sales in the U.S. retail variable annuity market and ranked number 1 in variable annuity sales.
20 Market Metrics Q3 2020 Sales, Staffing, and Productivity Report: Jackson's variable annuity sales per wholesaler are more than 10% higher than its nearest competitor.
21 Calculated on a US GAAP basis as the ratio of total debt (including senior debt, hybrid debt and preferred securities) to total debt and shareholders' equity (excluding Accumulated Other Comprehensive Income).
22 Excluding money market funds and funds managed on behalf of M&G plc.
23 APE sales substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
24 Representing the RBC ratio of Jackson National Life that reflects the capital and capital requirements of Jackson National Life and its subsidiaries, including Jackson National Life NY.
25 The term 'Non-operating items' is used in this report to refer to items excluded from adjusted IFRS operating profit based on longer-term investment returns from continuing operations, including short term investment fluctuations in investment returns on shareholder-backed business, corporate transactions and amortisation of acquisition accounting adjustments. For the avoidance of doubt this analysis is not intended to align with 'results of operating activities' as discussed in IAS 1 Presentation of Financial Statements.

Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed

Enabling decisions to be taken with confidence

Our Group Risk Framework and risk appetite have allowed us to control our risk exposure throughout 2020. Our governance, processes and controls enable us to deal with uncertainty effectively, which is critical to the achievement of our strategy of capturing long-term structural opportunities and helping our customers achieve their long-term financial goals.

This section explains the main risks inherent in our business and how we manage those risks, with the aim of ensuring an appropriate risk profile is maintained. Although Jackson is preparing to be a fully independent business, until the proposed demerger is effected Jackson's risks (as with those of the Group's other businesses) will continue to be managed within the Group Risk Framework and this report reflects this position.

1. <u>Introduction</u>

The Group
2020 was a truly eventful year. The Covid-19 pandemic swept across the world and has resulted in significant humanitarian suffering and material and prolonged disruption to social and economic activity. The business had to consider and navigate the risks arising from the Covid-19 on multiple fronts. These included capital and liquidity risks arising from abrupt market dislocation as well as risks associated with the disruption to the Group's operations across Asia, Africa, the US and UK. Concurrently, the business has maintained uninterrupted delivery of services for its policyholders, and has been committed to doing the right thing for both its customers and employees throughout the crisis. The Risk, Compliance and Security function has successfully transitioned into, and maintained, new ways of working across multiple time zones to provide strong stewardship and enhanced monitoring of these risks during the most acute phases of the pandemic's impact.

Through these extraordinary circumstances, the function has also provided risk opinions, guidance and assurance on critical activity, including Athene's reinsurance of $27.6 billion of Jackson's fixed and fixed index annuity portfolio and $500 million equity investment into Prudential's US business, the proposed demerger of Jackson from the Group and the revision to its hedge modelling for US statutory standards for calculating reserves and capital. At the same time, the function retained its focus on managing the risks of the ongoing business, performing its defined role in providing risk management support and oversight, as well as objective challenge to ensure the Group remained within its risk appetite.

The Group continues to engage constructively with the Hong Kong Insurance Authority (IA) as its Group-wide supervisor and is transitioning to a new supervisory framework. The Group's mature and well-embedded risk framework will enable decisions to be taken with confidence as the business seeks to capture the opportunities in the growth markets in which it is now focused while continuing to operate prudently with discipline.

The world economy
At the start of 2020 the prospects for global growth appeared to be improving. This positive momentum was abruptly reversed by the Covid-19 pandemic, leading to the shutdown of much of the world's economy and a sharp recession. In response to this unprecedented shock, governments and central banks deployed massive fiscal and monetary stimulus measures to mitigate the impact on the labour force and restore confidence in financial markets. Driven largely by the strong macro policy response, global economies have started to recover although this remains far from complete. In Asia, China has been leading the economic rehabilitation, benefitting other Asian economies to an extent, although the regional recovery to date has been highly uneven. The economic environment in Asia is expected to remain challenging given the limited headroom for additional conventional monetary easing, increasing inflation risks from weaker foreign exchange rates, supply chain disruptions, and increasing fiscal pressures. Viewed more broadly, the pandemic has increased the debt burden of many economies and may result in sovereign debt sustainability issues, increasing the dependence on low interest rates by governments.

Financial markets
2020 began with risk assets performing well until concerns over the economic impact of the Covid-19 outbreak dented investor confidence, eventually leading to a global sell-off that unfolded at extraordinary speed. The S&P 500 index plunged by 35 per cent from an all-time high on 19 February 2020 to its low point on 23 March 2020. Interest rates in major markets declined significantly, falling to historical lows as investors fretted over the risks to the economic outlook. Credit spreads widened significantly, in line with the plunge in equity markets. The stress on financial markets was broadly eased by the central banks maintaining accommodative monetary policies and implementing various support programmes. Since their trough in March 2020, financial markets have rallied strongly, initially driven by broad reductions in infection rates in some countries, optimism with respect to the restart of the global economy, and, in the US, a small group of large-cap stocks that has buoyed the cap-weighted index. Risk assets in particular continued to rally strongly in the second half of 2020.

Risk asset valuations appear elevated and display some disconnect with economic fundamentals, and may therefore be subject to the risk of a correction given the renewed lockdowns implemented across the world towards the end of 2020 and into 2021, the logistical challenges to the roll out of Covid-19 vaccination programmes (which may more prolonged than initially anticipated) and the development of new strains of the coronavirus. On interest rates, the consensus outlook is of an environment in which they will remain low-for-longer. The US Federal Reserve's forward guidance has constrained expectations of higher short term yields in the foreseeable future, while economic fundamentals and globally accommodative conditions are likely to keep downward pressure on long term yields. For credit assets, risks of a further round of widespread pressure on corporate liquidity - as experienced during 2020 - remain, given the stretched credit fundamentals of corporate borrowers, although the magnitude of the pre-funding and liquidity-raising that has been accomplished in 2020 is expected to mitigate this to an extent.

(Geo)political landscape
During the first half of 2020, the civil unrest increasingly seen in many places across the world were partially curtailed by the Covid-19 restrictions put in place by governments. The second half of the year, saw an increase in popular protests against long-standing social issues and inequalities and were in some cases triggered by national elections in the US, Africa and Asia. An observable trend in recent protest movements, aided by social media, is the speed and frequency at which they can gather momentum and their evolving forms of leadership. The stability of governments is likely to be tested in different ways and potentially on a more frequent basis as a result, as will the resilience of businesses. As a global organisation, the Group has well-established local and global plans to mitigate the business risks from disruption. These have operated well when deployed across the Group during the Covid-19 crisis and also locally during the outbreaks of unrest seen during 2020 and continued into 2021 in markets where the Group operates. Operational resilience will continue to be critically evaluated and enhanced as the longer-term lessons, from the pandemic response in particular, become clearer. Governmental responses to the pandemic have involved a necessary balancing of the impacts to people's health and lives, their individual rights and liberties, and economic growth. These considerations, and the dynamics between and within them, have become increasingly politicised and another source of polarisation and popular discontent which, in some places, have also provided impetus to protest movements.

Many governments continue to face the challenge of reconciling the inter-connectedness of the global economy with pressure to prioritise national self-interests. The experience of the pandemic may provide a further impetus to the regionalisation or fragmentation of global trade, investment and standards, and risks undermining efforts in international cooperation and coordination. Into 2021, accessibility to Covid-19 vaccine supplies, which may become a prolonged challenge, has the potential to contribute to an increase in geopolitical tensions. A key source of geopolitical risk during 2020 was the US-China relationship and its wider impact on international relations, and this looks likely to continue during President Biden's term in office. Hong Kong's perceived level of autonomy will remain influential in geopolitical tensions, with potential global trade and economic consequences. Responses by the US, UK and other governments to the enactment and application of the national security law in Hong Kong and other constitutional or legislative changes in the territory, which continue to develop, may impact Hong Kong's economy. Being a key market for the Group which also hosts regional and head office functions, this could potentially impact Prudential's sales, operations and product distribution. For internationally active groups which operate across impacted jurisdictions such as Prudential, these government responses and measures add to the complexity of legal and regulatory compliance. Compliance with Prudential's legal or regulatory obligations in one jurisdiction may conflict with the law or policy objectives of another jurisdiction, or may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional legal, regulatory compliance and reputational risks for the Group.

Regulations
Prudential operates in highly regulated markets, and the nature and focus of regulation and laws remain fluid. A number of national and international regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business, systemic risk regulation, corporate governance and senior management accountability, and macroprudential policy. Some of these changes will have a significant impact on the way that the Group operates, conducts business and manages its risks. With geopolitical tensions elevated, the complexity of sanctions compliance is increasing and continues to represent a challenge for international businesses. These regulatory developments will continue to be monitored at a national and global level and form part of Prudential's engagement with government policy teams and regulators. The immediate regulatory and supervisory responses to Covid-19 have been broad and have included increased scrutiny of the operational resilience, liquidity and capital strength (including the impact of making dividend payments) of financial services companies as well as changes that have helped the Group to continue to support its customers through non-face-to-face contact. The financial burden in addressing the pandemic is likely to influence changes in governmental fiscal policies, laws or regulations aimed at increasing financial stability, and this may include measures on businesses or specific industries to contribute to, lessen or otherwise support, the financial cost to governments of treating patients and meeting the logistical challenges of providing vaccines. It is possible that requirements are imposed on private insurance companies and healthcare providers to cover costs associated with the treatment and prevention of Covid-19 beyond contractual or policy terms.

Against this evolving regulatory backdrop, constructive engagement continues with Prudential's Group-wide supervisor, the Hong Kong IA, on the Group-wide Supervision (GWS) Framework. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements. The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021. The framework adopts a principle-based and outcome-focused approach, and allows the Hong Kong IA to exercise direct regulatory powers over the holding companies of multinational insurance groups, reinforcing Hong Kong's position as a preferred base for large insurance groups in Asia Pacific and a global insurance hub. During 2020, the Hong Kong IA engaged with the Group and other relevant stakeholders in the development of the GWS framework, which will be anchored on the requirements for three pillars: capital, risk and governance, and disclosure.

Societal developments
The experience of the pandemic has underlined the ability of evolving demographic, geographical and environmental factors to change the nature, likelihood and impact of extreme events. These factors can also drive public health trends such as increasing obesity, with consequential potential impacts to Prudential's underwriting assumptions and product design. While insights can be gleaned from the current pandemic, the unique set of variables associated with extreme events means that their impact on the functioning of society, and the disruption to business operations, staff, customers and sales, cannot be predicted or fully mitigated. The Group has been actively managing the impact of the crisis as it has developed over 2020 and into 2021, including assisting affected policyholders and staff in meeting their resulting needs.

In support of increased ease of access and social inclusion, and to meet evolving customer needs, the Group is increasing its use of digital services, technologies and distribution methods for the products and services that it offers. The Covid-19 pandemic has accelerated these developments, with the Group's businesses having implemented virtual face-to-face sales of select ranges of products in many of its markets, and adoption of Prudential's Pulse application has continued to increase. The digital health platform is now available in 15 markets in 11 languages, with total downloads having reached 20 million as of February 2021. Changes to the Group's use of technology and distribution models have broad implications, touching on Prudential's conduct of business, increasing the risks of technology and data being compromised or misused and potentially leading to new and unforeseen regulatory issues.

A strong sense of purpose for an enterprise is a driver of long-term profitability, and this is making companies evaluate their place in, and contribution to, society. The ‘why and how’ a business acts has become arguably at least as important as what it produces or the services that it provides. Understanding and managing the environmental, social and governance (ESG) impact and requirements of its business is fundamental to Prudential’s brand, reputation and ultimately its long-term success. Ensuring high levels of transparency and responsiveness to stakeholders is a key aspect of this. Recent events have highlighted the structural inequalities in our societies and are prompting organisations to question where they stand on these important issues. Prudential’s ESG Strategic Framework is designed to deliver on its purpose of ‘helping people get the most out of life’. It includes a focus on inclusivity: inclusivity of access to quality healthcare, protection and savings for our customers; inclusivity of the working environment for our people; and inclusivity in the Group’s support of the transition to low-carbon in the economies, markets and communities in which it operates.

2. Key internal, regulatory, economic and (geo)political events over the past 12 months

Q1 2020	Q2 2020	Q3 2020	Q4 2020
In January 2020, the virus responsible for what initially appeared to be viral pneumonia is identified as a novel coronavirus. The resulting disease is subsequently named Covid-19, and over 2020 the coronavirus begins its spread across the globe. Across its markets the Group rolls out initiatives to support customers and staff. In January, Prudential Vietnam announces an exclusive bancassurance partnership with Southeast Asia Commercial Joint Stock Bank (SeABank), a fast-growing bank in Vietnam with around 1.2 million customers and almost 170 branches, for a 20-year term. On 20 March, the Hong Kong IA published the Insurance (Amendment) (No. 2) Bill as part of its submission to the Hong Kong LegCo, a key step towards GWS implementation. In Singapore, a revised risk-based capital framework (RBC2) for insurers comes into force as at 31 March 2020. The California Consumer Protection Act (CCPA) comes into force on 1 January 2020, creating data privacy rights to California consumers. Jackson ensures compliance with the Act in December 2019. The National Association of Insurance Commissioners (NAIC) implements changes to the US statutory reserve and capital framework for variable annuities, effective from 1 January 2020. Jackson chooses to early adopt the changes as at 31 December 2019 for US statutory reporting. The Covid-19 pandemic shuts down much of the world's economy and triggers a sharp recession. Equity markets sell off at an extraordinary speed, volatility spikes, credit spreads widen sharply and interest rates in major	On 18 June 2020 the Group announces the reinsurance of $27.6 billion of Jackson's fixed and fixed index annuity portfolio by Athene, and a $500 million equity investment into Prudential's US business in return for an 11.1 per cent economic interest. Shriti Vadera joins the Board as a Non-executive Director and member of the Nomination & Governance Committee on 1 May 2020, and succeeds Paul Manduca as Chair of the Board and of the Nomination & Governance Committee on 1 January 2021. IAIS releases the requirements for a Covid-19 tailored Data Collection exercise for 2020. The original Data Collection exercise, released in March for the purpose of monitoring the build-up of systemic risk for insurers, is paused for 2020. In April 2020, the IAIS also releases the requirements for the 2020 ICS and Aggregation Method Data Collection exercises. The Network for Greening the Financial System publishes its Guide for Supervisors in May 2020 which outlines recommendations for integrating climate-related and environmental risks into prudential supervision. Markets rally sharply during Q2 on the back of asset purchases, direct intervention by the US Federal Reserve in credit markets, stimulus programmes, the gradual rebound in economic activity enabled by the progressive easing of lockdown measures and a broad reduction in virus infection rates. A broad easing of Covid-19 restrictions begins to take place across many countries in the latter half of Q2 and into Q3, including in some countries with high infection rates, with many	In August, and building on its earlier announcement in May, the Group announces its intention to fully separate Jackson from the Group. This is followed by a further announcement in January 2021 confirming that the separation will be facilitated by way of demerger, which is proposed to complete in Q2 2021. The Insurance (Amendment) (No. 2) Ordinance, being the enabling primary legislation providing for the GWS Framework was enacted on 24 July 2020 and will come into operation on 29 March 2021. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements. The US Federal Reserve adopts a new flexible average inflation targeting strategy and introduces new forward guidance on interest rates that delays future increases until the economy reaches maximum employment and inflation rises to 2 per cent and is on track to moderately exceed this level for some time. US GDP increases by $1.6 trillion over Q3, partially offsetting the decrease of $2.0 trillion in Q2, as consumer spending rebounds strongly. Meanwhile, China's GDP growth improves from 3.2 per cent year-on-year in Q2 to 4.9 per cent in Q3. Growth in all major investment activities return to positive levels, with real growth rising from -1.1 per cent y-o-y in August to 2.4 per cent in September. Volatility in the financial markets remain elevated. Equity markets briefly fall in September, accompanied by a sell-off in US treasuries, although this is short-lived	Covid-19 cases surge in Q4 across the US and Europe. Towards the end of 2020, major European economies start to reintroduce restrictions on movement and business to various degrees. Amid this increase in infection rates, vaccine approvals and roll-outs begin to take place in the UK and other countries. Against the backdrop of the US election and positive Covid-19 vaccine news, equity markets continue to rally in November and volatility reaches new post-March lows. Central banks of major economies keep interest rate levels on hold. In Europe, the Pandemic Emergency Purchase Programme resolves to continue bond purchases until June 2021. In the US, a second stimulus package worth $900 billion passed in December. The US elections take place amid a surge in coronavirus case numbers across the country. After legal challenges from President Trump are denied by the courts and the storming of the US Capitol buildings by protestors, Joe Biden is inaugurated as the 46th US president on 20 January 2021, taking control of both houses of Congress. On 15 November, at the annual Association of Southeast Asian Nations (ASEAN) Leaders Summit, 15 countries formally sign the Regional Comprehensive Economic Partnership (RCEP) trade deal, making it the world's largest trading bloc. Signatories aim to work through ratification of the deal in 2021. The RCEP comprises all ten ASEAN economies, plus China, Japan, South Korea, Australia and New Zealand. Moves to ban an opposition party in 2019 trigger anti-establishment protests in Thailand in early 2020. Protest activity peaks in mid-October and spikes again mid-November, with protest leaders threatening to resume demonstrations with increased intensity in early 2021. In the run-up to the Uganda presidential elections on 14 January 2021, violence breaks out in Kampala with dozens killed in the first few weeks of electoral campaigning. In early October, Nigeria is rocked

markets decrease to new historical lows. Central banks maintain accommodative monetary policies and implement various asset purchase and support programmes to restore confidence in financial markets. Governments deploy massive fiscal stimulus to mitigate the economic fallout and the unprecedented shock on the labour force.	countries taking steps to mitigate a second wave of infections. Other countries, such as the US and those in Central and South America and South Asia continue to see high daily case numbers.	and avoids a collapse of similar levels as seen in March. As credit market conditions stabilise, central banks, including the US Federal Reserve and European Central Bank (ECB), lower the pace of their asset purchases. A new national security law for Hong Kong is implemented on 30 June 2020. The US response includes enactment of the Hong Kong Autonomy Act which introduces potential sanctions on financial institutions doing significant business with Chinese officials materially contributing to the alleged erosion of Hong Kong's autonomy. Over Q3 and Q4 the US introduces sanctions on a range of individuals and entities in connection to a number of issues. On 31 July 2020, Carrie Lam postpones the September LegCo elections for one year, citing coronavirus concerns.	by the outbreak of nationwide demonstrations against police brutality that leaves a reported 56 people dead. On 23 October, the China's Central Bank, the People's Bank of China, publishes a draft banking law recognising, and providing a regulatory framework for, its planned central bank digital currency, the digital yuan. On 11 November 2020, China's National People's Congress Standing Committee determines that Hong Kong LegCo members can be disqualified on various grounds including endangering national security, with four members being immediately disqualified. In protest, the remaining 15 member pro-democracy bloc resign en masse. On 30 December 2020, the EU and China reach an agreement in principle on the Comprehensive Agreement on Investment, which covers market access. Both sides commit to finalising detailed negotiations on the investment protections covered by the Agreement, which will require ratification, within two years.

3. Managing the risks in implementing our strategy

This section provides an overview of the Group's strategy, the significant risks arising from the delivery of this strategy and current risk management focus. The risks outlined below, which are not exhaustive, are discussed in more detail in section 5.

Our strategy	Significant risks arising from the delivery of the strategy	Risk management focus
Group-wide *Our strategy is to capture the long-term structural opportunities for our markets and geographies, while operating with discipline and seeking to enhance our capabilities through innovation to deliver high-quality resilient outcomes for our customers.*	• Transformation risks around key change programmes, including those related to the Group's digital strategy	• Continuing development of the transformation risk framework, including risk appetite, and focus on, and ensuring consistency in, transformation risk management across the Group's business units. • Provision of independent risk assurance, challenge and advice on first line programme risk identification and assessments. • Focus on the financial and non-financial stability of Jackson as a standalone business.
	• Group-wide regulatory risks	• Ongoing compliance with in-force regulations and management of new regulatory developments. • Engagement with national governments, regulators and industry groups on macroprudential and systemic risk-related regulatory initiatives, international capital standards, and other initiatives with Group-wide impacts. • Implementation of the Group-wide Supervision Framework, which is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements.
	• Information security and data privacy risks	• Operationalisation of the Group-wide governance model and strategy for cyber security management focusing on automation, business enablement, efficiency, and continuous improvement. • Continued focus on compliance with applicable privacy laws across the Group and the appropriate and ethical use of customer data.
	• Business disruption and third-party risks	• Continued application of the Group's global business continuity management framework, with an enhanced focus on operational resilience as it relates to business disruption tolerance levels and customer impacts. Embedding of insights from the Covid-19 pandemic. • Applying the distinct oversight and risk management required over the Group's third parties, including its strategic partnerships for product distribution, non-traditional services and processing activities.
	• Conduct risk	• Implementing and embedding the Group-wide customer conduct risk management framework and policy, with particular focus on sales practices and the Group's digital ecosystem. • Enhancement of conduct risk oversight using data analytics.
	• Model and data risks	• Focus on requirements for data and AI and complex tooling ethics principles and framework. • Ongoing risk assessment of tools used.
	• People and culture	• Focus on Group Culture as a key mechanism to support sound risk management behaviours, practices and awareness. • Embedding responses and insights from Group-wide employee engagement surveys through enhancements to the Group Risk Framework.
	• ESG – commitments and disclosure	• Assessing the potential financial impacts from climate-related transition risk in the asset book and integration of climate risk into the Group Risk Framework. • Supporting the Group ESG Committee in its responsibility to deliver the Group's ESG Strategic Framework and develop its disclosures.

Our strategy	Significant risks arising from the delivery of the strategy	Risk management focus
Asia *Serving the protection and investment needs of the growing middle class in Asia.*	• Financial risks	• Maintaining, and enhancing where necessary, risk limits and implementing business initiatives to manage financial risks, including asset allocation, bonus revisions, product repricing and reinsurance where required.
	• Persistency risk	• Implementation of business initiatives to manage persistency risk, including additional payment methods, enhancing customer experience, revisions to product design and incentive structures. Ongoing experience monitoring.
	• Morbidity risk	• Implementation of business initiatives to manage morbidity risk, including product repricing where required. Ongoing experience monitoring.
Africa *Providing savings, health and protection solutions to customers in Africa.*	As its presence in Africa expands and grows in materiality, the Group will continue to increase its focus on Prudential Africa's most significant risks. A number of significant Group-wide risks detailed above are considered material in the region, and these include: • Financial crime and security risks, where the focus is on implementation of Group policies and standards; • Transformation risks, where the focus is on overseeing and managing parallel initiatives while developing local capabilities to meet the demands of a fast-paced transformation agenda; and • Regulatory risks, where the focus is on active monitoring of the local regulatory landscape and adoption of Group processes in order to meet international regulatory standards.	
United States *Providing asset accumulation and retirement income products to US retirees.*	• Financial risks	• Maintaining, and enhancing where necessary, risk limits, hedging strategies (including mitigating measures against basis risk), modelling tools and risk oversight appropriate to Jackson's product mix with a view to demerger from the Prudential Group.
	• Policyholder behaviour risk	• Continued monitoring of policyholder behaviour experience and review of assumptions.

4. Risk governance

a System of governance

Prudential has in place a system of governance that promotes and embeds a clear ownership of risk, processes that link risk management to business objectives and a proactive Board and senior management providing oversight of risks. Mechanisms and methodologies to review, discuss and communicate risks are in place together with risk policies and standards to enable risks to the Group to be identified, measured and assessed, managed and controlled, monitored and reported.

Material risks are retained selectively when it is considered that there is value in doing so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking. The Group Risk Framework, which is owned by the Board, details Prudential's risk governance, risk management processes and risk appetite. The Group's risk governance arrangements are based on the 'three lines of defence' model, comprising risk taking and management, risk control and oversight, and independent assurance. The aggregate Group exposure to its key risk drivers is monitored and managed by the Risk, Compliance and Security function, which is responsible for reviewing, assessing, providing oversight and reporting on the Group's risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

During 2020, the Group has continued to review and update its policies and processes for alignment with the requirements of its Group-wide supervisor. The Group has also focused on development of its Group-wide customer conduct risk framework and policy; its AI ethics principles; and enhancements to its operational resilience.

The following section provides more detail on our risk governance, risk culture and risk management process.

b Group Risk Framework

i. Risk governance and culture

Prudential's risk governance comprises the Board organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that have been established to make decisions and control activities on risk-related matters.

The risk governance structure is led by the Group Risk Committee, supported by independent non-executive directors on risk committees of the Group's main subsidiaries. The Group Risk Committee reviews and approves changes made to the Group Risk Framework and to relevant policies. It also reviews and approves new risk policies and recommends to the Board any material policies which require Board approval. A number of core risk policies and standards support the Framework to enable risks to the Group to be identified, measured and assessed, managed and controlled, monitored and reported.

The risk governance arrangements for the Group's major businesses were delayered and strengthened in 2020 with the implementation of direct lines of communication, reporting and oversight of the risk committees of these businesses by the Committee. To support the enactment of these arrangements, the terms of reference for the major business risk committees were aligned and approved locally, and include a standing invitation for the Group Chief Risk and Compliance Officer (CRCO) and the requirement for risk escalations to the Committee.

Culture is a strategic priority of the Board, which recognises its importance in the way that the Group does business. A Group-wide culture framework is currently being implemented to unify the Group towards its shared purpose of helping people get the most out of life. Components of the framework include principles and values that define how the Group expects business to be conducted in order to achieve its strategic objectives, inform expectations of leadership and guide ESG activities. The culture framework components are intended to be supportive of sound risk management practices by requiring a focus on longer term goals and sustainability, the avoidance of excessive risk taking and highlighting acceptable and unacceptable behaviours. The framework is supported through inclusion of risk considerations in performance management for key individuals; the building of appropriate skills and capabilities in risk management; and by ensuring that employees understand and care about their role in managing risk through open discussions. The Group Risk Committee has a key role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

Prudential's Group Code of Business Conduct and Group Governance Manual include a series of guiding principles that govern the day-to-day conduct of all its people and any organisations acting on its behalf. This is supported by specific risk-related policies which require that the Group act in a responsible manner. These include, but are not limited to, policies related to financial crime covering anti-money laundering and sanctions and anti-bribery and corruption. The Group's third-party supply policy requires that human rights and modern slavery considerations are embedded across all of its supplier and supply chain arrangements. Embedded procedures to allow individuals to speak out safely and anonymously against unethical behaviour and conduct are also in place.

ESG is overseen by the Board, which is responsible for determining strategy and prioritisation of key focus areas. In order to provide greater senior executive involvement and holistic oversight of ESG matters material to the Group, in 2020, a Group ESG Committee was established. The Committee, chaired by the Group Chief Financial Officer and Chief Operating Officer in his role as ESG sponsor, was supported by senior functional leaders and representatives from the Group's business units, including the chief investment officers of the Group's asset managers. The Group ESG Committee reported to the Board in 2020 through the Group Nomination & Governance Committee, comprising the Group's Chair, the Senior Independent Director, and the chairs of the Audit, Remuneration and Risk committees and was regularly attended by the Group Chief Executive. The policies and procedures to support how the Group operates in relation to certain ESG topics are included in the Group Governance Manual, which establishes standards for managing ESG issues across the Group and sets out the policies and procedures to support how Prudential operates. Further details on the Group's ESG governance arrangements, including the establishment in early 2021 of a Board Responsibility & Sustainability Working Group, are included in the ESG Report.

ii. The risk management cycle

Risk identification
In accordance with provision 28 of the UK Corporate Governance Code, a process is in place to support Group-wide identification of the company's emerging and principal risks and this combines both top-down and bottom-up views of risks at the level of the Group and its business units. The Board performs a robust assessment and analysis of these principal and emerging risks facing the company through the risk identification process, the Group Own Risk and Solvency Assessment (ORSA) report and the risk assessments undertaken as part of the business planning review, including how they are managed and mitigated, which supports decision-making.

The ORSA is the ongoing process of identifying, measuring and assessing, managing and controlling, monitoring and reporting the risks to which the business is exposed. It includes an assessment of capital adequacy to ensure that the Group's solvency needs are met at all times. Stress and scenario testing, which includes reverse stress testing requiring the Group to ascertain the point of business model failure, is another tool that helps to identify the key risks and scenarios that may have a material impact on the Group. The risk profile is a key output from the risk identification and risk measurement processes and is used as a basis for setting Group-wide limits, management information, assessment of solvency needs, and determining appropriate stress and scenario testing. The Group's annual set of principal risks is given enhanced management and reporting focus.

Risk measurement and assessment
All identified risks are assessed based on an appropriate methodology for that risk. All quantifiable risks, which are material and mitigated by holding capital, are modelled in the Group's internal model, which is used to determine economic capital requirements and is subject to independent validation and processes and controls around model changes and limitations.

Risk management and control
The Group's control procedures and systems focus on aligning the levels of risk-taking with the Group's strategy and can only provide reasonable, and not absolute, assurance against material misstatement or loss. Risk management and control requirements are set out in the Group's risk policies and define the Group's risk appetite in respect of material risks and the framework under which the Group's exposure to those risks is limited. The processes to enable Group senior management to effect the measurement and management of the Group material risk profile in a consistent and coherent way, which include the flows of management information required, are also set out in the Group's risk policies. The methods and risk management tools that the Group employs to mitigate each of its major categories of risks are detailed in section 5 below.

Risk monitoring and reporting
The identification of the Group's principal risks informs the management information received by the Group Risk Committee and the Board. Risk reporting of key exposures against appetite is also included, as well as ongoing developments in the Group's principal and emerging risks.

iii. Risk appetite, limits and triggers

The Group recognises that interests of its customers and shareholders, and a managed acceptance of risk in pursuit of its strategy, lies at the heart of its business, and that effective risk management capabilities represent a key source of competitive advantage. Qualitative and quantitative expressions of risk appetite are defined and operationalised through risk limits, triggers and indicators. The Risk, Compliance and Security function reviews the scope and operation of these measures at least annually. The Board approves changes to the Group's aggregate risk appetite and the Group Risk Committee has delegated authority to approve changes to the system of limits, triggers and indicators.

Group risk appetite is defined and monitored in aggregate by the setting of objectives for its liquidity, capital requirements and non-financial risk exposure, covering risks to shareholders, including those from participating and third-party business. Group limits operate within these expressions of risk appetite to constrain material risks, while triggers and indicators provide additional defined points for escalation. The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Risk and Compliance function, which uses submissions from local business units to calculate the Group's aggregated position relative to Group risk appetite and limits.

- **Capital requirements.** Limits on capital requirements aim to ensure that the Group maintains sufficient capital in excess of internal economic capital requirements in business-as-usual and stressed conditions, achieves its desired target rating to meet its business objectives, and supervisory intervention is avoided. The two measures currently in use at the Group level are the regulatory local capital summation method (LCSM) capital requirements (both minimum and prescribed levels) and internal economic capital requirements ('ECap'), which under the GWS

Framework will be determined by the Group Internal Economic Capital Assessment ('GIECA'). In addition, capital requirements are monitored on local statutory bases.

- **Liquidity.** The objective of the Group's liquidity risk appetite is to ensure that sufficient cash resources are available to meet financial obligations as they fall due in business-as-usual and stressed scenarios. This is measured using a liquidity coverage ratio (LCR) which considers the sources of liquidity against liquidity requirements under stress scenarios.

Non-financial risks. The Group is exposed to non-financial risks, including environmental, social and governance risks, as an outcome of its chosen business activities and strategy. It aims to manage these risks effectively to maintain its operational resilience and its commitments to customers and other external stakeholders, and to avoid material adverse impact on its reputation.

5. The Group's principal risks

Broadly, the risks assumed across the Group can be categorised as those relating to its financial situation; its business and industry; regulatory and legal compliance; and those relating to ESG. Principal risks, whether materialising within the Group or at third parties on which the Group relies, may have a financial impact and could also impact the performance of products or services provided to customers and distributors and the ability to fulfil commitments to customers, giving rise to potential risks to its brand and reputation. These risks, which are not exhaustive, are detailed below. The materiality of these risks, whether material at the level of the Group or its business units, is also indicated. The Group's disclosures covering risk factors are aligned to the same categories and can be found at the end of this document.

In reading the sections below, it is useful to understand that there are some risks that Prudential's policyholders assume by virtue of the nature of their products, and some risks that the Group and its shareholders assume. Examples of the latter include those risks arising from assets held directly by and for the Group or the risk that policyholder funds are exhausted. This report is focused mainly on risks to the shareholder but will include those which arise indirectly through policyholder exposures.

Covid-19 risks and responses
The Group has responded in a number of ways to the risks arising from the coronavirus pandemic; some responses were part of existing risk management processes and procedures, while others have been initiated specifically in response to the pandemic, in particular during the acute phases experienced in Q1 and Q2.

The Group Critical Incident Procedure (GCIP) defines specific governance to be invoked in the event of a critical incident, such as a significant market, liquidity or credit-related event. This includes, where necessary, the convening of a Critical Incident Group (CIG) to oversee, coordinate, and where appropriate, direct any activity during a critical incident. In response to the economic and financial market shocks triggered by the Covid-19 pandemic the Group CRCO invoked the GCIP and convened a series of CIG meetings to provide high-cadence monitoring and management of potential threats to the capital or liquidity position of the Group. Local Incident Management teams were also activated to monitor and manage the tailored response required to support the operations, customers and employees of the Group's businesses.

These risks arising from Covid-19, and the Group's responses to them, are summarised below, with further information provided, where relevant, within the descriptions of the Group's principal risks.

Risk areas	Responses
• Staff safety and well-being	Proactive move to working from home arrangements across jurisdictions, with Local Incident Management teams monitoring country specific developments, undertaking risk assessments and providing regular staff communications and support.
• Customer outcomes are not met, increasing conduct risk	Initiatives and campaigns rolled out across markets, including customer cash benefits, goodwill payments, and extended grace periods for premium payments.
• Disruption to the operations of the Group, and its key partners	Application of the Group and local business continuity plans. Local Incident Management teams activated to monitor, manage and lead a tailored response to ensure continuity of service to existing customers.
• Financial market and liquidity impacts, including to Group and business unit solvency	Invocation of the GCIP and convening of a CIG to monitor and manage threats to the Group's solvency or liquidity position.
• Heightened risk of phishing and social engineering tactics	Group-wide phishing and targeted awareness campaigns. Heightened threat monitoring and review of cyber hygiene controls. Active management of connections to the Group network.
• Sales impacts	Roll-out of virtual face-to-face sales processes in most of the Group's markets with appropriate regulatory engagement, digital product offerings, oversight of incremental conduct and operational risks and ongoing monitoring of the commercial impact to existing sales channels.
• Insurance risks, in particular increased lapses and surrenders resulting from the broader economic effects as well as increased and/or delayed morbidity impacts	Close monitoring by the Group's businesses and targeted management actions where necessary. Covid-19-related claims have not been material to date, but are being closely monitored.

Risks to the Group's financial situation (including those from the external macroeconomic and geopolitical environment)
The global economic and geopolitical environment may impact on the Group directly by affecting trends in financial markets and asset values, as well as driving short-term volatility.
Risks in this category include the market risks to our investments and the credit quality of our investment portfolio as well as liquidity risk.

Global economic and geopolitical conditions
Changes in global economic conditions can impact Prudential directly; for example, by leading to reduced investment returns and fund performance and liquidity, and increasing the cost of promises (guarantees) that have been made to the Group's customers. Changes in economic conditions, such as the abrupt and uncertain longer-term impacts resulting from the Covid-19 crisis, can also have an indirect impact on the Group; for example, leading to a decrease in the propensity for people to save and buy Prudential's products, as well as changing prevailing political attitudes towards regulation.

The geopolitical environment can also impact the Group in a wide range of ways, both directly and indirectly. Financial markets and economic sentiment have been highly susceptible to geopolitical developments in recent years, with implications for the Group's financial situation. We have seen in recent times that geopolitical tensions can result in the imposition of protectionist or restrictive regulatory and trading requirements by governments and regimes. The Covid-19 pandemic has further prompted governments to rethink the current globalised nature of supply chains, while accessibility to vaccine supplies has the potential to contribute to an increase in geopolitical tensions. These factors may have geopolitical and trading implications, the full extent of which may not be clear for a while. Various governments have effected, or may effect, the postponement of elections and other constitutional or legislative processes in response to the pandemic, and the longer-term impact from this increase in constitutional and political uncertainty remains to be seen. The pandemic has had a negative impact on all economies, with increased fiscal burdens, higher levels of borrowing and reduced revenues. These pressures will impact on the business operating environments, for example, through changes to taxation, and are likely to contribute to political pressures for governments.

Responses by the US, UK and other governments to the enactment and application of the national security law in Hong Kong and other constitutional or legislative changes in the territory, which continue to develop, may impact Hong Kong's economy. Being a key market for the Group which also hosts regional and head office functions, this could potentially impact Prudential's sales, operations and product distribution. For internationally active groups which operate across impacted jurisdictions such as Prudential, these government measures and responses add to the complexity of legal and regulatory compliance. Compliance with Prudential's legal or regulatory obligations in one jurisdiction may conflict with the law or policy objectives of another jurisdiction, or may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional legal, regulatory compliance and reputational risks for the Group. All these factors can increase the operational, business disruption, regulatory and financial market risks to the Group and can directly impact its sales and distribution networks. Developments in Hong Kong and the continuing impacts of the pandemic are being closely monitored by the Group and plans have been enacted to manage the disruption to the business, its employees and its customers within existing business resilience processes. Further information on the Group's business disruption risks are included below.

Macroeconomic and geopolitical risks are considered material at the level of the Group.

Market risks to our investments
This is the potential for reduced value of Prudential's investments resulting from the volatility of asset prices, driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices. Interest rates in the Group's key markets decreased to historically low levels in Q1 2020, with the stance of central banks making it likely they will remain extremely low for a while. A persistently low interest rate environment poses challenges to both the capital position of life insurers as well as to new business profitability and this is a scenario that the Group is planning for.

The Group has appetite for market risk where it arises from profit-generating insurance activities to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

The Group's market risks are managed and mitigated by the following:
- The Group market risk policy;
- The Group Asset Liability Committee – a first-line risk management advisory committee to the Group Chief Executive Officer which supports the identification, assessment and management of key financial risks significant to the achievement of the Group's business objectives;
- Risk appetite statements, limits and triggers;
- Asset and liability management programmes which include management actions such as asset allocation, bonus revisions, repricing and the use of reinsurance where appropriate;
- Hedging derivatives, including equity options and futures, interest rate swaps and swaptions and currency forwards;
- The monitoring and oversight of market risks through the regular reporting of management information; and
- Regular deep dive assessments.

As noted above, in response to the economic and financial market shocks triggered by the Covid-19 pandemic, the Group CRCO invoked the GCIP and convened a series of CIG meetings to provide high-cadence monitoring and management of any potential threats to the capital or liquidity position of the Group.

- **Equity and property investment risk.** In Asia, the shareholder exposure to equity price movements results from unit-linked products, where fee income is linked to the market value of the funds under management. Further exposure arises from with-profits businesses where bonuses declared are based broadly on historical and current rates of return from the Asia business's investment portfolios, which include equities.

  In Jackson, investment risk arises from the assets backing customer policies. Equity risk is driven by the variable annuity business, where the assets are invested in both equities and bonds and the main risk to the shareholder comes from providing the guaranteed benefits offered. The exposure to this is primarily controlled by using a derivative hedging programme, as well as through the use of reinsurance to pass on the risk to third-party reinsurers.

  Basis risk is the inherent risk associated with imperfect hedging and is caused by variables or characteristics that drive differences between the value of an underlying position and the hedge instruments used to offset changes in its value. Within Jackson's variable annuity business, basis risk can arise from differences between the performance of the

Separate Account funds in which policyholders choose to invest and that of the instruments used to replicate these funds for hedging and liability modelling purposes, which are primarily linked to the S&P 500 index. This risk exposure is proportionate to the magnitude of liability risk/hedge position which fluctuates with equity and interest rate levels. While the market sell-off in Q1 2020 increased this liability risk/hedge exposure, the subsequent rally in equity markets over 2020 has had a corresponding opposite and positive impact. Jackson continues to actively evaluate the costs and benefits of ways to further mitigate basis risk.

- **Interest rate risk.** This is driven by the valuation of Prudential's assets (particularly the bonds that it invests in) and liabilities, which are dependent on market interest rates and expose the Group to the risk of those moving in a way that is detrimental. Some products that Prudential offers are sensitive to movements in interest rates. As part of the ongoing management of this risk, a number of mitigating actions to the in-force business have been taken, as well as repricing and restructuring new business offerings in response to recent relatively low interest rates. Nevertheless, some sensitivity to interest rate movements is still retained. The impact of lower interest rates may also manifest through reduced solvency levels in some of the Group's businesses, impairing their ability to make remittances, as well as reduced new business profitability.

  The Group's appetite for interest rate risk is limited to where assets and liabilities can be tightly matched and where liquid assets or derivatives exist to cover interest rate exposures.

  In Asia, our exposure to interest rate risk arises from the guarantees of some non-unit-linked products with a savings component, including the Hong Kong with-profits and non-profit business. This exposure exists because of the potential for an asset and liability mismatch, where long-dated liabilities and guarantees are backed by short-dated assets, which cannot be eliminated but is monitored and managed through local risk and asset liability management committees against risk appetite aligned with the Group's limit framework.

  Interest rate risk results from the cost of guarantees in the variable annuity and fixed index annuity business, which may increase when interest rates fall. The level of sales of variable annuity products with guaranteed living benefits is actively monitored, and the risk limits we have in place help to ensure we are comfortable with the level of interest rate and market risks incurred as a result. Derivatives are also used to provide some protection. Jackson is also affected by interest rate movements to its fixed annuity book where the assets are primarily invested in bonds and shareholder exposure comes from the mismatch between these assets and the guaranteed rates that are offered to policyholders. As at 1 June 2020, this risk has been substantially transferred as part of the reinsurance transaction with Athene, leaving only a limited exposure from residual policies including those from the blocks acquired externally (ie from the REALIC and John Hancock businesses).

- **Foreign exchange risk.** The geographical diversity of Prudential's businesses means that it has some exposure to the risk of foreign exchange rate fluctuations. Some entities within the Group that write policies, invest in assets or enter into other transactions in local currencies or currencies not linked to the US dollar. Although this limits the effect of exchange rate movements on local operating results, it can lead to fluctuations in the Group financial statements when results are reported in US dollars. This risk is accepted within our appetite for foreign exchange risk.

  In cases where a non-US dollar denominated surplus arises in an operation which is to be used to support Group capital, or where a significant cash payment is due from a subsidiary to the Group, this currency exposure may be hedged where it is believed to be economically favourable to do so. Further, the Group generally does not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside the countries in which it operates, but it does have some appetite for this on fee income and on equity investments within the with-profits fund. Where foreign exchange risk arises outside appetite, currency swaps and other derivatives are used to manage the exposure.

Liquidity risk

Prudential's liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due, and the Group considers this under both normal and stressed conditions. It includes the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may impact on market conditions and valuation of assets in a more uncertain way than for other risks like interest rate or credit risk. It may arise, for example, where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or where redemption requests are made against Prudential's external funds. Liquidity risk is considered material at the level of the Group.

Prudential has no appetite for any business to have insufficient resources to cover its outgoing cash flows, or for the Group as a whole to not meet cash flow requirements from its debt obligations under any plausible scenario.

The Group has significant internal sources of liquidity, which are sufficient to meet all of our expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. The Group has a total of $2.6 billion of undrawn committed facilities that can be made use of, expiring in 2025. Access to further liquidity is available through the debt capital markets and an extensive commercial paper programme is in place, and Prudential has maintained a consistent presence as an issuer in the market for the past decade.

A number of risk management tools are used to manage and mitigate this liquidity risk, including the following:
- The Group's liquidity risk policy;
- Risk appetite statements, limits and triggers;
- Regular assessment by the Group and business units of LCRs which are calculated under both base case and stressed scenarios and are reported to committees and the Board;
- The Group's Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of liquidity risks and the adequacy of available liquidity resources under normal and stressed conditions;

- Regular stress testing;
- Our contingency plans and identified sources of liquidity;
- The Group's ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The Group's access to external committed credit facilities.

Credit risk
Credit risk is the potential for a reduction in the value of investments which results from the perceived level of risk of an investment issuer being unable to meet its obligations (defaulting). Counterparty risk is a type of credit risk and relates to the risk of the counterparty to any contract we enter into being unable to meet their obligations causing the Group to suffer a loss.

Prudential invests in bonds that provide a regular, fixed amount of interest income (fixed income assets) in order to match the payments needed to policyholders. It also enters into reinsurance and derivative contracts with third parties to mitigate various types of risk, as well as holding cash deposits at certain banks. As a result, it is exposed to credit risk and counterparty risk across its business. The assets backing the Jackson general account portfolio and the Asia shareholder business means credit risk is considered a material risk for the Group's business units.

The Group has some appetite to take credit risk to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

A number of risk management tools are used to manage and mitigate this credit risk, including the following:
- A credit risk policy and dealing and controls policy;
- Risk appetite statements and portfolio-level limits that have been defined on issuers, and counterparties;
- Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions which aim to provide a high level of credit protection;
- The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews;
- Regular assessments; and
- Close monitoring or restrictions on investments that may be of concern.

The total debt securities[4] at 31 December 2020 were $125.8 billion (31 December 2019: $134.6 billion). Credit risk arises from the debt portfolio in the Asia business comprising the shareholder, with-profit and unit-linked funds, the value of which was $89.6 billion at 31 December 2020. The majority (69 per cent) of the portfolio is in unit-linked and with-profits funds. The remaining 31 per cent of the debt portfolio is held to back the shareholder business.

In the general account of the Group's US business, $36.0 billion of debt securities are held to support shareholder liabilities. The shareholder-backed debt portfolio of the Group's other operations was $0.2 billion as at 31 December 2020. Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

- **Group sovereign debt.** Prudential invests in bonds issued by national governments. This sovereign debt holding represented 28 per cent or $18.0 billion[1] of the shareholder debt portfolio of the Group as at 31 December 2020 (31 December 2019: 22 per cent or $18.8 billion of the shareholder debt portfolio). The particular risks associated with holding sovereign debt are detailed further in our disclosures on risk factors.

  The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2020 are given in note C1 of the Group's IFRS financial statements.

- **Corporate debt portfolio.** In the Asia shareholder business, corporate debt exposures totalled $13.9 billion of which $12.4 billion or 89 per cent were investment grade rated. In the US general account, corporate debt exposures amounted to $26.6 billion following the Athene transaction, and the portfolio remains of high credit quality with 97 per cent[5] remaining investment grade rated.

- **Bank debt exposure and counterparty credit risk.** Prudential's exposure to banks is a key part of its core investment business, as well as being important for the hedging and other activities undertaken to manage its various financial risks. Given the importance of its relationship with its banks, exposure to the sector is considered a material risk for the Group. The exposure to derivative counterparty and reinsurance counterparty credit risk, which includes the recently announced reinsurance agreement with Athene Life Re, is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, Prudential reduces its exposure, buys credit protection or uses additional collateral arrangements to manage its levels of counterparty credit risk.

At 31 December 2020:
- 92 per cent of the Group's shareholder portfolio (excluding all government and government-related debt) is investment grade rated[2]. In particular, 52 per cent of the portfolio is rated[2] A- and above (or equivalent); and
- The Group's shareholder portfolio is well diversified: no individual sector[3] makes up more than 15 per cent of the total portfolio (excluding the financial and sovereign sectors). The exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 31 December 2020 are given in note C1 of the Group's IFRS financial statements.

Risks from the nature of our business and our industry
These include the Group's non-financial risks (including operational and financial crime risk), transformation risks from significant change activity and the insurance risks assumed by the Group in providing its products.

Transformation risk
Prudential has a number of significant change programmes under way to deliver the Group's strategy for growth, improve customer experiences, strengthen its operational resilience and control environment, and meet regulatory and industry requirements. If the

Group does not deliver these programmes to defined timelines, scope and cost, this may negatively impact on its operational capability; control environment; reputation; and ability to deliver its strategy and maintain market competitiveness.

Transformation risk remains a material risk for Prudential. The Group's transformation and change programmes inherently give rise to design and execution risks, and may introduce new, or increase existing, business risks and dependencies. Implementing further strategic transformation initiatives may amplify these risks. In order to manage these risks, the Group's Transformation Risk Framework aims to ensure that, for both transformation and strategic initiatives, strong programme governance is in place with embedded risk expertise to achieve ongoing and nimble risk oversight, and regular risk monitoring and reporting to risk committees is delivered.

Prudential's current portfolio of transformation and significant change programmes include the proposed demerger of Jackson from the Group; the expansion of the Group's digital capabilities and use of technology, platforms and analytics; and improvement of business efficiencies through operating model changes (covering data, systems and people). Programmes related to regulatory/industry change such as the transition to the Hong Kong IA's GWS Framework, changes required to effect the discontinuation of inter-bank offered rates (IBORs) in their current form and the implementation of IFRS 17 are also ongoing. See below for further detail on these regulatory changes. The Group is cognisant that the speed of technological change in the business could outpace its ability to anticipate all the unintended consequences that may arise. While the adoption of innovative technologies such as artificial intelligence has opened up new product opportunities and channels, it also exposes the Prudential to potential information security, operational, ethical and conduct risks which, if not managed effectively, could result in customer detriment and reputational damage. The Transformation Risk Framework therefore operates alongside the Group's existing risk policies and frameworks in these areas to ensure appropriate controls and governance are in place to mitigate these risks.

Non-financial risks
In the course of doing business, the Group is exposed to non-financial risks. A combination of the complexity of the Group, its activities and the extent of transformation in progress creates a challenging operating environment. The Group's main non-financial risks are detailed below. These risks are considered to be material at the level of the Group.

- **Operational risk.** Prudential defines operational risk as the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel or systems, or from external events. This may arise from employee error, model error, system failures, fraud or other events which disrupt business processes or has a detrimental impact to customers. Activities across the scope of our business, including operational activity, regulatory compliance, and those supporting ESG activities more broadly can expose us to operational risks. A large volume of complex transactions is processed by the Group across a number of diverse products and are subject to a high number of varying legal, regulatory and tax regimes. Prudential has no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement or monitor appropriate controls to manage operational risks.

  The Group's outsourcing and third-party relationships require distinct oversight and risk management processes. A number of important third-party relationships exist which provide the distribution and processing of Prudential's products, both as market counterparties and as outsourcing partners, including new IT and technology partners. In Asia, the Group continues to expand its strategic partnerships and renew bancassurance arrangements, and in Africa Prudential is continuing its expansion through acquisitions. These third-party arrangements support Prudential in providing a high level and cost-effective service to our customers, but they also make us reliant on the operational resilience and performance of our outsourcing partners.

  The Group's requirements for the management of material outsourcing arrangements, which are in accordance with relevant applicable regulations, are included through its well-established Group-wide third-party supply policy. Third-party management is also included and embedded in the Group-wide framework and risk management for operational risk (see below).

  The performance of the Group's core business activities places reliance on the IT infrastructure, provided by our external IT and technology partners, that supports day-to-day transaction processing and administration. This IT environment must also be secure, and an increasing cyber risk threat needs to be addressed as the Group's digital footprint increases and the sophistication of cyber threats continue to evolve – see separate information security risk sub-section below. Exposure to operational and other external events could impact operational resilience by significantly disrupting systems, operations and services to customers, which may result in financial loss, customer impacts and reputational damage. Operational challenges also exist in keeping pace with regulatory changes. This requires implementing processes to ensure we are, and remain, compliant on an ongoing basis, including regular monitoring and reporting.

Group-wide framework and risk management for operational risk
The risks detailed above form key elements of the Group's operational risk profile. A Group-wide operational risk framework is in place to identify, measure and assess, manage and control, monitor and report effectively on all material operational risks across the business. The key components of the framework are:

- Application of a risk and control self-assessment (RCSA) process, where operational risk exposures are identified and assessed as part of a periodical cycle. The RCSA process considers a range of internal and external factors, including an assessment of the control environment, to determine the business's most significant risk exposures on a prospective basis;
- An internal incident management process, which identifies, quantifies and monitors remediation conducted through root cause analysis and application of action plans for risk events that have occurred across the business;
- A scenario analysis process for the quantification of extreme, yet plausible manifestations of key operational risks across the business on a forward-looking basis. This is carried out at least annually and supports external and internal capital requirements as well as informing risk oversight activity across the business; and
- An operational risk appetite framework that articulates the level of operational risk exposure the business is willing to tolerate, covering all operational risk categories, and sets out escalation processes for breaches of appetite.

Outputs from these processes and activities performed by individual business units are monitored by the Risk function, which provides an aggregated view of the risk profile across the business to the Group Risk Committee and Board.

These core framework components are embedded across the Group via the Group Operational Risk Policy and Standards documents, which set out the key principles and minimum standards for the management of operational risk across the Group. The Group Operational Risk Policy, standards and operational risk appetite framework sit alongside other risk policies and standards that individually engage with key operational risks, including outsourcing and third-party supply, business continuity, financial crime, technology and data, operations processes and extent of transformation. These policies and standards include subject matter expert-led processes that are designed to identify, assess, manage and control operational risks, including:

- A transformation risk framework that assesses, manages and reports on the end-to-end transformation life cycle, project prioritisation and the risks, interdependencies and possible conflicts arising from a large portfolio of transformation activities;
- Internal and external review of cyber security capability and defences;
- Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process;
- Group and business unit-level compliance oversight and testing in respect of adherence with in-force regulations;
- Regulatory change teams in place to assist the business in proactively adapting and complying with regulatory developments;
- On financial crime risks (see below), screening and transaction monitoring systems are in place and a programme of compliance control monitoring reviews is undertaken, as well as regular risk assessments;
- A framework is in place for emerging risk identification and analysis in order to capture, monitor and allow us to prepare for operational risks that may crystallise beyond the short-term horizon;
- Corporate insurance programmes to limit the financial impact of operational risks; and
- Reviews of key operational risks and challenges within Group and business unit business plans.

These activities are fundamental in maintaining an effective system of internal control, and as such outputs from these also inform core RCSA, incident management and scenario analysis processes and reporting on operational risk. Furthermore, they also ensure that operational risk considerations are embedded in key business decision-making, including material business approvals and in setting and challenging the Group's strategy.

• **Business disruption risk.** Events in 2020 have shown how material business disruption risk is to effective business operations and delivery of business services to policyholders, and the potential impact to our customers and the market more broadly. The Group continuously seeks to develop greater business resilience through planning, preparation, testing and adaption. Business continuity management (BCM) is one of a number of activities undertaken by the Group Security function that helps the Group to protect its key stakeholders and its systems, and business resilience is at the core of the Group's embedded BCM programme. The BCM programme and framework are appropriately linked to all business activities, and includes business impact analyses, risk assessments, incident management plans, disaster recovery plans, and the exercising and execution of these plans. Based on industry standards, the BCM programme is designed to provide business continuity that matches the Group's evolving business needs and is appropriate to the size, complexity and nature of the Group's operations. Prudential is also taking a broader, multi-functional approach to building greater business resilience, working with our external third-party providers and our service delivery teams to improve our ability to withstand, absorb and recover from disruption to our business services, while minimising the impact on our customers. The Group continuously reviews and develops its contingency plans and its ability to respond effectively when disruptive incidents occur, such as those resulting from the Covid-19 pandemic and, prior to this, the Hong Kong protests in 2019. Business disruption risks are closely monitored by the Group Security function, with key operational effectiveness metrics and updates on specific activities being reported to the Group Risk Committee and discussed by cross-functional working groups.

• **Information security risk and data privacy.** Information security and data privacy risks remain significant considerations for Prudential. This includes the risk of malicious attack on its systems, network disruption and risks relating to data security, integrity, privacy and misuse. The cyber security threat and criminal capability in this area continues to evolve globally in sophistication and potential significance with an increased level of understanding of complex financial transactions which increases the risks to the financial services industry. The systemic risk of sophisticated but untargeted attacks remains elevated, particularly during times of heightened geopolitical tensions and during the current disruption caused by the Covid-19 pandemic. The scale of the Group's IT infrastructure and network (and the services required to monitor and manage it), stakeholder expectations and high-profile cyber security and data misuse incidents across industries mean that these risks are considered material at the level of the Group.

  Prudential and the insurance industry are making increasing use of emerging technological tools and digital services, or forming partnerships with third parties that provide these capabilities. While this provides new opportunities, opening up markets, improving insights and increasing scalability, it also comes with additional risks which are managed within the Group's existing governance and risk management processes, including additional operational risks and increased risks around data security and misuse. Automated digital distribution channels increase the criticality of system and process resilience in order to deliver uninterrupted service to customers.

  Developments in data protection requirements, such as the California Consumer Protection Act which came into force on 1 January 2020, continue to evolve worldwide. This increases financial and reputational implications for Prudential in the event of a breach of its (or third-party suppliers') IT systems. As well as protecting data, stakeholders expect companies and organisations to use personal information transparently and appropriately. New and currently unforeseeable regulatory issues may also arise from the increased use of emerging technology, data and digital services. This includes the international transfer of data which, as a global organisation, increases regulatory risks for Prudential. Given this, both information security and data privacy are key risks for the Group. As well as having preventative risk management in place, it is fundamental that the Group has robust critical recovery systems in place in the event of a successful attack on its infrastructure, a breach of its information security or a failure of its systems in order to retain its customer relationships and trusted reputation.

  During 2020, work to operationalise the revised organisational structure and governance model for cyber security management has continued. This change has resulted in a centralised Group-wide Information Security and Privacy function, leveraging skills, tools and resources across the business under a 'centre of excellence' model. This global function is led by the Group Chief Information Security Officer and falls within the scope of the responsibilities of the Group Chief Digital Officer, working closely with the Group Risk and Compliance Function and Group CRCO to ensure appropriate second line oversight. Cyber risk management is also conducted locally within business units with input from business information security officers and with oversight from local risk committees. The Prudential plc Board is briefed at least twice annually on cyber security by the Group CISO and executive training is provided to ensure that members understand the latest regulatory expectations and the threats facing the Group and that they have the means to enable appropriate oversight in this area.

An updated Group-wide information security policy has been introduced that aligns to over 20 international standards such as ISO 27001/2, MAS, and NIST Cyber Security Framework to ensure full coverage and adoption of best practices. Local policies are also aligned to relevant local regulation or law. Our Group-wide privacy policy was developed in collaboration with industry experts to support a pragmatic approach to the evolving regulatory environment globally and ensure compliance with all applicable laws and regulations. This approach ensures that all our stakeholders have confidence in our approach to information security and risk management.

These developments have allowed the Group to progress on its cyber security strategy, which for 2020 has four key objectives:
- Automation of key processes to provide near real-time information on cyber security risks, allowing for increased response times scalability of defences to threat vectors across all security disciplines. This also enables improved, and more rapid, decision-making;
- Using technology for the rapid enablement of the Group's businesses, which supports the Group Digital Transformation strategy while meeting the security requirements and expectations;
- Optimisations for efficiency in cyber security and data privacy management. This includes the delivery of centralised services across the Group in areas such as vulnerability management; and
- Continuous identification and implementation of improvements to the people, processes or technology deployed on cyber security and privacy management.

• **Model, user developed application (UDA) and robotics process automation (RPA) risk.** There is a risk of adverse consequences arising from erroneous or misinterpreted tools used in core business activities, decision making and reporting. The Group utilises various tools to perform a range of operational functions including the calculation of regulatory or internal capital requirements, the valuation of assets and liabilities, determining hedging requirements, and in acquiring new business using artificial intelligence and digital applications. Many of these tools are an integral part of the information and decision-making framework of Prudential and errors or limitations in these tools, or inappropriate usage, may lead to regulatory breaches, inappropriate decision-making, financial loss, or reputational damage.

The Group has no appetite for model, UDA and RPA risk arising as a result of failing to develop, implement and monitor appropriate risk mitigation measures.

Prudential's model, UDA and RPA risk is managed and mitigated using the following:
- The Group's Model, UDA and RPA Risk Policy and relevant Guidelines;
- Annual risk assessment of all tools used for core business activities, decision making and reporting;
- Maintenance of appropriate documentation for tools used;
- Implementation of controls to ensure tools are accurate and appropriately used;
- Tools are subject to rigorous and independent model validation; and
- Regular reporting to the Risk-function to support the measurement and management of the risk.

• **Financial crime risk.** As with all financial services firms, Prudential is exposed to risks relating to money laundering (the risk that the products or services of the Group are used by customers or other third parties to transfer or conceal the proceeds of crime); fraud (the risk that fraudulent claims or transactions, or procurement of services, are made against or through the business); sanctions compliance (the risk that the Group undertakes business with individuals and entities on the lists of the main sanctions regimes); and bribery and corruption (the risk that employees or associated persons seek to influence the behaviour of others to obtain an unfair advantage or receive benefits from others for the same purpose).

Prudential operates in some high-risk countries where, for example, the acceptance of cash premiums from customers may be common practice, large-scale agency networks may be in operation where sales are incentivised by commission and fees, where there is a higher concentration of exposure to politically-exposed persons, or which otherwise have higher geopolitical risk exposure.

The Group-wide policies we have in place on anti-money laundering, fraud, sanctions and anti-bribery and corruption reflect the values, behaviours and standards that are expected across the business. Screening and transaction monitoring systems are in place and a series of improvements and upgrades are being implemented, while a programme of compliance control monitoring reviews is being undertaken. Risk assessments are performed annually at higher risk locations. Due diligence reviews and assessments against Prudential's financial crime policies are performed as part of the Group's business acquisition process. The Group continues to undertake strategic activity to monitor and evaluate the evolving fraud risk landscape, mitigate the likelihood of fraud occurring and increase the rate of detection.

The Group has in place a mature confidential reporting system through which staff and other stakeholders can report concerns relating to potential misconduct. The process and results of this are overseen by the Group Audit Committee.

Insurance risks
Insurance risk makes up a significant proportion of Prudential's overall risk exposure. The profitability of its businesses depends on a mix of factors, including levels of, and trends in, mortality (policyholders dying), morbidity (policyholders becoming ill) and policyholder behaviour (variability in how customers interact with their policies, including utilisation of withdrawals, take-up of options and guarantees and persistency, ie lapsing of policies), and increases in the costs of claims, including the level of medical expenses increases over and above price inflation (claim inflation).

The principal drivers of the Group's insurance risk vary across its business units. Across Asia, where a significant volume of health and protection business is written, the most significant insurance risks are persistency risk, morbidity risk and medical inflation risk. In Jackson, policyholder behaviour risk is particularly material, especially in the take up of options and guarantees on variable annuity business which impacts profitability and is influenced by market performance and the value of policy guarantees.

The Group has appetite for retaining insurance risks in the areas where it believes it has expertise and operational controls to manage the risk and where it judges it to be more value-creating to do so rather than transferring the risk, and only to the extent that these risks remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

The impact of Covid-19 to economic activity and employment levels across the Group's markets has the potential to elevate the incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums or reduce deposits into retirement plans. In particular extended restrictions on movement could affect product persistency in the Group's Asia business. The pandemic may also result in elevated claims and policy lapses or surrenders in a less direct way, and with some delay in time before being felt by the Group, due to factors such as policyholders deferring medical treatment during the pandemic, or policyholders lapsing or surrendering their policies on the expiry of grace periods for premium payments provided by the Group's businesses. While these impacts to the business have not been material to date, they are being closely monitored by the Group's businesses with targeted management actions being implemented where necessary, which includes additional Incurred But Not Reported (IBNR) claims reserves in some markets where deferrals in non-acute medical treatments due to movement restrictions have been observed.

The Group's persistency assumptions reflect similarly a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumptions. Persistency risk is managed by appropriate training and sales processes (including active customer engagement and service quality) and managed locally post-sale through regular experience monitoring and the identification of common characteristics of business with high lapse rates. Where appropriate, allowance is made for the relationship (either assumed or observed historically) between persistency and investment returns and any additional risk is accounted for. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products. The effect of persistency on the Group's financial results can vary but depends mostly on product design and market conditions.

In Asia, Prudential writes significant volumes of health and protection business and so a key assumption is the rate of medical inflation, which is often in excess of general price inflation. There is a risk that the expenses of medical treatment increase more than expected, so the medical claim cost passed on to Prudential is higher than anticipated. Medical expense inflation risk is best mitigated by retaining the right to reprice our products each year and by having suitable overall claims limits within our policies, either limits per type of claim or in total across a policy, annually and/or over the policy lifetime. Prudential's morbidity risk is mitigated by appropriate underwriting when policies are issued and claims are received. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business.

Prudential's insurance risks are managed and mitigated using the following:
- The Group's insurance, product and underwriting risk policies;
- The risk appetite statements, limits and triggers;
- Using persistency, morbidity and longevity assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- Using reinsurance to mitigate mortality and morbidity risks;
- Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;
- Maintaining the quality of sales processes, training and using initiatives to increase customer retention in order to mitigate persistency risk;
- Using product repricing and other claims management initiatives in order to mitigate medical expense inflation risk; and
- Regular deep dive assessments.

Conduct risk
Prudential's conduct of business, especially the design and distribution of its products, is crucial in ensuring that the Group's commitment to meeting customers' needs and expectations are met. The Group's conduct risk framework, owned by the Group Chief Executive, was further developed in 2020 and reflects management's focus on customer outcomes.

Factors that may increase conduct risks can be found throughout the product life cycle, from the complexity of the Group's products, to its diverse distribution channels, including virtual face-to-face sales and sales via online digital platforms. In alignment with the Group's purpose of helping people get the most out of life, Prudential strives towards making health and protection coverage affordable and accessible to all. Through the Pulse by Prudential app, there is increased focused on making insurance more inclusive to underserved segments of society, through bite-size low cost digital products and services. Through this transition, Prudential must continue to ensure the quality of its ongoing servicing of all its customers. Prudential mitigates conduct risk with robust controls, which are identified and assessed through the Group's conduct risk assessment framework, regularly tested within its monitoring programmes, and overseen within reporting to its Boards and Committees.

Management of Prudential's conduct risk is key to the Group's strategy. Prudential's conduct risks are managed and mitigated using the following:
- The Group's code of business conduct and conduct standards, product and underwriting risk policies and other related policies;
- Ensuring the quality of sales and marketing material via robust review and sign off procedures;

- Ensuring sales practices meet commitments to customers and regulators via the use of well-designed monitoring programmes relevant to the type of business (insurance or asset management), distribution channel (agency, bancassurance, or digital) and ecosystem;
- Ensuring sales processes are designed to meet commitments to customers and regulators and that they are operating effectively via robust assurance programmes both pre and post implementation;
- Maintaining the quality of sales processes and training, and using other initiatives such as special requirements for vulnerable customers, to improve customer outcomes;
- Proper claims management and complaint handling practices;
- Regular deep dive assessments on, and monitoring of, conduct risks; and
- Conduct Risk Assessments.

Risks related to regulatory and legal compliance
These include risks associated with prospective regulatory and legal changes and compliance with existing regulations and laws – including their retrospective application – with which the Group must comply with in the conduct of its business.

Prudential operates under the ever-evolving requirements set out by diverse regulatory, legal and tax regimes which may impact Prudential's business or the way in which it is conducted. This covers a broad range of risks including changes in government policy and legislation, capital control measures, and new regulations at either national or international level. In addition to the risks arising from regulatory change, the breadth of local and Group-wide regulatory arrangements presents the risk that regulatory requirements are not fully met, resulting in specific regulator interventions or actions including retrospective interpretation of standards by regulators which may result in regulatory censure or significant additional costs to the business. Furthermore, as the industry's use of emerging technological tools and digital services increases, this is likely to lead to new and unforeseen regulatory issues and the Group is monitoring the regulatory developments and standards emerging around the governance and ethical use of technology and data.

In certain jurisdictions in which Prudential operates there are also a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way Prudential is supervised. Decisions taken by regulators, including those related to solvency requirements, corporate or governance structures, capital allocation, financial reporting and risk management may have an impact on our business.

The focus of some governments toward more protectionist or restrictive economic and trade policies could impact on the degree and nature of regulatory changes and Prudential's competitive position in some geographic markets. This could take effect, for example, through increased friction in cross-border trade, capital controls or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies. These developments continue to be monitored by the Group at a national and global level and these considerations form part of the Group's ongoing engagement with government policy teams and regulators.

Further information on specific areas of regulatory and supervisory requirements and changes are included below.

- **Group-wide supervision.** From 21 October 2019, Prudential's Group-wide supervisor changed to the Hong Kong IA. As a result, the Group currently applies the local capital summation method (LCSM) to determine Group regulatory capital requirements (both minimum and prescribed levels). The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. This will be supported by further guidance material to be released by the Hong Kong IA. Prior to the GWS Framework becoming effective for the Group, which is expected in the second quarter of 2021 upon designation by the Hong Kong IA, Prudential remains subject to the Regulatory Letter signed with the Hong Kong IA. The letter outlines the interim supervision arrangements from October 2019 when it became the group-wide supervisor of the Group.

- **Global regulatory developments and systemic risk regulation.** Efforts to curb systemic risk and promote financial stability are also under way. At the international level, the Financial Stability Board (FSB) continues to develop recommendations for the asset management and insurance sectors, including ongoing assessment of systemic risk measures. The International Association of Insurance Supervisors (IAIS) has continued its focus on the following key developments.

  In November 2019 the IAIS adopted the Common Framework (ComFrame) which establishes supervisory standards and guidance focusing on the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs). Prudential was included in the first register of IAIGs released by the IAIS on 1 July 2020 and was designated an IAIG by the Hong Kong IA following an assessment against the established criteria in ComFrame.

  The IAIS has also been developing the ICS (Insurance Capital Standard) as part of ComFrame. The implementation of ICS will be conducted in two phases: a five-year monitoring phase followed by an implementation phase. The Aggregation Method is one of the alternatives being considered to the default approach undertaken for the ICS during the monitoring period and the related proposals are being led by the National Association of Insurance Commissioners (NAIC). Alongside the current ICS developments, the NAIC is also developing its Group Capital Calculation (GCC) for the supervision of insurance groups in the US. The GCC is intended to be a risk-based capital (RBC) aggregation methodology. In developing the GCC, the NAIC will also consider Group capital developments by the US Federal Reserve Board, which will inform the US regulatory association in its construction of a US group capital calculation.

  In November 2019 the FSB endorsed a new Holistic Framework (HF), intended for the assessment and mitigation of systemic risk in the insurance sector, for implementation by the IAIS in 2020 and has suspended G-SII designations until completion of a review to be undertaken in 2022. Many of the previous G-SII measures have already been adopted into the Insurance Core Principles (ICPs) and ComFrame. As an IAIG, Prudential is expected to be subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. As a result of the Covid-19 pandemic, this monitoring requirement was replaced with a Covid-19-focused exercise for 2020, with annual monitoring expected to recommence in 2021. In November 2020 the IAIS launched a public consultation on phase 1 of a proposed liquidity metric to be used as an ancillary indicator in the monitoring of the build-up of systemic risk. This followed a more general consultation on liquidity metrics earlier in 2020. Consultations on a phase 2 liquidity metric, as well as on macroeconomic elements of the HF, are expected to follow. The FSB published its 2020 Resolution Report in November 2020, highlighting intra-group connectedness and funding in resolution as key areas of attention for its work on resolution planning. Resolution regimes will continue to be a near term focus in the FSB's financial stability work, potentially being a key tool in informing decisions around the reformed G-SII designation in 2022.

In the US, various initiatives are under way to introduce fiduciary obligations for distributors of investment products, which may reshape the distribution of retirement products. Jackson has introduced fee-based variable annuity products in response to the potential introduction of such rules, and we anticipate that the business's strong relationships with distributors, history of product innovation and efficient operations should further mitigate any impacts.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New local capital rules and requirements could be introduced in these and other regulatory regimes that challenge legal or ownership structures, or current sales practices, or could be applied to sales made prior to their introduction retrospectively, which have a negative impact on Prudential's business and reported results.

- **IFRS 17.** In May 2017, the International Accounting Standards Board (IASB) published its replacement standard on insurance accounting IFRS 17, 'Insurance Contracts'. Some targeted amendments to this standard, including to the effective date, were issued in June 2020. IFRS 17, 'Insurance Contracts', as amended, will introduce fundamental changes to the IFRS-based reporting of insurance entities that prepare accounts according to IFRS from 2023. IFRS 17 is expected to, among other things, include altering the timing of IFRS profit recognition, and the implementation of the standard is likely to require changes to the Group's IT, actuarial and finance systems. The Group is reviewing the complex requirements of this standard and considering its potential impact.

- **Inter-bank offered rate reforms.** In July 2014, the Financial Stability Board (FSB) announced widespread reforms to address the integrity and reliability of IBORs. The discontinuation of IBORs in their current form and their replacement with alternative risk-free reference rates such as the Sterling Overnight Index Average (SONIA) benchmark in the UK and the Secured Overnight Financing Rate (SOFR) in the US could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to, or which reference IBORs, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

Risk management and mitigation of regulatory risk at Prudential includes the following:
- Risk assessment of the Business Plan which includes consideration of current strategies;
- Close monitoring and assessment of our business environment and strategic risks;
- The consideration of risk themes in strategic decisions;
- Ongoing engagement with national regulators, government policy teams and international standard setters; and
- Compliance oversight to ensure adherence with in-force regulations and management of new regulatory developments.

The Group's ESG-related risks
These include environmental risks associated with climate change (including physical and transition risks), social risks arising from diverse stakeholder commitments and expectations and governance-related risks.

The purpose of a business and the way in which it operates in achieving its objectives, including in relation to ESG-related matters, are an increasingly material consideration for key stakeholders in achieving their own objectives and aims. ESG-related risks may directly or indirectly impact Prudential's business and the achievement of its strategy and consequently those of its key stakeholders, which range from customers, institutional investors, employees and suppliers, to policymakers, regulators, industry organisations and local communities, all of whom have expectations, concerns and aims which may differ. Material risks associated with key ESG themes may adversely impact the reputation and brand of the Group, its ability to attract and retain customers and staff, its ability to deliver on its long-term strategy and therefore the results of its operations and long-term financial success.

The Prudential ESG Strategic Framework, developed in 2020, focuses on giving people greater access to good health and financial security, responsible stewardship in managing the human impact of climate change and building human and social capital with its broad range of stakeholders. Prudential seeks to ESG-related risks to its strategy and their negative implications to stakeholder through a transparent and consistent implementation of this strategy in its key markets and across operational, underwriting and investment activities. The strategy is enabled by strong internal governance, sound business practices and a responsible investment approach, both as an asset owner and asset manager.

(a) Environmental risks

Prudential's strategic ESG focus on stewarding the human impacts of climate change recognises that environmental concerns, notably those associated with climate change, may pose significant risks to Prudential, its customers and other stakeholders. Prudential's investment horizons are long term and it is therefore exposed to the potential long-term impact of climate change risks, which include the financial and non-financial impact of transition, physical and litigation risks. A failure to understand, manage and provide greater transparency of its exposure to these climate-related risks may have increasing adverse implications for Prudential and its stakeholders.

The global transition to a lower carbon economy may have an adverse impact on investment valuations as the financial assets of carbon-intensive companies re-price, and this could result in some asset sectors facing significantly higher costs and a reduction in demand for their products and services. The speed of this transition, and the extent to which it is orderly and managed, will be influenced by factors such as public policy, technology and changes in market or investor sentiment. This climate-related transition risk may adversely impact the valuation of investments held by the Group, and the potential broader economic impact may affect customer demand for the Group's products. Prudential's stakeholders increasingly expect and/or rely on the Group to support an orderly transition based on an understanding of relevant country and company-level plans and which takes into consideration the impact on the economies, businesses and customers in the markets in which it operates and invests. Understanding and appropriately reacting to transition risk requires sufficient and reliable data on carbon exposure and transition plans for the assets in which the Group invests. The direct physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term changes to climate and the natural environment, will increasingly influence the longevity, mortality and morbidity risk assessments for the Group's life insurance product underwriting and offerings and their associated claims profiles. Climate-driven events in countries in which Prudential or its key third parties operate could impact the Group's operational resilience and its customers. More information about the activities the Group is undertaking to increase its understanding and risk management of these climate-related risks can be found in the Prudential plc ESG Report 2020.

(b) Social risks

Social risks that could impact Prudential may arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group or its third parties operate. These risks are increased as Prudential operates in multiple jurisdictions with distinct local cultures and considerations. As an employer, the Group aims to attract, retain and develop highly-skilled staff, which relies on having in place responsible working practices and recognising the benefits of diversity and promoting a culture of inclusion. The Group's reputation extends to its supply chains, which may be exposed to factors such as poor labour standards and abuses of human rights by third parties. Emerging population risks associated with public health trends (such as an increase in obesity) and demographic changes (such as population urbanisation and ageing) may affect customer lifestyles and therefore may impact claims against the Group's insurance product offerings. As a provider of insurance and investment services the Group is committed to playing a greater role in preventing and postponing illness in order to protect its customers as well as making health and financial security accessible through an increased focused on digital innovation, technologies and distribution methods for a broadening range of products and services. As a result, Prudential has access to customer personal data, including data related to personal health, and an increasing ability to analyse and interpret this data through the use of complex tools, machine learning and artificial intelligence technologies. The Group therefore actively manages the regulatory, ethical and reputational risks associated with actual or perceived customer data misuse or security breaches. These risks are explained above. The increasing digitalisation of products, services and processes may also result in new and unforeseen regulatory requirements and stakeholder expectations which Prudential monitors for, as well as ensuring support for its customers through this transformation.

(c) Governance risks

Maintaining high standards of corporate governance is crucial for the Group and its customers, staff and employees, reducing the risk of poor decision-making and a lack of oversight of its key risks. Poor governance may arise where key governance committees have insufficient independence, a lack of diversity, skills or experience in their members, or unclear (or insufficient) oversight responsibilities and mandates. Inadequate oversight over remuneration increases the risk of poor senior management behaviours. Prudential operates across multiple jurisdictions and has a group and subsidiary governance structure which may add further complexity to these considerations. Participation in joint ventures or partnerships where Prudential does not have direct overall control and the use of third party suppliers increases the potential for reputational risks arising from poor governance.

Risk management and mitigation of ESG risks at Prudential include the following:

- The Group's ESG Strategic Framework focused on strategic differentiators and enablers;
- The Group Code of Business Conduct and Group Governance Manual including ESG linked policies;
- ESG risk identification including through emerging risk processes;
- Deep dives into ESG themes including climate-related risks; and
- Integrating ESG considerations into investment processes

Further information on the Group's ESG governance is included in section 4 above, and further detail on the Group's ESG Strategic Framework and the management of material risks associated with ESG themes are included in the ESG Report 2020.

Notes

1 Excluding assets held to cover linked liabilities and those of the consolidated investment funds.

2 Based on middle rating from Standard & Poor's, Moody's and Fitch. If unavailable, NAIC and other external ratings and then internal ratings have been used.

3 Source of segmentation: Bloomberg Sector, Bloomberg Group and Merrill Lynch. Anything that cannot be identified from the three sources noted is classified as other.

4 From half year 2020, to align more closely with the internal risk management analysis, the Group altered the compilation of its credit ratings analysis to use the middle of the Standard & Poor's, Moody's and Fitch ratings, where available. Where ratings are not available from these rating agencies, NAIC ratings (for the US), local external rating agencies' ratings and lastly internal ratings have been used. Securities with none of the ratings listed above are classified as unrated and included under the 'below BBB- and unrated' category. The total securities (excluding sovereign debt) that were unrated at 31 December 2020 were $780 million (31 December 2019: $648 million). Previously, Standard & Poor's ratings were used where available and if not, Moody's and then Fitch were used as alternatives.

5 Excluding assets in consolidated funds financed largely by external third-party (non-recourse) borrowings, for which the Group's exposure is limited to the investment held by Jackson. Including these assets, the US corporate debt portfolio is 93 per cent investment grade.

Corporate governance

The Company has dual primary listings in London (premium listing) and Hong Kong (Main board listing) and has therefore adopted a governance structure based on the UK and Hong Kong Corporate Governance Codes (the UK and HK Codes).

The Board confirms that, for the year under review, the Company has complied with the principles and provisions of the UK Code.

The Company has also complied with the provisions of the HK Code other than as follows: Provision B.1.2(d) of the HK Code requires companies, on a comply or explain basis, to have a remuneration committee which makes recommendations to a main board on the remuneration of non-executive directors. This provision is not compatible with principle Q of the UK Code which states that no director should be involved in deciding their own remuneration outcome, and provision 34 of the UK Code which recommends that the board determines the remuneration of non-executive directors. Prudential has chosen to adopt a practice in line with the recommendations of the UK Code.

Following the introduction by the UK government of measures to limit the spread of Covid-19 by prohibiting non-essential travel and public gatherings of more than two people, and following the issuance of the Company's 2020 Annual General Meeting (AGM) Notice, the Company provided an update to shareholders in late April 2020 on its revised arrangements for the 2020 AGM. In light of those restrictions and to protect the health of Prudential's shareholders and employees, the Board decided, with regret, that shareholders, external advisers (including the auditor) and Directors (other than the Chairman) would not be able to attend the AGM in person (and thus provisions A.6.7 and E1.2 of the HK Code could not be complied with).

The Board also confirms that the financial results contained in this document have been reviewed by the Group Audit Committee.

Board changes

Today we are announcing that Kai Nargolwala, a Non-executive Director, will retire from the Board (including the Risk and Remuneration Committees) at the conclusion of the Annual General Meeting on 13 May 2021.

The Company confirms that there is no further information required to be disclosed pursuant to Rule 13.51(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited in respect of Kai Nargolwala retiring from the Board.

IFRS disclosure and additional financial information
Prudential plc 2020 results
International Financial Reporting Standards (IFRS) basis results

Additional financial information*

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

CONSOLIDATED INCOME STATEMENT

	Note	2020 $m	2019 $m
Continuing operations:			
Gross premiums earned		**42,521**	45,064
Outward reinsurance premiums		**(32,209)**	(1,583)
Earned premiums, net of reinsurance		**10,312**	43,481
Investment return		**44,991**	49,555
Other income		**670**	700
Total revenue, net of reinsurance		**55,973**	93,736
Benefits and claims		**(82,176)**	(85,475)
Reinsurers' share of benefits and claims		**34,409**	2,985
Movement in unallocated surplus of with-profits funds		**(438)**	(1,415)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		**(48,205)**	(83,905)
Acquisition costs and other expenditure	B2	**(5,481)**	(7,283)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		**(337)**	(516)
Loss attaching to corporate transactions	D1.1	**(48)**	(142)
Total charges net of reinsurance		**(54,071)**	(91,846)
Share of profit from joint ventures and associates, net of related tax		**517**	397
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*[note]		**2,419**	2,287
Remove tax charge attributable to policyholders' returns		**(271)**	(365)
Profit before tax attributable to shareholders' returns	B1.1	**2,148**	1,922
Total tax charge attributable to shareholders' and policyholders' returns	B3.1	**(234)**	(334)
Remove tax charge attributable to policyholders' returns		**271**	365
Tax credit attributable to shareholders' returns	B3.1	**37**	31
Profit from continuing operations		**2,185**	1,953
Loss from discontinued UK and Europe operations		**–**	(1,161)
Profit for the year		**2,185**	792

Attributable to:			
Equity holders of the Company			
From continuing operations		**2,118**	1,944
From discontinued operations		**–**	(1,161)
Non-controlling interests from continuing operations		**67**	9
Profit for the year		**2,185**	792

Earnings per share (in cents)	Note	2020	2019
Based on profit attributable to equity holders of the Company:	B4		
Basic			
Based on profit from continuing operations		**81.6¢**	75.1¢
Based on loss from discontinued operations		**–**	(44.8)¢
Total		**81.6¢**	30.3¢
Diluted			
Based on profit from continuing operations		**81.6¢**	75.1¢
Based on loss from discontinued operations		**–**	(44.8)¢
Total		**81.6¢**	30.3¢

Dividends per share (in cents)	Note	2020	2019
Dividends relating to reporting year:	B5		
First interim ordinary dividend		**5.37¢**	20.29¢
Second interim ordinary dividend		**10.73¢**	25.97¢
Total		**16.10¢**	46.26¢
Dividends paid in reporting year:	B5		
Current year first interim ordinary dividend		**5.37¢**	20.29¢
Second interim ordinary dividend for prior year		**25.97¢**	42.89¢
Total		**31.34¢**	63.18¢

Note

This measure is the formal profit before tax measure under IFRS Standards. It is not the result attributable to shareholders principally because total corporate tax of the Group includes those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the IFRS profit before tax measure is not representative of pre-tax profit attributable to shareholders as it is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds after adjusting for tax borne by policyholders.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2020 $m	2019 $m
Continuing operations:			
Profit for the year		**2,185**	1,953
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		**233**	152
Related tax		**–**	(15)
		233	137
Valuation movements on available-for-sale debt securities:			
Unrealised gains arising in the year:			
Net unrealised gains on holdings arising during the year		**3,271**	4,208
Deduct net gains included in the income statement on disposal and impairment		**(554)**	(185)
		2,717	4,023
Related change in amortisation of deferred acquisition costs	C4.2	**(41)**	(631)
Related tax		**(581)**	(713)
		2,095	2,679
Impact of Jackson’s reinsurance transaction with Athene:			
Gains recycled to the income statement on transfer of debt securities to Athene		**(2,817)**	–
Related change in amortisation of deferred acquisition costs	C4.2	**535**	–
Related tax		**479**	–
		(1,803)	–
Total valuation movements on available -for-sale debt securities		**292**	2,679
Total items that may be reclassified subsequently to profit or loss		**525**	2,816
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Net actuarial losses on defined benefit pension schemes		**–**	**(108)**
Related tax		**–**	**19**
Total items that will not be reclassified to profit or loss		**–**	(89)
Total other comprehensive income		**525**	2,727
Total comprehensive income for the year from continuing operations		**2,710**	4,680
Total comprehensive income from discontinued UK and Europe operations		**–**	1,710
Total comprehensive income for the year		**2,710**	6,390
Attributable to:			
Equity holders of the Company			
From continuing operations		**2,657**	4,669
From discontinued operations		**–**	1,710
Non-controlling interests from continuing operations		**53**	11
Total comprehensive income for the year		**2,710**	6,390

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 Dec 2020 $m							
	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the year		–	–	2,118	–	–	2,118	67	2,185
Other comprehensive income (loss)									
Exchange movements on foreign operations and net investment hedges net of related tax		–	–	–	239	–	239	(6)	233
Net unrealised valuation movements net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	300	300	(8)	292
Total other comprehensive income for the year		–	–	2,118	239	300	2,657	53	2,710
Dividends	B5	–	–	(814)	–	–	(814)	(18)	(832)
Reserve movements in respect of share-based payments		–	–	89	–	–	89	–	89
Effect of transactions relating to non-controlling interests	D1.2	–	–	(484)	–	–	(484)	1,014	530
Share capital and share premium									
New share capital subscribed	C8	1	12	–	–	–	13	–	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	(60)	–	–	(60)	–	(60)
Net increase in equity		1	12	849	239	300	1,401	1,049	2,450
Balance at 1 Jan		172	2,625	13,575	893	2,212	19,477	192	19,669
Balance at 31 Dec		173	2,637	14,424	1,132	2,512	20,878	1,241	22,119

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Year ended 31 Dec 2019 $m							
	Note	**Share capital**	**Share premium**	**Retained earnings**	**Translation reserve***	**Available -for-sale securities reserves**	**Shareholders' equity**	**Non-controlling interests**	**Total equity**
Reserves									
Profit from continuing operations		–	–	1,944	–	–	1,944	9	1,953
Other comprehensive income (loss) from continuing operations:									
Exchange movements on foreign operations and net investment hedges net of related tax		–	–	–	135	–	135	2	137
Net unrealised valuation movements net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	2,679	2,679	–	2,679
Shareholders' share of actuarial gains and losses on defined benefit pension schemes net of related tax		–	–	(89)	–	–	(89)	–	(89)
Total other comprehensive income (loss) from continuing operations		–	–	(89)	135	2,679	2,725	2	2,727
Total comprehensive income from continuing operations		–	–	1,855	135	2,679	4,669	11	4,680
Total comprehensive income from discontinued operations*		–	–	(1,098)	2,808	–	1,710	–	1,710
Total comprehensive income for the year		–	–	757	2,943	2,679	6,379	11	6,390
Demerger dividend in specie of M&G plc	B5	–	–	(7,379)	–	–	(7,379)	–	(7,379)
Other dividends	B5	–	–	(1,634)	–	–	(1,634)	–	(1,634)
Reserve movements in respect of share-based payments		–	–	64	–	–	64	–	64
Effect of transactions relating to non-controlling interests		–	–	(143)	–	–	(143)	158	15
Share capital and share premium									
New share capital subscribed	C8	–	22	–	–	–	22	–	22
Impact of change in presentation currency in relation to share capital and share premium	C8	6	101	–	–	–	107	–	107
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	38	–	–	38	–	38
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	55	–	–	55	–	55
Net increase (decrease) in equity		6	123	(8,242)	2,943	2,679	(2,491)	169	(2,322)
Balance at 1 Jan		166	2,502	21,817	(2,050)	(467)	21,968	23	21,991
Balance at 31 Dec		172	2,625	13,575	893	2,212	19,477	192	19,669

* The $2,808 million movement in translation reserve from discontinued operations was recognised in other comprehensive income and represented an exchange gain of $140 million on translating the results from discontinued operations during the period of ownership in 2019 and the recycling of the cumulative exchange loss of $2,668 million through the profit or loss upon the demerger.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2020 $m	31 Dec 2019 $m
Assets			
Goodwill	C4.1	**961**	969
Deferred acquisition costs and other intangible assets	C4.2	**20,345**	17,476
Property, plant and equipment		**893**	1,065
Reinsurers' share of insurance contract liabilities[note (i)]		**46,595**	13,856
Deferred tax assets	C7.2	**4,858**	4,075
Current tax recoverable	C7.1	**444**	492
Accrued investment income		**1,427**	1,641
Other debtors		**3,171**	2,054
Investment properties		**23**	25
Investments in joint ventures and associates accounted for using the equity method		**1,962**	1,500
Loans		**14,588**	16,583
Equity securities and holdings in collective investment schemes[note (ii)]		**278,635**	247,281
Debt securities[note (ii)]		**125,829**	134,570
Derivative assets		**2,599**	1,745
Other investments[note (ii)]		**1,867**	1,302
Deposits		**3,882**	2,615
Cash and cash equivalents		**8,018**	6,965
Total assets	C1	**516,097**	454,214
Equity			
Shareholders' equity		**20,878**	19,477
Non-controlling interests	D1.2	**1,241**	192
Total equity	C1	**22,119**	19,669
Liabilities			
Insurance contract liabilities	C3.1	**436,787**	380,143
Investment contract liabilities with discretionary participation features	C3.1	**479**	633
Investment contract liabilities without discretionary participation features	C3.1	**3,980**	4,902
Unallocated surplus of with-profits funds	C3.1	**5,217**	4,750
Core structural borrowings of shareholder-financed businesses	C5.1	**6,633**	5,594
Operational borrowings	C5.2	**2,444**	2,645
Obligations under funding, securities lending and sale and repurchase agreements		**9,768**	8,901
Net asset value attributable to unit holders of consolidated investment funds		**5,975**	5,998
Deferred tax liabilities	C7.2	**6,075**	5,237
Current tax liabilities	C7.1	**280**	396
Accruals, deferred income and other creditors		**15,508**	14,488
Provisions		**350**	466
Derivative liabilities		**482**	392
Total liabilities	C1	**493,978**	434,545
Total equity and liabilities	C1	**516,097**	454,214

Notes

(i) At 31 December 2020, reinsurers’ share of insurance contract liabilities included $27.3 billion in respect of the reinsurance of substantially all of Jackson’s in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

(ii) Included within equity securities and holdings in collective investment schemes, debt securities and other investments as at 31 December 2020 are $2,007 million of lent securities and assets subject to repurchase agreements (31 December 2019: $90 million of lent securities only).

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2020 $m	2019 $m
Continuing operations:			
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*		**2,419**	2,287
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:			
Investments		**(19,875)**	(60,812)
Other non-investment and non-cash assets		**(35,633)**	(2,487)
Policyholder liabilities (including unallocated surplus of with-profits funds)		**53,593**	56,067
Other liabilities (including operational borrowings)		**1,372**	5,234
Investment income and interest payments included in profit before tax		**(5,059)**	(4,803)
Operating cash items:			
Interest receipts and payments		**4,191**	4,277
Dividend receipts		**1,297**	978
Tax paid		**(555)**	(717)
Other non-cash items		**216**	(96)
Net cash flows from operating activities note (i)		**1,966**	(72)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(59)**	(64)
Proceeds from disposal of property, plant and equipment		**6**	–
Acquisition of business and intangibles note (ii)		**(1,142)**	(635)
Disposal of businesses		**–**	375
Net cash flows from investing activities		**(1,195)**	(324)
Cash flows from financing activities			
Structural borrowings of shareholder-financed operations: note (iii)	C5.1		
Issuance of debt, net of costs		**983**	367
Redemption of subordinated debt		**–**	(504)
Fees paid to modify terms and conditions of debt issued by the Group		**–**	(182)
Interest paid		**(314)**	(526)
Payment of principal portion of lease liabilities		**(138)**	(137)
Equity capital:			
Issues of ordinary share capital		**13**	22
Non-controlling equity investment by Athene into the US business	D1.2	**500**	–
External dividends:			
Dividends paid to the Company's shareholders	B5	**(814)**	(1,634)
Dividends paid to non-controlling interests		**(18)**	–
Net cash flows from financing activities		**212**	(2,594)
Net increase (decrease) in cash and cash equivalents from continuing operations		**983**	(2,990)
Net cash flows from discontinued operations		**–**	(5,690)
Cash and cash equivalents at 1 Jan		**6,965**	15,442
Effect of exchange rate changes on cash and cash equivalents		**70**	203
Cash and cash equivalents at 31 Dec		**8,018**	6,965

Notes

(i) Included in net cash flows from operating activities are dividends from joint ventures and associates of $118 million (2019: $85 million).

(ii) Cash flows arising from the acquisition of business and intangibles includes amounts paid for distribution rights.

(iii) Structural borrowings of shareholder-financed businesses exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed businesses and other borrowings of shareholder-financed businesses. Cash flows in respect of these borrowings are included within cash flows from operating activities. The changes in the carrying value of the structural borrowings of shareholder-financed businesses for the Group are analysed below:

	Cash movements $m			Non-cash movements $m			
	Balance at 1 Jan	Issue of debt	Redemption of debt	Foreign exchange movement	Demerger of UK and Europe operations	Other movements	Balance at 31 Dec
2020	**5,594**	**983**	**–**	**42**	**–**	**14**	**6,633**
2019	9,761	367	(504)	116	(4,161)	15	5,594

NOTES TO THE FINANCIAL STATEMENTS

A Basis of preparation

A1 Basis of preparation and exchange rates

These consolidated financial statements have been prepared in accordance with IFRS Standards as issued by the IASB, the international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. At 31 December 2020, there were no differences between IFRS Standards as issued by the IASB, the international accounting standards as required by the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Group accounting policies are the same as those applied for the year ended 31 December 2019 with the exception of the adoption of the new and amended IFRS Standards as described in note A2.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. The auditors have reported on the 2020 statutory accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered following the Company's Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern basis of accounting
The Directors have made an assessment of going concern covering a period of at least 12 months from the date that these financial statements are approved. In making this assessment, the Directors have considered both the Group's current performance, solvency and liquidity and the Group's business plan taking into account the Group's principal risks and the mitigations available to it which are described in the Group Chief Risk and Compliance Officer's report. The assessment also includes the consideration of the results of a number of stress and scenario testing over the business plan covering scenarios that reflect the possible impacts of Covid-19. The stress tests included the assessment of the potential impact of up or down interest rate movements combined with corporate credit spread widening, a rating level downgrade on part of the credit asset portfolio, falling equity values and insurance stresses (such as changes in policyholder behaviour, including lapses, and increased morbidity in Asia).

Based on the above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that these financial statements are approved. No material uncertainties that may cast significant doubt on the ability of the Group to continue as a going concern have been identified. The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements for the year ended 31 December 2020.

Exchange rates
The exchange rates applied for balances and transactions in currencies other than the presentation currency of the Group, US dollars (USD) were:

	Closing rate at year end		Average rate for the year to date	
USD : local currency	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Chinese yuan (CNY)	**6.54**	6.97	**6.90**	6.91
Hong Kong dollar (HKD)	**7.75**	7.79	**7.76**	7.84
Indian rupee (INR)	**73.07**	71.38	**74.12**	70.43
Indonesian rupiah (IDR)	**14,050.00**	13,882.50	**14,541.70**	14,140.84
Malaysian ringgit (MYR)	**4.02**	4.09	**4.20**	4.14
Singapore dollar (SGD)	**1.32**	1.34	**1.38**	1.36
Taiwan dollar (TWD)	**28.10**	29.98	**29.44**	30.91
Thai baht (THB)	**30.02**	29.75	**31.29**	31.05
UK pound sterling (GBP)	**0.73**	0.75	**0.78**	0.78
Vietnamese dong (VND)	**23,082.50**	23,172.50	**23,235.84**	23,227.64

Certain notes to the financial statements present comparative information at constant exchange rates (CER), in addition to the reporting at actual exchange rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting year, being the average rates over the year for the income statement and the closing rates at the balance sheet date for the statement of financial position. CER results are calculated by translating prior year results using the current year foreign exchange rate, ie current year average rates for the income statement and current year closing rates for the statement of financial position.

A2 New accounting pronouncements in 2020

The IASB has issued the following new accounting pronouncements to be effective from 1 January 2020:
- Amendments to IAS 1 and IAS 8 'Definition of Material';
- Amendment to IFRS 3 'Business Combinations';
- Amendments to IFRS 7, IFRS 9 and IAS 39 'Interest Rate Benchmark Reform'; and
- Amendments to IFRS 16, 'Covid-19-Related Rent Concessions', effective from 1 June 2020.

The adoption of these pronouncements have had no significant impact on the Group financial statements.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results

		2020 $m	2019 $m		2020 vs 2019 %	
			AER	CER	AER	CER
	Note	note (i)	note (i)	note (i)	note (i)	note (i)
Continuing operations:						
Asia						
Insurance operations		**3,384**	2,993	2,978	13%	14%
Asset management		**283**	283	278	–	2%
Total Asia		**3,667**	3,276	3,256	12%	13%
US						
Insurance operations		**2,787**	3,038	3,038	(8)%	(8)%
Asset management		**9**	32	32	(72)%	(72)%
Total US		**2,796**	3,070	3,070	(9)%	(9)%
Total segment profit		**6,463**	6,346	6,326	2%	2%
Other income and expenditure:						
Investment return and other income		**6**	50	50	(88)%	(88)%
Interest payable on core structural borrowings		**(337)**	(516)	(518)	35%	35%
Corporate expenditure[note (ii)]		**(417)**	(460)	(463)	9%	10%
Total other income and expenditure		**(748)**	(926)	(931)	19%	20%
Restructuring and IFRS 17 implementation costs[note (iii)]		**(208)**	(110)	(110)	(89)%	(89)%
Adjusted operating profit	B1.3	**5,507**	5,310	5,285	4%	4%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	**(4,841)**	(3,203)	(3,191)	(51)%	(52)%
Amortisation of acquisition accounting adjustments[note (iv)]		**(39)**	(43)	(43)	9%	9%
Gain (loss) attaching to corporate transactions	D1.1	**1,521**	(142)	(143)	n/a	n/a
Profit before tax attributable to shareholders		**2,148**	1,922	1,908	12%	13%
Tax credit attributable to shareholders' returns	B3	**37**	31	36	19%	3%
Profit for the year from continuing operations		**2,185**	1,953	1,944	12%	12%
Loss for the year from discontinued operations		**–**	(1,161)	(1,165)	n/a	n/a
Profit for the year		**2,185**	792	779	176%	180%
Attributable to:						
Equity holders of the Company						
From continuing operations		**2,118**	1,944	1,935	9%	9%
From discontinued operations		**–**	(1,161)	(1,165)	n/a	n/a
Non-controlling interests from continuing operations		**67**	9	9	n/a	n/a
		2,185	792	779	176%	180%

Basic earnings per share (in cents)		2020	2019		2020 vs 2019 %	
			AER	CER	AER	CER
	Note	note (i)	note (i)	note (i)	note (i)	note (i)
Based on adjusted operating profit, net of tax, from continuing operations	B4	**175.5¢**	175.0¢	174.6¢	0%	1%
Based on profit for the year from continuing operations	B4	**81.6¢**	75.1¢	75.1¢	9%	9%
Based on profit (loss) for the year from discontinued operations	B4	**–**	(44.8)¢	(45.1)¢	n/a	n/a

Notes

(i) Segment results are attributed to the shareholders of the Group before deducting the amount attributable to the non-controlling interests. This presentation is applied consistently throughout the document. For definitions of AER and CER refer to note A1.

(ii) Corporate expenditure as shown above is primarily for head office functions in London and Hong Kong.

(iii) Restructuring and IFRS 17 implementation costs include those incurred in the US operations of $(46) million (2019: $(7) million).

(iv) Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012.

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

	2020 $m	2019 $m
Asia operations[note (i)]	**(607)**	657
US operations[note (ii)]	**(4,262)**	(3,757)
Other operations	**28**	(103)
Total	**(4,841)**	(3,203)

(i) Asia operations

In Asia, the short-term fluctuations reflect the net value movements on shareholders' assets and policyholder liabilities (net of reinsurance) arising from market movements in the year. In 2020, falling interest rates in certain parts of Asia led to lower discount rates on policyholder liabilities under the local reserving basis applied, which were not fully offset by unrealised bond and equity gains in the year and this led to the overall negative short-term investment fluctuations in Asia.

(ii) US operations

The short-term fluctuations in investment returns in the US are reported net of the related charge for amortisation of deferred acquisition costs (DAC) credit of $812 million as shown in note C4.2 (2019: credit of $1,248 million) and comprise amounts in respect of the following items:

	2020 $m	2019 $m
Net equity hedge result[note (a)]	**(6,334)**	(4,582)
Other than equity-related derivatives[note (b)]	**1,682**	678
Debt securities[note (c)]	**474**	156
Equity-type investments: actual less longer-term return	**(40)**	18
Other items	**(44)**	(27)
Total net of related DAC amortisation	**(4,262)**	(3,757)

Notes

(a) The purpose of the inclusion of the net equity hedge result in short-term fluctuations in investment returns is to segregate the amount included within pre-tax profit that relates to the accounting effect of market movements on both the value of guarantees in Jackson's products including variable annuities and on the related derivatives used to manage the exposures inherent in these guarantees. The level of fees recognised in short-term fluctuations in investment returns is determined by reference to that allowed for within the reserving basis. The variable annuity guarantees are valued in accordance with either Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures or ASC Topic 944, Financial Services – Insurance depending on the type of guarantee. Both approaches require an entity to determine the total fee ('the fee assessment') that is expected to fund future projected benefit payments arising using the assumptions applicable for that method. The method under ASC Topic 820 requires this fee assessment to be fixed at the time of issue. As the fees included within the initial fee assessment are earned, they are included in short-term fluctuations in investment returns to match the corresponding movement in the guarantee liability. Other guarantee fees are included in adjusted operating profit, which in 2020 were $704 million (2019: $699 million), pre-tax and net of related DAC amortisation. As the Group applies US GAAP for the measured value of the product guarantees, the net equity hedge result also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ.

The net equity hedge result therefore includes significant accounting mismatches and other factors that do not represent the economic result. These other factors include:

- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP;
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

The net equity hedge result can be summarised as follows:

	2020 $m	2019 $m
Fair value movements on equity hedge instruments*	**(5,219)**	(5,314)
Accounting value movements on the variable and fixed index annuity guarantee liabilities*	**(2,030)**	(22)
Fee assessments net of claim payments	**915**	754
Total net of related DAC amortisation	**(6,334)**	(4,582)

* The value movements on the variable annuity guarantees and fixed indexed annuity options and the derivative instruments held to manage their equity exposures are discussed in the Group Chief Financial Officer and Chief Operating Officer's report.

(b) The fluctuations for other than equity-related derivatives comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

(c) Short-term fluctuations related to debt securities is analysed below:

	2020 $m	2019 $m
Credits (charges) in the year:		
Losses on sales of impaired and deteriorating bonds	**(148)**	(28)
Bond write-downs	**(32)**	(15)
Recoveries/reversals	**1**	1
Total credits (charges) in the year	**(179)**	(42)
Risk margin allowance deducted from adjusted operating profit*	**92**	109
	(87)	67
Interest-related realised gains (losses):		
Gains (losses) arising in the year†	**724**	220
Amortisation of gains and losses arising in current and prior years to adjusted operating profit	**(168)**	(129)
	556	91
Related amortisation of DAC	**5**	(2)
Total short-term fluctuations related to debt securities net of related DAC amortisation	**474**	156

* The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in adjusted operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in adjusted operating profit of Jackson for 2020 is based on an average annual risk margin reserve of 18 basis points (2019: 17 basis points) on average book values of $51.7 billion (2019: $62.6 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)

	2020			2019		
	Average book value	RMR	Annual expected loss	Average book value	RMR	Annual expected loss
	$m	%	$m	$m	%	$m
A3 or higher	**32,541**	**0.10**	**(31)**	38,811	0.10	(38)
Baa1, 2 or 3	**17,513**	**0.24**	**(42)**	22,365	0.24	(53)
Ba1, 2 or 3	**1,314**	**0.75**	**(10)**	1,094	0.85	(9)
B1, 2 or 3	**206**	**2.36**	**(5)**	223	2.56	(6)
Below B3	**108**	**3.36**	**(4)**	75	3.39	(3)
Total	**51,682**	**0.18**	**(92)**	62,568	0.17	(109)
Related amortisation of DAC			**12**			19
Risk margin reserve charge to adjusted operating profit for longer-term credit-related losses†			**(80)**			(90)

† Excluding the realised gains that are part of the gain arising in respect of the reinsured Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax net unrealised gain of $2,676 million, net of related amortisation of DAC, arising in the year (2019: $3,392 million) on debt securities classified as available-for-sale, partially offset by the recycling of $2,282 million gains, net of related amortisation of DAC, to the income statement on transfer of debt securities to Athene (see note D1.1). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C1.1.

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

Operating segments

The Group's operating segments for financial reporting purposes are defined and presented in accordance with IFRS 8 'Operating Segments' on the basis of the management reporting structure and its financial management information.

Under the Group's management and reporting structure, its chief operating decision maker is the Group Executive Committee (GEC). In the management structure, responsibility is delegated to the Chief Executive Officers of the Group's Asia and US business units for the day-to-day management of their business units (within the framework set out in the Group Governance Manual). Financial management information used by the GEC aligns with these business segments. These operating segments, Asia operations and US operations, derive revenue from both insurance and asset management activities.

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include head office costs in London and Hong Kong. The Group's Africa operations do not form part of any operating segment under the structure, and their assets and liabilities and profit or loss before tax are not material to the overall financial position of the Group. The Group's Africa operations are therefore also reported as 'Unallocated to a segment'.

In preparation for the planned separation of Jackson, the management information received by the GEC has been revised in 2021, leading to a change in the Group's operating segments which will be presented in the 2021 half year report as discussed in the Group Chief Financial Officer and Chief Operating Officer's report.

Performance measure
The performance measure of operating segments utilised by the Group is adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit**,** as described below. This measurement basis distinguishes adjusted operating profit from other constituents of total profit or loss for the year as follows:

– Short-term fluctuations in investment returns on shareholder-backed business. This includes the impact of short-term market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below;
– Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
– Gain or loss on corporate transactions, such as in 2020 the effect of certain of the Group's reinsurance arrangements and costs associated with the work to plan for the separation of Jackson, and in 2019 disposals undertaken and costs connected to the demerger of M&G plc from Prudential plc.

Determination of adjusted operating profit for investment and liability movements
(a) With-profits business
For Asia's with-profits business in Hong Kong, Singapore and Malaysia, the adjusted operating profit reflects the shareholders' share in the bonuses declared to policyholders. Value movements in the underlying assets of the with-profits funds only affect the shareholder results through indirect effects of investment performance on declared policyholder bonuses and therefore, do not affect directly the determination of adjusted operating profit.

(b) Unit-linked business including the US variable annuity separate accounts
The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the adjusted operating profit reflect the current year value movements in both the unit liabilities and the backing assets.

(c) US general account business
The adjusted operating profit for Jackson included in the Group's accounts is based on information reviewed by the GEC on an IFRS basis. This will differ from the financial information that Jackson will report as part of the demerger process, which will be prepared under US GAAP and will be based on the information local management reviews in preparation for them becoming a standalone entity.

Jackson's variable and fixed index annuity business has guarantee liabilities which are measured on a combination of fair value and other US GAAP derived principles. These liabilities are subject to an extensive derivative programme to manage equity and interest rate exposures whose fair value movements pass through the income statement each year.

The following value movements for Jackson's variable and fixed index annuity business are excluded from adjusted operating profit. See note B1.2:

– Fair value movements for equity-based derivatives;
– Fair value movements for guaranteed benefit options for the 'not for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance (see below);
– Movements in the accounts carrying value of Guaranteed Minimum Death Benefit (GMDB), GMIB and the 'for life' portion of GMWB liabilities, (see below) for which, under the 'grandfathered' US GAAP applied under IFRS for Jackson's insurance assets and liabilities, the measurement basis gives rise to a muted impact of current year market movements (ie they are relatively insensitive to the effect of current year equity market and interest rate changes);
– A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
– Related amortisation of DAC for each of the above items.

Guaranteed benefit options for the 'not for life' portion of GMWB and equity index options for the fixed index annuity business
The 'not for life' portion of GMWB guaranteed benefit option liabilities is measured under the US GAAP basis applied for IFRS in a manner consistent with IAS 39 under which the projected future growth rate of the account balance is based on the greater of US Treasury rates and current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. The discount rates applied in determining the value of these liabilities is actively updated each year based on market observed rates and after allowing for Jackson's own credit risk. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates. The equity index option for fixed index annuity business is measured under the US GAAP basis applied for IFRS in a manner consistent with IAS 39 under which the projected future growth is based on current swap rates.

Guaranteed benefit option for variable annuity guarantee minimum income benefit
The GMIB liability, which is substantially reinsured, subject to a deductible and annual claim limits, is accounted for using 'grandfathered' US GAAP. This accounting basis substantially does not recognise the effects of market movements. The corresponding reinsurance asset is measured under the 'grandfathered' US GAAP basis applied for IFRS in a manner consistent with IAS 39 'Financial Instruments: Recognition and Measurement', and the asset is therefore recognised at fair value. As the GMIB is economically reinsured, the mark-to-market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(d) Policyholder liabilities that are sensitive to market conditions
Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between business units depending upon the nature of the 'grandfathered' measurement basis.

Movements in liabilities for some types of business do require bifurcation between the elements that relate to longer-term market condition and short-term effects to ensure that at the net level (ie after allocated investment return and charge for policyholder benefits) the adjusted operating profit reflects longer-term market returns.

For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. Consequently, for these products, the charge for policyholder benefits in the adjusted operating profit reflects the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (as applied for the IFRS balance sheet) was used.

For other types of Asia non-participating business, expected longer-term investment returns and interest rates are used to determine the movement in policyholder liabilities for determining adjusted operating profit. This ensures assets and liabilities are reflected on a consistent basis.

(e) Assets backing other shareholder-financed long-term insurance business
Except in the case of assets backing liabilities which are directly matched (such as unit-linked business) adjusted operating profit for assets backing shareholder-financed business is determined on the basis of expected longer-term investment returns. Longer-term investment returns comprise actual income receivable for the year (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

Debt securities and loans
As a general principle, for debt securities and loans, the longer-term capital returns comprise two elements:

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

At 31 December 2020, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group's insurance operations in Asia and the US was a net gain of $1,725 million (31 December 2019: net gain of $916 million).

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

For US insurance operations, Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2.

Equity-type securities
For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Different rates apply to different categories of equity-type securities.

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed business amounted to $4,954 million as at 31 December 2020 (31 December 2019: $3,473 million). The longer-term rates of return applied in 2020 ranged from 5.1 per cent to 16.9 per cent (31 December 2019: 5.0 per cent to 17.6 per cent) with the rates applied varying by business unit. These rates are broadly stable from year to year but may be different between regions, reflecting, for example, differing expectations of inflation in each local business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations. The longer-term investment returns for the Asia insurance joint ventures and associates accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

For US insurance operations, as at 31 December 2020, the equity-type securities for non-separate account operations amounted to $2,128 million (31 December 2019: $1,481 million). For these operations, the longer-term rates of return for income and capital applied in 2020 and 2019, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2020	**2019**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**4.8% to 5.8%**	5.5% to 6.7%
Other equity-type securities such as investments in limited partnerships and private equity funds	**6.8% to 7.8%**	7.5% to 8.7%

Derivative value movements
Generally, derivative value movements are excluded from adjusted operating profit. The exception is where the derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in adjusted operating profit. The principal example of derivatives whose value movements are excluded from adjusted operating profit arises in Jackson.

Equity-based derivatives held by Jackson are as discussed in section (c) above. Non-equity based derivatives held by Jackson are part of a broad-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of other comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as 'grandfathered' under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based product options.

(f) Fund management and other non-insurance businesses
For these businesses, the determination of adjusted operating profit reflects the underlying economic substance of the arrangements. Generally, realised gains and losses are included in adjusted operating profit with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, realised gains and losses on derivatives and other financial instruments are amortised to adjusted operating profit over a time period that reflects the underlying economic substance of the arrangements.

B2 Acquisition costs and other expenditure

	2020 $m	2019 $m
Acquisition costs incurred for insurance policies	**(3,070)**	(4,177)
Acquisition costs deferred[note C4.2]	**1,357**	1,422
Amortisation of acquisition costs[note (i)]	**81**	694
Recoveries for expenses associated with Jackson's business ceded to Athene[note (ii)]	**1,203**	–
Administration costs and other expenditure (net of other reinsurance commission)[note (iii)]	**(4,609)**	(5,019)
Movements in amounts attributable to external unit holders of consolidated investment funds	**(443)**	(203)
Total acquisition costs and other expenditure	**(5,481)**	(7,283)

Notes

(i) The credit of $81 million in 2020 reflects $389 million arising in the US which is offset by a charge of $308 million in Asia as set out in note C4.2. The credit of $389 million in the US includes $1,576 million (2019: $1,248 million) recorded in short-term fluctuations in investment returns largely as a result of the losses arising from market effects on variable annuity guarantee liabilities and associated hedging. This is offset by a charge of $(764) million for the write-off of the DAC held for the in-force fixed and fixed index annuity liabilities reinsured to Athene and a charge of $(423) million (2019: $(297) million) for amortisation of acquisition costs recorded in adjusted operating profit.

(ii) As part of the reinsurance transaction with Athene Life Re Ltd discussed in note D1.1, Jackson received $1,203 million of ceding commission (including post-closing adjustments) as a recovery for past acquisition expenses associated with the business ceded.

(iii) Included in total administration costs and other expenditure is depreciation of property, plant and equipment of $(218) million (2019: $(227) million), of which $(145) million (2019: $(141) million) relates to the right-of-use assets recognised under IFRS 16 and interest on the IFRS 16 lease liabilities of $16 million (2019: $20 million). The 2020 amount also includes a credit of $770 million for the commission arising from the reinsurance transaction entered into by the Hong Kong business during the year as discussed in note D1.1. Administration costs and other expenditure includes $1 million (2019: $3 million) relating to the fee income on financial instruments that are not held at fair value through profit or loss.

B3 Tax charge

B3.1 Total tax charge by nature

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

	2020 $m			2019 $m
	Current tax	Deferred tax	Total	Total
Attributable to shareholders:				
Asia operations	**(229)**	**(209)**	**(438)**	(468)
US operations	**59**	**408**	**467**	345
Other operations	**8**	**-**	**8**	154
Tax (charge) credit attributable to shareholders' returns	**(162)**	**199**	**37**	31
Attributable to policyholders:				
Asia operations	**(152)**	**(119)**	**(271)**	(365)
Total tax (charge) credit	**(314)**	**80**	**(234)**	(334)

The tax credit attributable to shareholders' returns of $37 million is consistent with the tax credit arising in 2019 ($31 million), reflecting the tax credit on US derivative losses largely offsetting the tax charge on Asia profits.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in B3.2 below. The tax charge attributable to policyholders of $271 million above is equal to the profit before tax attributable to policyholders of $271 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses on an after-tax basis.

In 2020, a tax charge of $102 million (2019: charge of $709 million) has been taken through other comprehensive income. The tax charge principally relates to an increase in the market value on securities of US insurance operations classified as available-for-sale partially offset by a tax credit arising on the recycling of gains to the income statement arising on the transaction with Athene.

B3.2 Reconciliation of shareholder effective tax rate

In the reconciliation below, the expected tax rates reflect the corporation tax rates that are expected to apply to the taxable profit or loss of the relevant business. Where there are profits or losses of more than one jurisdiction, the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit or loss contributing to the aggregate business result.

	2020					2019	
	Asia operations $m	**US operations $m**	**Other operations $m**	**Total attributable to shareholders $m**	**Percentage impact on ETR %**	**Total attributable to shareholders $m** note (vii)	**Percentage impact on ETR %**
Adjusted operating profit (loss)	**3,667**	**2,796**	**(956)**	**5,507**		5,310	
Non-operating profit (loss)*	**153**	**(3,510)**	**(2)**	**(3,359)**		(3,388)	
Profit (loss) before tax	**3,820**	**(714)**	**(958)**	**2,148**		1,922	
Expected tax rate:	**20%**	**21%**	**18%**	**21%**			
Tax at the expected rate	**764**	**(150)**	**(172)**	**442**	**20.6%**	393	20.4%
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates note (i)	**(102)**	**(45)**	**–**	**(147)**	**(6.8)%**	(126)	(6.6)%
Deductions not allowable for tax purposes	**32**	**11**	**–**	**43**	**2.0%**	55	2.9%
Items related to taxation of life insurance businesses note (ii)	**(152)**	**(106)**	**–**	**(258)**	**(12.0)%**	(317)	(16.5)%
Deferred tax adjustments	**26**	**–**	**–**	**26**	**1.2%**	(33)	(1.7)%
Unrecognised tax losses note (iii)	**–**	**–**	**146**	**146**	**6.8%**	46	2.4%
Effect of results of joint ventures and associates note (iv)	**(123)**	**–**	**(6)**	**(129)**	**(6.0)%**	(100)	(5.2)%
Irrecoverable withholding taxes	**1**	**–**	**34**	**35**	**1.6%**	59	3.1%
Other	**(10)**	**(3)**	**(7)**	**(20)**	**(1.0)%**	13	0.7%
Total	**(328)**	**(143)**	**167**	**(304)**	**(14.2)%**	(403)	(20.9)%
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years note (v)	**21**	**(158)**	**4**	**(133)**	**(6.2)%**	(67)	(3.5)%
Movements in provisions for open tax matters note (vi)	**(20)**	**–**	**(13)**	**(33)**	**(1.5)%**	(1)	(0.1)%
M&G demerger related activities	**–**	**–**	**–**	**–**	**0.0%**	76	4.0%
Impact of carry back of US losses under the CARES Act	**–**	**(16)**	**–**	**(16)**	**(0.7)%**	–	–
Impact of changes in local statutory tax rates	**1**	**–**	**–**	**1**	**0.0%**	–	–
Adjustments in relation to business disposals and corporate transactions	**–**	**–**	**6**	**6**	**0.3%**	(29)	(1.5)%
Total	**2**	**(174)**	**(3)**	**(175)**	**(8.1)%**	(21)	(1.1)%
Total actual tax charge (credit)	**438**	**(467)**	**(8)**	**(37)**	**(1.7)%**	(31)	(1.6)%
Analysed into:							
Tax charge (credit) on adjusted operating profit (loss)	**495**	**313**	**(8)**	**800**		773	
Tax credit on non-operating profit (loss)*	**(57)**	**(780)**	**–**	**(837)**		(804)	
Actual tax rate on:							
Adjusted operating profit (loss):							
Including non-recurring tax reconciling items	**13%**	**11%**	**1%**	**15%**		15% note (vii)	
Excluding non-recurring tax reconciling items	**13%**	**16%**	**0%**	**17%**		15%	
Total profit (loss)	**11%**	**65%**	**1%**	**(2)%**		(2)% note (vii)	

* 'Non-operating profit (loss)' is used to refer to items excluded from adjusted operating profit and includes short term investment fluctuations in investment returns on shareholder-backed business, corporate transactions and amortisation of acquisition accounting adjustments.

Notes

(i) The $102 million in Asia operations primarily relates to non-taxable investment income in Taiwan, Singapore and Malaysia.

(ii) The principal reason for the decrease in the Asia operations reconciling items from $192 million in 2019 to $152 million in 2020 is due to a decrease in investment gains in Indonesia and Philippines which are subject to a lower rate of taxation under local legislation. The $106 million (2019: $125 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business.

(iii) The $146 million (2019: $46 million) adverse reconciling item in unrecognised tax losses reflects losses arising where it is unlikely that relief for the losses will be available in future periods.

(iv) Profit before tax includes Prudential's share of profit after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item.

(v) The $158 million prior year adjustment in US operations comprises the truing up from the 2019 tax provision computed in the 2019 accounts to the submitted 2019 tax return and a number of one-off adjustments to prior year deferred tax balances.

(vi) The complexity of the tax laws and regulations that relate to our businesses means that from time to time we may disagree with tax authorities on the technical interpretation of a particular area of tax law. This uncertainty means that in the normal course of business the Group will have matters where, upon ultimate resolution of the uncertainty, the amount of profit subject to tax may be greater than the amounts reflected in the Group's submitted tax returns. The statement of financial position contains the following provisions in relation to open tax matters.

	2020 $m
Balance at 1 Jan	**198**
Movements in the current year included in tax charge attributable to shareholders	**(33)**
Provisions utilised in the year	**(34)**
Other movements*	**(18)**
Balance at 31 Dec	**113**

* Other movements include interest arising on open tax matters and amounts included in the Group's share of profits from joint ventures and associates, net of related tax.

(vii) The 2019 actual tax rates of the relevant business operations are shown below:

	2019			
	Asia operations	**US operations**	**Other operations**	**Total attributable to shareholders**
Tax rate on adjusted operating profit (loss)	13%	14%	10%	15%
Tax rate on profit (loss) before tax	11%	48%	10%	(2)%

B4 Earnings per share

		2020					
	Note	**Before tax $m** B1.1	**Tax $m** B3	**Non-controlling interests $m**	**Net of tax and non-controlling interests $m**	**Basic earnings per share cents**	**Diluted earnings per share cents**
Based on adjusted operating profit		**5,507**	**(800)**	**(148)**	**4,559**	**175.5¢**	**175.5¢**
Short-term fluctuations in investment returns on shareholder-backed business		**(4,841)**	**987**	**75**	**(3,779)**	**(145.5)¢**	**(145.5)¢**
Amortisation of acquisition accounting adjustments		**(39)**	**7**	**2**	**(30)**	**(1.1)¢**	**(1.1)¢**
Gain (loss) attaching to corporate transactions		**1,521**	**(157)**	**4**	**1,368**	**52.7¢**	**52.7¢**
Based on profit for the year		**2,148**	**37**	**(67)**	**2,118**	**81.6¢**	**81.6¢**

		2019					
	Note	**Before tax $m** B1.1	**Tax $m** B3	**Non-controlling interests $m**	**Net of tax and non-controlling interests $m**	**Basic earnings per share cents**	**Diluted earnings per share cents**
Based on adjusted operating profit		5,310	(773)	(9)	4,528	175.0¢	175.0¢
Short-term fluctuations in investment returns on shareholder-backed business		(3,203)	772	–	(2,431)	(94.0)¢	(94.0)¢
Amortisation of acquisition accounting adjustments		(43)	8	–	(35)	(1.3)¢	(1.3)¢
Loss attaching to corporate transactions		(142)	24	–	(118)	(4.6)¢	(4.6)¢
Based on profit for the year from continuing operations		1,922	31	(9)	1,944	75.1¢	75.1¢
Based on loss for the year from discontinued operations					(1,161)	(44.8)¢	(44.8)¢
Based on profit for the year					783	30.3¢	30.3¢

Basic earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests, by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated investment funds, which are treated as cancelled. For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

The weighted average number of shares for calculating basic and diluted earnings per share in 2020 is set out as below:

Number of shares (in millions)	**2020**	**2019**
Weighted average number of shares for calculation of basic earnings per share	**2,597**	2,587
Shares under option at end of year	**2**	4
Shares that would have been issued at fair value on assumed option price at end of year	**(2)**	(4)
Weighted average number of shares for calculation of diluted earnings per share	**2,597**	2,587

B5 Dividends

	2020		2019	
	Cents per share	**$m**	**Cents per share**	**$m**
Dividends relating to reporting year:				
First interim ordinary dividend	**5.37¢**	**140**	20.29¢	528
Second interim ordinary dividend	**10.73¢**	**280**	25.97¢	675
Total	**16.10¢**	**420**	46.26¢	1,203
Dividends paid in reporting year:				
Current year first interim ordinary dividend	**5.37¢**	**140**	20.29¢	526
Second interim ordinary dividend for prior year	**25.97¢**	**674**	42.89¢	1,108
Total	**31.34¢**	**814**	63.18¢	1,634

First and second interim dividends are recorded in the period in which they are paid. In addition to the dividends shown in the table above, on 21 October 2019, following approval by the Group's shareholders, Prudential plc demerged its UK and Europe operations (M&G plc) via a dividend in specie of $7,379 million.

Dividend per share
The 2020 first interim ordinary dividend of 5.37 cents per ordinary share was paid to eligible shareholders on 28 September 2020.

The second interim ordinary dividend for the year ended 31 December 2020 of 10.73 cents per ordinary share will be paid on 14 May 2021 to shareholders included on the UK and HK registers respectively on 26 March 2021 (Record Date) and to the Holders of US American Depositary Receipts as at 26 March 2021. The second interim ordinary dividend will be paid on or about 21 May 2021 to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) on the Record Date.

Shareholders holding shares on the UK or Hong Kong share registers will continue to receive their dividend payments in either GBP or HKD respectively, unless they elect otherwise. Shareholders holding shares on the UK or Hong Kong registers may elect to receive dividend payments in USD. Elections must be made through the relevant UK or Hong Kong share registrar on or before 23 April 2021. The corresponding amount per share in GBP and HKD is expected to be announced on or about 5 May 2021. The USD to GBP and HKD conversion rates will be determined by the actual rates achieved by Prudential buying those currencies prior to the subsequent announcement. Holders of American Depositary Receipts (ADRs) will continue to receive their dividend payments in USD. Shareholders holding an interest in Prudential shares through The Central Depository (Pte) Limited (CDP) in Singapore will continue to receive their dividend payments in SGD at an exchange rate determined by CDP.

Shareholders on the UK register are eligible to participate in a Dividend Reinvestment Plan.

C FINANCIAL POSITION

C1 Group assets and liabilities by business type

The analysis below is structured to show the investments and other assets and liabilities of the Group by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business.

The Group has revised its disclosures relating to the investments, other assets and liabilities of the Group in these consolidated financial statements, including combining various disclosures into a single section and giving further analysis of the categories of debt securities. The 2019 comparative information, in particular that relating to investments, has been re-presented from previously published information to conform to the current year format and the altered approach to credit ratings analysis described below.

Debt securities are analysed below according to the issuing government for sovereign debt and to credit ratings for the rest of the securities.

From half year 2020, to align more closely with the internal risk management analysis, the Group altered the compilation of its credit ratings analysis to use the middle of the Standard & Poor's, Moody's and Fitch ratings, where available. Where ratings are not available from these rating agencies, NAIC ratings (for the US), local external rating agencies' ratings and lastly internal ratings have been used. Securities with none of the ratings listed above are classified as unrated and included under the 'below BBB- and unrated' category. The total securities (excluding sovereign debt) that were unrated at 31 December 2020 were $780 million (31 December 2019: $648 million). Previously, Standard & Poor's ratings were used where available and if not, Moody's and then Fitch were used as alternatives. Additionally, government debt is shown separately from the rating breakdowns in order to provide a more focused view of the credit portfolio.

In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-.

	31 Dec 2020 $m									
	Asia insurance									
	With -profits business note (i)	Unit-linked assets and liabilities	Other business	Asia Asset manage-ment	Elimina-tions	Total Asia	US note (ii)	Unallocated to a segment	Elimination of intra-group debtors and creditors	Group total
Debt securities note (iii), note C1.1										
Sovereign debt										
Indonesia	**385**	**658**	**564**	**12**	**–**	**1,619**	**–**	**–**	**–**	**1,619**
Singapore	**3,939**	**551**	**979**	**117**	**–**	**5,586**	**–**	**–**	**–**	**5,586**
Thailand	**–**	**–**	**1,999**	**11**	**–**	**2,010**	**–**	**–**	**–**	**2,010**
United Kingdom	**–**	**7**	**–**	**–**	**–**	**7**	**–**	**–**	**–**	**7**
United States	**24,396**	**21**	**2,551**	**–**	**–**	**26,968**	**5,126**	**–**	**–**	**32,094**
Vietnam	**–**	**11**	**2,881**	**–**	**–**	**2,892**	**–**	**–**	**–**	**2,892**
Other (predominantly Asia)	**1,322**	**700**	**3,508**	**19**	**–**	**5,549**	**30**	**173**	**–**	**5,752**
Subtotal	**30,042**	**1,948**	**12,482**	**159**	**–**	**44,631**	**5,156**	**173**	**–**	**49,960**
Other government bonds										
AAA	**1,420**	**96**	**405**	**–**	**–**	**1,921**	**377**	**–**	**–**	**2,298**
AA+ to AA-	**129**	**2**	**28**	**–**	**–**	**159**	**522**	**–**	**–**	**681**
A+ to A-	**811**	**131**	**339**	**–**	**–**	**1,281**	**188**	**–**	**–**	**1,469**
BBB+ to BBB-	**452**	**16**	**196**	**–**	**–**	**664**	**3**	**–**	**–**	**667**
Below BBB- and unrated	**631**	**9**	**450**	**–**	**–**	**1,090**	**–**	**1**	**–**	**1,091**
Subtotal	**3,443**	**254**	**1,418**	**–**	**–**	**5,115**	**1,090**	**1**	**–**	**6,206**
Corporate bonds										
AAA	**1,228**	**221**	**540**	**–**	**–**	**1,989**	**265**	**–**	**–**	**2,254**
AA+ to AA-	**1,943**	**476**	**1,871**	**–**	**–**	**4,290**	**869**	**–**	**–**	**5,159**
A+ to A-	**7,289**	**695**	**5,194**	**1**	**–**	**13,179**	**10,759**	**–**	**–**	**23,938**
BBB+ to BBB-	**9,005**	**1,299**	**4,785**	**–**	**–**	**15,089**	**12,686**	**–**	**–**	**27,775**
Below BBB- and unrated	**2,814**	**849**	**1,477**	**2**	**–**	**5,142**	**1,975**	**6**	**–**	**7,123**
Subtotal	**22,279**	**3,540**	**13,867**	**3**	**–**	**39,689**	**26,554**	**6**	**–**	**66,249**
Asset-backed securities										
AAA	**74**	**9**	**24**	**–**	**–**	**107**	**2,110**	**–**	**–**	**2,217**
AA+ to AA-	**2**	**1**	**–**	**–**	**–**	**3**	**171**	**–**	**–**	**174**
A+ to A-	**15**	**–**	**16**	**–**	**–**	**31**	**741**	**–**	**–**	**772**
BBB+ to BBB-	**12**	**–**	**9**	**–**	**–**	**21**	**163**	**–**	**–**	**184**
Below BBB- and unrated	**9**	**2**	**8**	**–**	**–**	**19**	**48**	**–**	**–**	**67**
Subtotal	**112**	**12**	**57**	**–**	**–**	**181**	**3,233**	**–**	**–**	**3,414**
Total debt securities	**55,876**	**5,754**	**27,824**	**162**	**–**	**89,616**	**36,033**	**180**	**–**	**125,829**
Loans										
Mortgage loans note C1.2	**–**	**–**	**158**	**–**	**–**	**158**	**7,833**	**–**	**–**	**7,991**
Policy loans	**1,231**	**–**	**341**	**–**	**–**	**1,572**	**4,507**	**10**	**–**	**6,089**
Other loans	**492**	**–**	**16**	**–**	**–**	**508**	**–**	**–**	**–**	**508**
Total loans	**1,723**	**–**	**515**	**–**	**–**	**2,238**	**12,340**	**10**	**–**	**14,588**
Equity securities and holdings in collective investment schemes										
Direct equities	**15,668**	**13,064**	**3,321**	**71**	**–**	**32,124**	**253**	**4**	**–**	**32,381**
Collective investment schemes	**18,125**	**7,392**	**1,633**	**10**	**–**	**27,160**	**25**	**7**	**–**	**27,192**
US separate account assets note (ii)	**–**	**–**	**–**	**–**	**–**	**–**	**219,062**	**–**	**–**	**219,062**
Total equity securities and holdings in collective investment schemes	**33,793**	**20,456**	**4,954**	**81**	**–**	**59,284**	**219,340**	**11**	**–**	**278,635**
Other financial investments note (iv)	**1,566**	**405**	**2,139**	**97**	**–**	**4,207**	**4,094**	**47**	**–**	**8,348**
Total financial investments	**92,958**	**26,615**	**35,432**	**340**	**–**	**155,345**	**271,807**	**248**	**–**	**427,400**
Investment properties	**–**	**–**	**6**	**–**	**–**	**6**	**7**	**10**	**–**	**23**
Investments in joint ventures and associates accounted for using the equity method	**–**	**–**	**1,689**	**273**	**–**	**1,962**	**–**	**–**	**–**	**1,962**
Cash and cash equivalents	**1,049**	**587**	**1,317**	**156**	**–**	**3,109**	**1,621**	**3,288**	**–**	**8,018**
Reinsurers' share of insurance contract liabilities note (v)	**257**	**–**	**11,102**	**–**	**–**	**11,359**	**35,232**	**4**	**–**	**46,595**
Other assets	**1,538**	**252**	**9,254**	**839**	**(62)**	**11,821**	**19,813**	**3,788**	**(3,323)**	**32,099**
Total assets	**95,802**	**27,454**	**58,800**	**1,608**	**(62)**	**183,602**	**328,480**	**7,338**	**(3,323)**	**516,097**
Shareholders' equity	**–**	**–**	**12,785**	**1,102**	**–**	**13,887**	**8,511**	**(1,520)**	**–**	**20,878**
Non-controlling interests	**–**	**–**	**2**	**144**	**–**	**146**	**1,063**	**32**	**–**	**1,241**
Total equity	**–**	**–**	**12,787**	**1,246**	**–**	**14,033**	**9,574**	**(1,488)**	**–**	**22,119**
Contract liabilities and unallocated surplus of with-profits funds note (ii)	**86,410**	**25,433**	**37,845**	**–**	**–**	**149,688**	**296,513**	**262**	**–**	**446,463**
Core structural borrowings	**–**	**–**	**–**	**–**	**–**	**–**	**250**	**6,383**	**–**	**6,633**
Operational borrowings	**194**	**–**	**99**	**23**	**–**	**316**	**1,498**	**630**	**–**	**2,444**
Other liabilities	**9,198**	**2,021**	**8,069**	**339**	**(62)**	**19,565**	**20,645**	**1,551**	**(3,323)**	**38,438**
Total liabilities	**95,802**	**27,454**	**46,013**	**362**	**(62)**	**169,569**	**318,906**	**8,826**	**(3,323)**	**493,978**
Total equity and liabilities	**95,802**	**27,454**	**58,800**	**1,608**	**(62)**	**183,602**	**328,480**	**7,338**	**(3,323)**	**516,097**

	31 Dec 2019 $m									
	Asia insurance									
	With -profits business note (i)	Unit-linked assets and liabilities	Other business	Asia Asset manage-ment	Elimina-tions	Total Asia	US note (ii)	Unallocated to a segment	Elimination of intra-group debtors and creditors	Group total
Debt securitiesnote (iii), note C1.1										
Sovereign debt										
Indonesia	222	610	488	–	–	1,320	–	–	–	1,320
Singapore	3,514	554	708	94	–	4,870	–	–	–	4,870
Thailand	–	–	1,398	19	–	1,417	–	–	–	1,417
United Kingdom	–	7	–	–	–	7	–	615	–	622
United States	20,479	113	2,827	–	–	23,419	6,160	597	–	30,176
Vietnam	1	15	2,900	–	–	2,916	–	–	–	2,916
Other (predominantly Asia)	1,745	665	2,809	13	–	5,232	9	116	–	5,357
Subtotal	25,961	1,964	11,130	126	–	39,181	6,169	1,328	–	46,678
Other government bonds										
AAA	1,752	81	538	–	–	2,371	977	–	–	3,348
AA+ to AA-	135	8	78	–	–	221	495	–	–	716
A+ to A-	890	159	389	–	–	1,438	245	–	–	1,683
BBB+ to BBB-	356	88	201	–	–	645	4	–	–	649
Below BBB- and unrated	31	9	381	–	–	421	–	2	–	423
Subtotal	3,164	345	1,587	–	–	5,096	1,721	2	–	6,819
Corporate bonds										
AAA	732	384	516	–	–	1,632	341	–	–	1,973
AA+ to AA-	1,574	441	1,908	–	–	3,923	1,566	–	–	5,489
A+ to A-	5,428	542	5,063	–	–	11,033	17,784	–	–	28,817
BBB+ to BBB-	5,443	883	3,497	–	–	9,823	22,775	–	–	32,598
Below BBB- and unrated	2,111	569	781	3	–	3,464	2,157	2	–	5,623
Subtotal	15,288	2,819	11,765	3	–	29,875	44,623	2	–	74,500
Asset-backed securities										
AAA	236	19	104	–	–	359	3,658	–	–	4,017
AA+ to AA-	132	6	46	–	–	184	780	–	–	964
A+ to A-	1	–	14	–	–	15	1,006	–	–	1,021
BBB+ to BBB-	–	–	–	–	–	–	359	–	–	359
Below BBB- and unrated	–	–	–	–	–	–	212	–	–	212
Subtotal	369	25	164	–	–	558	6,015	–	–	6,573
Total debt securities	44,782	5,153	24,646	129	–	74,710	58,528	1,332	–	134,570
Loans										
Mortgage loansnote C1.2	–	–	165	–	–	165	9,904	–	–	10,069
Policy loans	1,089	–	316	–	–	1,405	4,707	9	–	6,121
Other loans	374	–	19	–	–	393	–	–	–	393
Total loans	1,463	–	500	–	–	1,963	14,611	9	–	16,583
Equity securities and holdings in collective investment schemes										
Direct equities	14,143	12,440	1,793	59	–	28,435	150	4	–	28,589
Collective investment schemes	15,230	6,652	1,680	14	–	23,576	40	6	–	23,622
US separate account assetsnote (ii)	–	–	–	–	–	–	195,070	–	–	195,070
Total equity securities and holdings in collective investment schemes	29,373	19,092	3,473	73	–	52,011	195,260	10	–	247,281
Other financial investmentsnote (iv)	963	383	1,363	106	–	2,815	2,791	56	–	5,662
Total financial investments	76,581	24,628	29,982	308	–	131,499	271,190	1,407	–	404,096
Investment properties	–	–	7	–	–	7	7	11	–	25
Investments in joint ventures and associates accounted for using the equity method	–	–	1,263	237	–	1,500	–	–	–	1,500
Cash and cash equivalents	963	356	1,015	156	–	2,490	1,960	2,515	–	6,965
Reinsurers' share of insurance contract liabilitiesnote (v)	152	–	5,306	–	–	5,458	8,394	4	–	13,856
Other assets	1,277	237	6,983	826	(35)	9,288	17,696	3,440	(2,652)	27,772
Total assets	78,973	25,221	44,556	1,527	(35)	150,242	299,247	7,377	(2,652)	454,214
Shareholders' equity	–	–	9,801	1,065	–	10,866	8,929	(318)	–	19,477
Non-controlling interests	–	–	2	153	–	155	–	37	–	192
Total equity	–	–	9,803	1,218	–	11,021	8,929	(281)	–	19,669
Contract liabilities and unallocated surplus of with-profits fundsnote (ii)	70,308	23,571	26,814	–	–	120,693	269,549	186	–	390,428
Core structural borrowings	–	–	–	–	–	–	250	5,344	–	5,594
Operational borrowings	303	21	122	27	–	473	1,501	671	–	2,645
Other liabilities	8,362	1,629	7,817	282	(35)	18,055	19,018	1,457	(2,652)	35,878
Total liabilities	78,973	25,221	34,753	309	(35)	139,221	290,318	7,658	(2,652)	434,545
Total equity and liabilities	78,973	25,221	44,556	1,527	(35)	150,242	299,247	7,377	(2,652)	454,214

Notes

(i) The with-profits business of Asia comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. 'Other business' includes assets and liabilities of other participating businesses and other non-linked shareholder-backed business.

(ii) Further analysis of the shareholders' equity by business type of the US operations is provided below:

	31 Dec 2020 $m			31 Dec 2019 $m
	Insurance	Asset management	Total	Total
Shareholders' equity	**8,506**	**5**	**8,511**	8,929

The US separate account assets comprise investments in mutual funds attaching to the variable annuity business that are held in the separate account. The related liabilities are reported in contract liabilities at an amount equal to the separate account assets.

(iii) The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch Solutions and their respective affiliates and suppliers ('Content Providers') is referred to here as the 'Content'. Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

(iv) Other financial investments comprise derivative assets, other investments and deposits.

(v) Reinsurers' share of contract liabilities includes the reinsurance ceded in respect of the acquired REALIC business by the Group's US insurance operations and at 31 December 2020 also includes amounts ceded in respect of the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

C1.1 Additional analysis of debt securities

This note provides additional analysis of the Group's debt securities. With the exception of certain debt securities classified as 'available-for-sale' under IAS 39, which primarily relate to US insurance operations as disclosed below, the Group's debt securities are carried at fair value through profit or loss.

(a) Holdings by consolidated investment funds of the Group

Of the $125,829 million of Group's debt securities at 31 December 2020 (31 December 2019: $134,570 million), the following amounts were held by consolidated investment funds:

	31 Dec 2020 $m			31 Dec 2019 $m
	Asia	US	Total	Total
Debt securities held by consolidated investment funds	**15,928**	**1,145**	**17,073**	22,113

(b) Additional analysis of US debt securities

Debt securities for US operations included in the statement of financial position comprise:

	31 Dec 2020 $m	31 Dec 2019 $m
Available-for-sale	**34,650**	57,091
Fair value through profit and loss	**1,383**	1,437
Total US debt securities	**36,033**	58,528

The corporate bonds held by the US insurance operations comprise:

	31 Dec 2020 $m	31 Dec 2019 $m
Publicly traded and SEC Rule 144A securities*	**17,870**	34,781
Non-SEC Rule 144A securities	**8,684**	9,842
Total US corporate bonds	**26,554**	44,623

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.

(c) Movements in unrealised gains and losses on Jackson available-for-sale debt securities

The movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of $3,496 million at 31 December 2019 to a net unrealised gain of $3,396 million at 31 December 2020 is analysed in the table below.

		Changes in unrealised appreciation (depreciation) reflected in other comprehensive income		
	31 Dec 2020 $m	**Gains recycled to income statement on transfer of debt securities to Athene** note D1.1	**Unrealised gains (losses) arising in the year**	**31 Dec 2019 $m**
Assets fair valued at below book value				
Book value	**5,111**			3,121
Unrealised loss	**(144)**		**(117)**	(27)
Fair value (as included in statement of financial position)	**4,967**			3,094
Assets fair valued at or above book value				
Book value	**26,143**			50,474
Unrealised gain	**3,540**	**(2,817)**	**2,834**	3,523
Fair value (as included in statement of financial position)	**29,683**			53,997
Total				
Book value	**31,254**			53,595
Net unrealised gain (loss)	**3,396**	**(2,817)**	**2,717**	3,496
Fair value (as included in the statement of financial position)	**34,650**			57,091

Book value represents cost or amortised cost of the debt securities. Jackson available-for-sale debt securities fair valued at below book value (in an unrealised loss position) is analysed further below.

(i) Fair value as a percentage of book value

The following table shows the fair value of the Jackson available-for-sale debt securities in a gross unrealised loss position for various percentages of book value:

	31 Dec 2020 $m		**31 Dec 2019 $m**	
	Fair value	**Unrealised loss**	**Fair value**	**Unrealised loss**
Between 90% and 100%	**4,902**	**(128)**	3,083	(25)
Between 80% and 90%	**13**	**(2)**	11	(2)
Below 80%	**52**	**(14)**	–	–
Total	**4,967**	**(144)**	3,094	(27)

(ii) Unrealised losses by maturity of security

	31 Dec 2020 $m	**31 Dec 2019 $m**
1 year to 5 years	**(12)**	(1)
5 years to 10 years	**(15)**	(12)
More than 10 years	**(115)**	(7)
Mortgage-backed and other debt securities	**(2)**	(7)
Total	**(144)**	(27)

(iii) Age analysis of unrealised losses for the years indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	31 Dec 2020 $m			**31 Dec 2019 $m**		
Age analysis	**Non-investment grade**	**Investment grade***	**Total**	**Non-investment grade**	**Investment grade***	**Total**
Less than 6 months	**(15)**	**(118)**	**(133)**	(1)	(20)	(21)
6 months to 1 year	**(4)**	**(7)**	**(11)**	(1)	(1)	(2)
1 year to 2 years	**–**	**–**	**–**	–	(1)	(1)
2 years to 3 years	**–**	**–**	**–**	–	(1)	(1)
More than 3 years	**–**	**–**	**–**	–	(2)	(2)
Total	**(19)**	**(125)**	**(144)**	(2)	(25)	(27)

* For Standard & Poor's, Moody's and Fitch rated debt securities, those with ratings range from AAA to BBB- are designated as investment grade. For NAIC rated debt securities, those with ratings 1 or 2 are designated as investment grade.

Further, the following table shows the age analysis of the securities at 31 December 2020 whose fair values were below 80 per cent of the book value by reference to the length of time the securities have been in an unrealised loss position (31 December 2019: nil):

	31 Dec 2020 $m	
Age analysis	**Fair value**	**Unrealised loss**
Less than 3 months	**–**	**–**
3 months to 6 months	**51**	**(14)**
More than 6 months	**1**	**–**
Total below 80%	**52**	**(14)**

(d) Asset-backed securities

The Group's holdings in asset-backed securities (ABS) comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities.

The US operations' exposure to asset-backed securities comprises:

	31 Dec 2020 $m	**31 Dec 2019 $m**
RMBS		
Sub-prime (31 Dec 2020: 1% AAA)	**29**	93
Alt-A (31 Dec 2020: 30% AAA, 41% A)	**12**	116
Prime including agency (31 Dec 2020: 90% AAA, 1% AA, 5% A)	**224**	862
CMBS (31 Dec 2020: 87% AAA, 5% AA, 4% A)	**1,588**	3,080
CDO funds (31 Dec 2020: 78% AAA, 8% AA, 14% A), $nil exposure to sub-prime	**524**	696
Other ABS (31 Dec 2020: 14% AAA, 6% AA, 68% A), $27 million exposure to sub-prime	**856**	1,168
Total US asset-backed securities	**3,233**	6,015

(e) Group bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in bank debt securities are analysed below. The table excludes assets held to cover linked liabilities and those of the consolidated investment funds.

Exposure to bank debt securities

	31 Dec 2020 $m					31 Dec 2019 $m
	Senior debt	Subordinated debt			Group total	Group total
Shareholder-backed business	**Total**	**Tier 1**	**Tier 2**	**Total**		
Asia	**902**	**175**	**242**	**417**	**1,319**	993
Eurozone	**223**	**4**	**12**	**16**	**239**	337
United Kingdom	**360**	**6**	**79**	**85**	**445**	723
United States	**1,464**	**7**	**81**	**88**	**1,552**	3,134
Other	**189**	**2**	**41**	**43**	**232**	647
Total	**3,138**	**194**	**455**	**649**	**3,787**	5,834
With-profits funds						
Asia	**402**	**557**	**437**	**994**	**1,396**	1,130
Eurozone	**41**	**21**	**10**	**31**	**72**	131
United Kingdom	**198**	**11**	**106**	**117**	**315**	155
United States	**1,028**	**14**	**82**	**96**	**1,124**	34
Other	**186**	**8**	**204**	**212**	**398**	284
Total	**1,855**	**611**	**839**	**1,450**	**3,305**	1,734

C1.2 Additional analysis of US mortgage loans

In the US, mortgage loans of $7,833 million at 31 December 2020 (31 December 2019: $9,904 million) are all commercial mortgage loans that are secured by the following property types: industrial, multi-family residential, suburban office, retail or hotel. The average loan size is $18.5 million (31 December 2019: $19.3 million). The portfolio has a current estimated average loan to value of 54 per cent (31 December 2019: 54 per cent).

At 31 December 2020, Jackson had mortgage loans with a carrying value of $493 million (31 December 2019: nil) where the contractual terms of the agreements had been restructured to grant forbearance for a period of six to fourteen months. Under IAS 39, restructured loans are reviewed for impairment with an impairment recorded if the expected cash flows under the newly restructured terms discounted at the original yield (the pre-structured interest rate) are below the carrying value of the loan. No impairment is recorded for these loans in 2020 as the expected cash flows and interest rate did not materially change under the restructured terms.

C2 Fair value measurement

C2.1 Determination of fair value

The fair values of the financial instruments for which fair valuation is required under IFRS Standards are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third parties, such as brokers and pricing services or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's-length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third parties or valued internally using standard market practices.

Other than the loans which have been designated at fair value through profit or loss, the carrying value of loans and receivables is presented net of provisions for impairment. The fair value of loans is estimated from discounted cash flows expected to be received. The discount rate used is updated for the market rate of interest where applicable.

The fair value of the subordinated and senior debt issued by the Parent Company is determined using quoted prices from independent third parties.

The fair value of financial liabilities (other than subordinated debt, senior debt and derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

Valuation approach for level 2 fair valued assets and liabilities
A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using a designated independent pricing service or quote from third-party brokers. These valuations are subject to a number of monitoring controls, such as comparison to multiple pricing sources where available, monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in this note with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Valuation approach for level 3 fair valued assets and liabilities
Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity. The valuation techniques used include comparison to recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation.

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities, the Group makes use of the extensive expertise of its asset management functions. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

C2.2 Fair value measurement hierarchy of Group assets and liabilities

(i) Assets and liabilities carried at fair value on the statement of financial position

The table below shows the assets and liabilities carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for $34,650 million (31 December 2019: $58,302 million) of debt securities classified as available-for-sale, principally in the US operations. All assets and liabilities held at fair value are measured on a recurring basis. As of 31 December 2020, the Group did not have any financial instruments that are measured at fair value on a non-recurring basis.

Financial instruments at fair value

	31 Dec 2020 $m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs note (i)	Valuation based on significant unobservable market inputs note (ii)	Total
Loans	**–**	**416**	**3,461**	**3,877**
Equity securities and holdings in collective investment schemes	**272,863**	**5,224**	**548**	**278,635**
Debt securities	**75,998**	**49,769**	**62**	**125,829**
Other investments (including derivative assets)	**123**	**2,477**	**1,866**	**4,466**
Derivative liabilities	**(298)**	**(184)**	**–**	**(482)**
Total financial investments, net of derivative liabilities	**348,686**	**57,702**	**5,937**	**412,325**
Investment contract liabilities without discretionary participation features held at fair value	**–**	**(792)**	**–**	**(792)**
Net asset value attributable to unit holders of consolidated investment funds	**(5,464)**	**(17)**	**(494)**	**(5,975)**
Other financial liabilities held at fair value	**–**	**–**	**(3,589)**	**(3,589)**
Total financial instruments at fair value	**343,222**	**56,893**	**1,854**	**401,969**
Percentage of total (%)	**86%**	**14%**	**0%**	**100%**
Analysed by business type:				
Financial investments, net of derivative liabilities at fair value:				
With-profits	**78,203**	**11,481**	**395**	**90,079**
Unit-linked and variable annuity separate account	**244,206**	**1,075**	**–**	**245,281**
Non-linked shareholder-backed business	**26,277**	**45,146**	**5,542**	**76,965**
Total financial investments, net of derivative liabilities at fair value	**348,686**	**57,702**	**5,937**	**412,325**
Other financial liabilities at fair value	**(5,464)**	**(809)**	**(4,083)**	**(10,356)**
Group total financial instruments at fair value	**343,222**	**56,893**	**1,854**	**401,969**

	31 Dec 2019 $m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs note (i)	Valuation based on significant unobservable market inputs note (ii)	Total
Loans	–	–	3,587	3,587
Equity securities and holdings in collective investment schemes	243,285	3,720	276	247,281
Debt securities	67,927	66,637	6	134,570
Other investments (including derivative assets)	70	1,676	1,301	3,047
Derivative liabilities	(185)	(207)	–	(392)
Total financial investments, net of derivative liabilities	311,097	71,826	5,170	388,093
Investment contract liabilities without discretionary participation features held at fair value	–	(1,011)	–	(1,011)
Net asset value attributable to unit holders of consolidated investment funds	(5,973)	(23)	(2)	(5,998)
Other financial liabilities held at fair value	–	–	(3,760)	(3,760)
Total financial instruments at fair value	305,124	70,792	1,408	377,324
Percentage of total (%)	81%	19%	0%	100%
Analysed by business type:				
Financial investments, net of derivative liabilities at fair value:				
With-profits	66,061	7,762	260	74,083
Unit-linked and variable annuity separate account	217,838	1,486	–	219,324
Non-linked shareholder-backed business	27,198	62,578	4,910	94,686
Total financial investments, net of derivative liabilities at fair value	311,097	71,826	5,170	388,093
Other financial liabilities at fair value	(5,973)	(1,034)	(3,762)	(10,769)
Group total financial instruments at fair value	305,124	70,792	1,408	377,324

Notes

(i) Of the total level 2 debt securities of $49,769 million at 31 December 2020 (31 December 2019: $66,637 million), $7,676 million (31 December 2019: $8,915 million) are valued internally. The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(ii) At 31 December 2020, the Group held $1,854 million (31 December 2019: $1,408 million) of net financial instruments at fair value within level 3. This represents less than 1 per cent (2019: less than 1 per cent) of the total fair valued financial assets net of financial liabilities.

Included within these net assets and liabilities are policy loans of $3,455 million (31 December 2019: $3,587 million) measured as the loan outstanding balance, plus accrued investment income, attached to acquired REALIC business and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of $3,609 million (31 December 2019: $3,760 million) is also classified within level 3. The fair value of the liabilities is equal to the fair value of the underlying assets held as collateral, which primarily consist of policy loans and debt securities. The assets and liabilities offset and therefore their movements have no impact on shareholders' profit and equity.

Excluding the loans and funds withheld liability under Jackson's REALIC reinsurance arrangements as described above, which amounted to a net liability of $(154) million (31 December 2019: $(173) million), the level 3 fair valued financial assets net of financial liabilities were a net asset of $2,008 million (31 December 2019: $1,581 million). Of this amount, equity securities of $3 million (31 December 2019: nil) are internally valued, representing less than 0.2 per cent of the total fair valued financial assets net of financial liabilities. Internal valuations are inherently more subjective than external valuations. The $2,008 million referred to above includes the following items:

– Private equity investments in both equity securities and limited partnerships within other financial investments of $1,970 million (31 December 2019: $1,301 million) consisting of investments held by Jackson which are primarily externally valued in accordance with International Private Equity and Venture Capital Association guidelines using the proportion of the company's investment in each fund as shown in external valuation reports;
– Equity securities and holdings in collective investment schemes of $445 million (31 December 2019: $276 million) consisting primarily of property and infrastructure funds held by the Asia participating funds, which are externally valued using the net asset value of the invested entities;
– Liabilities of $(494) million (31 December 2019: $(2) million) for the net asset value attributable to external unit holders in respect of consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets; and
– Other sundry individual financial instruments of a net asset of $87 million (31 December 2019: net asset of $4 million).

Of the net assets of $2,008 million (31 December 2019: $1,581 million) referred to above:

– A net asset of $395 million (31 December 2019: $258 million) is held by the Group's Asia participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments; and
– A net asset of $1,613 million (31 December 2019: $1,323 million) is held to support non-linked shareholder-backed business, all of which are externally valued and are therefore inherently less subjective than internal valuations. These instruments consist primarily of private equity investments held by Jackson as described above. If the value of all these level 3 financial instruments decreased by 20 per cent, the change in valuation would be $(319) million (31 December 2019: $(264) million), which would reduce shareholders' equity by this amount before tax. All of this amount would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of adjusted operating profit.

C3 Policyholder liabilities and unallocated surplus

C3.1 Group overview

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Asia $m note C3.2	US $m note C3.3	Discontinued UK and Europe operations $m	Total $m
Balance at 1 Jan 2019[note (a)]	105,408	236,380	210,002	551,790
Comprising:[note (b)]				
– Policyholder liabilities on the consolidated statement of financial position (excludes $50 million classified as unallocated to a segment)	91,836	236,380	193,020	521,236
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,198	–	16,982	20,180
– Group's share of policyholder liabilities of joint ventures and associates[note (c)]	10,374	–	–	10,374
Removal of discontinued UK and Europe operations	–	–	(210,002)	(210,002)
Net flows:[note (d)]				
Premiums	20,094	20,976	–	41,070
Surrenders	(4,156)	(17,342)	–	(21,498)
Maturities/deaths/other claim events	(2,800)	(3,387)	–	(6,187)
Net flows	13,138	247	–	13,385
Shareholders' transfers post-tax	(99)	–	–	(99)
Investment-related items and other movements	12,824	32,922	–	45,746
Foreign exchange translation differences	1,299	–	–	1,299
Balance at 31 Dec 2019/1 Jan 2020	**132,570**	**269,549**	**–**	**402,119**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $186 million classified as unallocated to a segment)	**115,943**	**269,549**	**–**	**385,492**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**4,750**	**–**	**–**	**4,750**
– Group's share of policyholder liabilities of joint ventures and associates[note (c)]	**11,877**	**–**	**–**	**11,877**
Net flows:[note (d)]				
Premiums	**20,760**	**18,671**	**–**	**39,431**
Surrenders	**(4,730)**	**(15,832)**	**–**	**(20,562)**
Maturities/deaths/other claim events	**(2,565)**	**(3,708)**	**–**	**(6,273)**
Net flows	**13,465**	**(869)**	**–**	**12,596**
Shareholders' transfers post-tax	**(116)**	**–**	**–**	**(116)**
Investment-related items and other movements	**17,269**	**27,833**	**–**	**45,102**
Foreign exchange translation differences	**2,105**	**–**	**–**	**2,105**
Balance at 31 Dec 2020	**165,293**	**296,513**	**–**	**461,806**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $262 million classified as unallocated to a segment)	**144,471**	**296,513**	**–**	**440,984**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**5,217**	**–**	**–**	**5,217**
– Group's share of policyholder liabilities of joint ventures and associates[note (c)]	**15,605**	**–**	**–**	**15,605**
Average policyholder liability balances[note (e)]				
2020	**143,948**	**283,031**	**–**	**426,979**
2019	115,015	252,965	–	367,980

Notes

(a) The 1 January 2019 policyholder liabilities of the Asia insurance operations were after deducting the intra-group reinsurance liabilities ceded by the discontinued UK and Europe operations (M&G plc) to the Hong Kong with-profits business, which were recaptured in October 2019 upon demerger.

(b) The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year but exclude liabilities that have not been allocated to a reporting segment. The items above are shown gross of external reinsurance.

(c) Including net flows of the Group's insurance joint ventures and associates. The Group's investment in joint ventures and associates are accounted for on an equity method basis in the Group's statement of financial position. The Group's share of the policyholder liabilities as shown above relates to life businesses of the China JV, India and the Takaful business in Malaysia.

(d) The analysis includes the impact of movements in premiums, claims and investment-related items on policyholders' liabilities. The amount does not represent actual premiums, claims and investment movements in the year recognised in the income statement. For example, premiums shown above exclude any deductions for fees/charges; claims (surrenders, maturities, deaths and other claim events) shown above represent the release of technical provision for policyholder liabilities rather than the actual claims amount paid to the policyholder.

(e) Average policyholder liabilities have been based on opening and closing balances, adjusted for acquisitions, disposals and other relevant corporate transactions arising in the year, and exclude unallocated surplus of with-profits funds.

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Asia $m	US $m	Discontinued UK and Europe operations $m	Total $m
Balance at 1 Jan 2019	51,705	236,380	51,911	339,996
Removal of discontinued UK and Europe operations	–	–	(51,911)	(51,911)
Net flows:				
Premiums	10,372	20,976	–	31,348
Surrenders	(3,610)	(17,342)	–	(20,952)
Maturities/deaths/other claim events	(1,168)	(3,387)	–	(4,555)
Net flows[note]	5,594	247	–	5,841
Investment-related items and other movements	4,186	32,922	–	37,108
Foreign exchange translation differences	777	–	–	777
Balance at 31 Dec 2019/1 Jan 2020	**62,262**	**269,549**	**–**	**331,811**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position (excludes $186 million classified as unallocated to a segment)	**50,385**	**269,549**	**–**	**319,934**
- Group's share of policyholder liabilities relating to joint ventures and associates	**11,877**	**–**	**–**	**11,877**
Net flows:				
Premiums	**11,028**	**18,671**	**–**	**29,699**
Surrenders	**(3,933)**	**(15,832)**	**–**	**(19,765)**
Maturities/deaths/other claim events	**(970)**	**(3,708)**	**–**	**(4,678)**
Net flows[note]	**6,125**	**(869)**	**–**	**5,256**
Investment-related items and other movements	**9,143**	**27,833**	**–**	**36,976**
Foreign exchange translation differences	**1,353**	**–**	**–**	**1,353**
Balance at 31 Dec 2020	**78,883**	**296,513**	**–**	**375,396**
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position (excludes $262 million classified as unallocated to a segment)	**63,278**	**296,513**	**–**	**359,791**
- Group's share of policyholder liabilities relating to joint ventures and associates	**15,605**	**–**	**–**	**15,605**

Note

Including net flows of the Group's insurance joint ventures and associates.

(iii) Movement in insurance contract liabilities and unallocated surplus of with-profits funds

Further analysis of the movement in the year of the Group's gross contract liabilities, reinsurer's share of insurance contract liabilities and unallocated surplus of with-profits funds (excluding those held by joint ventures and associates) is provided below:

	Gross insurance contract liabilities $m note (e)	Reinsurer's share of insurance contract liabilities $m note (a),(e)	Investment contract liabilities $m note (b)	Unallocated surplus of with-profits funds $m
Balance at 1 Jan 2019	(410,947)	14,193	(110,339)	(20,180)
Removal of discontinued UK and Europe operations	87,824	(2,169)	105,196	16,982
Income and expense included in the income statement for continuing operations[note (c)]	(55,579)	1,795	(311)	(1,415)
Other movements[note (d)]	–	–	(63)	(112)
Foreign exchange translation differences	(1,441)	37	(18)	(25)
Balance at 31 Dec 2019/1 Jan 2020	**(380,143)**	**13,856**	**(5,535)**	**(4,750)**
Income and expense included in the income statement[note (c)]	**(55,034)**	**32,723**	**349**	**(438)**
Other movements[note (d)]	**-**	**-**	**765**	**-**
Foreign exchange translation differences	**(1,610)**	**16**	**(38)**	**(29)**
Balance at 31 Dec 2020	**(436,787)**	**46,595**	**(4,459)**	**(5,217)**

Notes

(a) Includes reinsurers' share of claims outstanding of $1,527 million (31 December 2019: $1,094 million). The increase in reinsurers' share of insurance contract liabilities in 2020 includes $27.3 billion in respect of the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd.

(b) This comprises investment contracts with discretionary participation features of $479 million at 31 December 2020 (31 December 2019: $633 million) and investment contracts without discretionary participation features of $3,980 million at 31 December 2020 (31 December 2019: $4,902 million).

(c) The total charge for benefits and claims in 2020 shown in the income statement comprises the amounts shown as 'Income and expense included in the income statement' in the table above of $(22,400) million (2019: $(55,510) million) together with claims paid of $(27,491) million (2019: $(29,585) million), net of amounts attributable to reinsurers of $1,686 million (2019: $1,190 million).

(d) Other movements include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the balance sheet in accordance with IAS 39. In 2019, the changes in the unallocated surplus of with-profits funds also resulted from the recapture of the intra-group reinsurance agreement between the discontinued UK and Europe operations and Asia insurance operations prior to the demerger, which was eliminated in the income statement.

(e) The movement in the gross contract liabilities and the reinsurer's share of insurance contract liabilities during 2020 includes the impact of a change to the calculation of the valuation interest rate (VIR) used to value long-term insurance liabilities in Hong Kong. The effect of the change to the VIR was such that the implicit duration of liabilities is reduced and closer to best estimate expectations. The change reduced policyholder liabilities (net of reinsurance) of the Hong Kong's shareholder-backed business at 31 December 2020 by $907 million. The resulting benefit is included within short-term fluctuations in investment returns.

C3.2 Asia insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

		Shareholder-backed business		
	With-profits business $m	**Unit-linked liabilities $m**	**Other business $m**	**Total $m**
Balance at 1 Jan 2019	53,703	25,704	26,001	105,408
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	50,505	20,846	20,485	91,836
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,198	–	–	3,198
– Group's share of policyholder liabilities relating to joint ventures and associates[note (a)]	–	4,858	5,516	10,374
Premiums				
New business	1,611	1,837	2,419	5,867
In-force	8,111	2,361	3,755	14,227
	9,722	4,198	6,174	20,094
Surrenders[note (b)]	(546)	(2,929)	(681)	(4,156)
Maturities/deaths/other claim events	(1,632)	(149)	(1,019)	(2,800)
Net flows	7,544	1,120	4,474	13,138
Shareholders' transfers post-tax	(99)	–	–	(99)
Investment-related items and other movements	8,638	1,663	2,523	12,824
Foreign exchange translation differences[note (d)]	522	363	414	1,299
Balance at 31 Dec 2019/1 Jan 2020	**70,308**	**28,850**	**33,412**	**132,570**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	**65,558**	**23,571**	**26,814**	**115,943**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**4,750**	**–**	**–**	**4,750**
– Group's share of policyholder liabilities relating to joint ventures and associates[note (a)]	**–**	**5,279**	**6,598**	**11,877**
Premiums				
New business	**1,338**	**1,851**	**2,063**	**5,252**
In-force	**8,393**	**2,358**	**4,757**	**15,508**
	9,731	**4,209**	**6,820**	**20,760**
Surrenders[note (b)]	**(797)**	**(2,982)**	**(951)**	**(4,730)**
Maturities/deaths/other claim events	**(1,595)**	**(196)**	**(774)**	**(2,565)**
Net flows	**7,339**	**1,031**	**5,095**	**13,465**
Shareholders' transfers post-tax	**(116)**	**–**	**–**	**(116)**
Investment-related items and other movements[note (c)]	**8,127**	**2,107**	**7,035**	**17,269**
Foreign exchange translation differences[note (d)]	**752**	**518**	**835**	**2,105**
Balance at 31 Dec 2020	**86,410**	**32,506**	**46,377**	**165,293**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	**81,193**	**25,433**	**37,845**	**144,471**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**5,217**	**–**	**–**	**5,217**
– Group's share of policyholder liabilities relating to joint ventures and associates[note (a)]	**–**	**7,073**	**8,532**	**15,605**
Average policyholder liability balances[note (e)]				
2020	**73,375**	**30,678**	**39,895**	**143,948**
2019	58,032	27,277	29,706	115,015

Notes

(a) The Group's investment in joint ventures and associates are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the life business of the China JV, India and the Takaful business in Malaysia.

(b) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening policyholder liabilities) is 6.3 per cent in 2020 (2019: 7.0 per cent).

(c) Investment-related items and other movements in 2020 primarily represents equity market gains as well as fixed income asset gains and lower discount rates due to falling interest rates.

(d) Movements in the year have been translated at the average exchange rates for the year ended 31 December 2020 and 2019. The closing balance has been translated at the closing spot rates as at 31 December 2020 and 2019. Differences upon retranslation are included in foreign exchange translation differences.

(e) Average policyholder liabilities have been based on opening and closing balances, adjusted for any acquisitions, disposals and other relevant corporate transactions arising in the year, and exclude unallocated surplus of with-profits funds.

(ii) Duration of policyholder liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis, taking account of expected future premiums and investment returns:

	31 Dec 2020 $m	31 Dec 2019 $m
Policyholder liabilities	**144,471**	115,943

Expected maturity:	31 Dec 2020 %	31 Dec 2019 %
0 to 5 years	**20**	18
5 to 10 years	**19**	18
10 to 15 years	**15**	15
15 to 20 years	**12**	13
20 to 25 years	**10**	11
Over 25 years	**24**	25

C3.3 US insurance operations

(i) Analysis of movements in policyholder liabilities

	Variable annuity separate account liabilities $m	General account and other business $m	Total $m
Balance at 1 Jan 2019	163,301	73,079	236,380
Premiums	12,776	8,200	20,976
Surrenders	(12,767)	(4,575)	(17,342)
Maturities/deaths/other claim events	(1,564)	(1,823)	(3,387)
Net flows[note (a)]	(1,555)	1,802	247
Transfers from general to separate account	951	(951)	–
Investment-related items and other movements[note (b)]	32,373	549	32,922
Balance at 31 Dec 2019/1 Jan 2020	**195,070**	**74,479**	**269,549**
Premiums	**14,990**	**3,681**	**18,671**
Surrenders	**(11,300)**	**(4,532)**	**(15,832)**
Maturities/deaths/other claim events	**(1,854)**	**(1,854)**	**(3,708)**
Net flows[note (a)]	**1,836**	**(2,705)**	**(869)**
Transfers from separate to general account	**(2,190)**	**2,190**	**–**
Investment-related items and other movements[note (b)]	**24,346**	**3,487**	**27,833**
Balance at 31 Dec 2020	**219,062**	**77,451**	**296,513**
Average policyholder liability balances[note (c)]			
2020	**207,066**	**75,965**	**283,031**
2019	179,186	73,779	252,965

Notes

(a) Net outflows in 2020 were $(869) million (2019 inflows: $247 million) with surrenders and withdrawals from general account and other business exceeding new inflows on this business given lower volumes of institutional and fixed and fixed-index annuities sales in the year, partially offset by net inflows into the variable annuity separate accounts. This is discussed further in the Group Chief Financial Officer and Chief Operating Officer's report.

(b) Positive investment-related items and other movements in variable annuity separate account liabilities of $24,346 million for 2020 largely represent positive separate account return following the increase in the US equity market growth in the year and asset gains arising from declining bond yields.

(c) Average policyholder liabilities have been based on opening and closing balances, adjusted for any acquisitions, disposals and other corporate transactions arising in the year. Included within the policyholder liabilities for the general account and other business of $77,451 million at 31 December 2020 are $27.3 billion in respect of the reinsured Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

(ii) Duration of policyholder liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis at the balance sheet date:

	31 Dec 2020			31 Dec 2019		
	Variable annuity separate account liabilities $m	General account and other business $m	Total $m	Variable annuity separate account liabilities $m	General account and other business $m	Total $m
Policyholder liabilities	**219,062**	**77,451**	**296,513**	195,070	74,479	269,549
Expected maturity:	%	%	%	%	%	%
0 to 5 years	**39**	**36**	**39**	41	45	42
5 to 10 years	**27**	**22**	**26**	27	27	27
10 to 15 years	**16**	**17**	**16**	16	13	15
15 to 20 years	**9**	**11**	**10**	9	8	9
20 to 25 years	**5**	**6**	**5**	4	4	4
Over 25 years	**4**	**8**	**4**	3	3	3

C4 Intangible assets

C4.1 Goodwill

Goodwill shown on the consolidated statement of financial position represents amounts attributable to shareholders and are allocated to businesses in Asia and Africa in respect of both acquired asset management and life businesses. There has been no impairment as at 31 December 2020 and 2019.

	2020 $m	2019 $m
Carrying value at 1 Jan	**969**	2,365
Removal of discontinued UK and Europe operations	**–**	(1,731)
Additions in the year	**–**	299
Exchange differences	**(8)**	36
Carrying value at 31 Dec	**961**	969

C4.2 Deferred acquisition costs and other intangible assets

	31 Dec 2020 $m	31 Dec 2019 $m
DAC and other intangible assets attributable to shareholders	**20,275**	17,409
Other intangible assets, including computer software, attributable to with-profits funds	**70**	67
Total of DAC and other intangible assets	**20,345**	17,476

The DAC and other intangible assets attributable to shareholders comprise:

	31 Dec 2020 $m	31 Dec 2019 $m
DAC related to insurance contracts as classified under IFRS 4	**16,182**	14,206
DAC related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**34**	33
DAC related to insurance and investment contracts	**16,216**	14,239
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	**34**	38
Distribution rights and other intangibles	**4,025**	3,132
Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders	**4,059**	3,170
Total of DAC and other intangible assets[note (a)]	**20,275**	17,409

Notes

(a) Total DAC and other intangible assets attributable to shareholders can be further analysed by business operations as follows:

	2020 $m				2019 $m
	DAC				
	Asia	US* note (b)	PVIF and other intangibles†	Total	Total
Balance at 1 Jan	**1,999**	**12,240**	**3,170**	**17,409**	15,008
Removal of discontinued UK and Europe operations	**–**	**–**	**–**	**–**	(143)
Additions‡	**617**	**740**	**1,114**	**2,471**	2,601
Amortisation to the income statement:[note (c)]					
Adjusted operating profit	**(308)**	**(423)**	**(220)**	**(951)**	(792)
Non-operating profit (loss)**	**–**	**812**	**(5)**	**807**	1,243
	(308)	**389**	**(225)**	**(144)**	451
Disposals and transfers	**–**	**–**	**(12)**	**(12)**	(11)
Exchange differences and other movements	**45**	**–**	**12**	**57**	134
Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income	**–**	**494**	**–**	**494**	(631)
Balance at 31 Dec	**2,353**	**13,863**	**4,059**	**20,275**	17,409

* Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby DAC are amortised in line with the emergence of actual and expected gross profits which are determined using an assumption for long-term investment returns for the separate account of 7.15 per cent (2019: 7.4 per cent) gross of asset management fees and other charges to policyholders, but net of external fund management fees. The other assumptions impacting expected gross profits include mortality assumptions, lapses, assumed unit costs and future hedge costs. The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and short-term investment fluctuations in investment returns of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items. The gain of $389 million in 2020 in the US operations includes $(764) million for the write-off of the DAC in respect of the reinsured Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd. The US DAC amortisation charge within adjusted operating profit of $(423) million increased from the 2019 corresponding amount of $(297) million largely as a result of changes to the longer-term economic assumptions underpinning the amortisation calculation following an expectation of lower interest rates in the future, partially offset by the benefits of increases in DAC amortisation deceleration in the year described in note (c) below.

** 'Non-operating profit (loss)' is used to refer to items excluded from adjusted operating profit and includes short-term investment fluctuations in investment returns on shareholder-backed business, corporate transactions and amortisation of acquisition accounting adjustments.

† PVIF and other intangibles comprise present value of acquired in-force (PVIF), distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time. Software rights include additions of $54 million, amortisation of $(34) million, disposals of $(6) million, foreign exchange of $3 million and closing balance at 31 December 2020 of $102 million (31 December 2019: $85 million).

‡ On 19 March 2020, the Group signed a new bancassurance agreement with TMB Bank for a period of 15 years. This extended exclusive partnership agreement required the novation of TMB Bank's current bancassurance distribution agreement with another insurance group. The agreement cost Thai Baht 24.5 billion, which were paid in two instalments with Thai Baht 12.0 billion paid in April 2020 and the remainder in January 2021. The amount included in additions in the table above is $788 million.

(b) The DAC amount in respect of US arises in the insurance operations which comprises the following amounts:

	31 Dec 2020 $m	31 Dec 2019 $m
Variable annuity and other business	**14,064**	12,935
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)*	**(201)**	(695)
Total DAC for US operations	**13,863**	12,240

* A net gain of $494 million (2019: a net loss of $(631) million) for shadow DAC amortisation is booked within other comprehensive income to reflect a reduction in shadow DAC of $535 million as a result of the reinsurance of substantially all of Jackson's fixed and fixed index annuity business to Athene Life offset by the impact from the positive unrealised valuation movement for 2020 of $2,717 million (2019: positive unrealised valuation movement of $4,023 million). These adjustments reflect the movement from year to year, in the changes to the pattern of reported gross profits that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market.

(c) Sensitivity of US DAC amortisation charge

The amortisation charge to the income statement in respect of the US DAC asset is reflected in both adjusted operating profit and short-term fluctuations in investment returns. The amortisation charge to adjusted operating profit in a reporting period generally comprises:

– A core amount that reflects a relatively stable proportion of underlying premiums or profit; and

– An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor features of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect. It is currently estimated that DAC amortisation will accelerate (decelerate) by $17 million for every 1 per cent under (over) the mean reversion rate (set using the calculation described below to give an average over an 8-year period of 7.15 per cent (2019: 7.4 per cent)) the actual separate account growth rate differs by.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In 2020, the DAC amortisation charge for adjusted operating profit was determined after including a credit for decelerated amortisation of $330 million (2019: credit for deceleration: $280 million). DAC amortisation for variable annuities is sensitive to separate account performance. The deceleration arising in 2020 reflected a mechanical decrease in the projected separate account return for the next five years under the mean-reversion technique. Under this technique, the projected level of return for each of the next five years is adjusted so that in combination with the actual rates of return for the preceding three years (including the current year) the assumed long-term annual separate account return of 7.15 per cent is realised on average over the entire eight-year period.

The application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. At 31 December 2020, it would take approximate movements in separate account values of more than either negative 40 per cent or positive 19 per cent for mean reversion assumption to move outside the corridor.

Changes to the assumed long-term separate account return will also impact the calculation of the DAC balance and could increase or decrease the DAC amortisation charge in a given period. If the assumption for the long-term separate account investment returns (net of external fund management fees) was reduced by 0.5 per cent from 7.15 per cent to 6.65 per cent at 31 December 2020, the 2020 amortisation charge for adjusted operating profit would have increased by around $70 million with a corresponding reduction in the DAC balance at 31 December 2020. In addition, pre-tax short-term fluctuations in investment returns would reduce by circa $64 million following changes to the policyholder liabilities valued using longer-term equity assumptions under SOP03-1, resulting in a total impact on profit before tax of $134 million.

C5 Borrowings

C5.1 Core structural borrowings of shareholder-financed businesses

	31 Dec 2020 $m	31 Dec 2019 $m
Central operations:		
Subordinated debt:		
US$250m 6.75% Notes[note (i)]	**250**	250
US$300m 6.5% Notes[note (i)]	**300**	300
US$700m 5.25% Notes	**700**	700
US$1,000m 5.25% Notes	**999**	996
US$725m 4.375% Notes	**723**	721
US$750m 4.875% Notes	**746**	744
€20m Medium Term Notes 2023	**24**	22
£435m 6.125% Notes 2031	**590**	571
Senior debt:[note (ii)]		
£300m 6.875% Notes 2023	**406**	392
£250m 5.875% Notes 2029	**312**	298
$1,000m 3.125% Notes 2030[note (iii)]	**983**	–
$350m Loan 2024[note (iv)]	**350**	350
Total central operations	**6,383**	5,344
Jackson US$250m 8.15% Surplus Notes 2027[note (v)]	**250**	250
Total core structural borrowings of shareholder-financed businesses	**6,633**	5,594

Notes

(i) These borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date, into one or more series of Prudential preference shares.

(ii) The senior debt ranks above subordinated debt in the event of liquidation.

(iii) In April 2020, the Company issued $1,000 million 3.125 per cent senior debt maturing on 14 April 2030 with proceeds, net of costs of $983 million.

(iv) In November 2020, the $350 million term loan was settled, and the Group entered into a replacement $350 million term loan facility at a cost of daily compounded Secured Overnight Financing Rate (SOFR) plus 59 basis points. The new term loan matures in 2024.

(v) Jackson's borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

C5.2 Operational borrowings

	31 Dec 2020 $m	31 Dec 2019 $m
Borrowings in respect of short-term fixed income securities programmes – commercial paper	**501**	520
Lease liabilities under IFRS 16	**302**	371
Non-recourse borrowings of consolidated investment funds[note (a)]	**994**	1,045
Bank loans and overdrafts	**–**	29
Other borrowings[note (b)]	**453**	377
Operational borrowings attributable to shareholder-financed businesses	**2,250**	2,342
Lease liabilities under IFRS 16	**194**	259
Other borrowings	**–**	44
Operational borrowings attributable to with-profits businesses	**194**	303
Total operational borrowings	**2,444**	2,645

Notes

(a) In all instances, the holders of the debt instruments issued by consolidated investment funds do not have recourse beyond the assets of those funds.

(b) Other borrowings attributable to shareholder-financed business mainly represent senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

C6 Risk and sensitivity analysis

C6.1 Group overview

The Group's risk framework and the management of risks, including those attached to the Group's financial statements including financial assets, financial liabilities and insurance liabilities, together with the inter-relationship with the management of capital, have been included in the Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed.

The financial and insurance assets and liabilities on the Group's statement of financial position are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks and also ESG-related risks, including how they affect Group's operations and how these are managed are discussed in the Risk report referred to above. The ESG-related risks discussed in the Risk report include in particular the potential long-term impact of environmental risks associated with climate change (including physical and transition risks) on the Group's investments.

The most significant items that the IFRS shareholders' profit or loss and shareholders' equity for the Group's life assurance business are sensitive to, are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

Type of business	Market and credit risk	Insurance and lapse risk
Asia insurance operations		
All business		Mortality and/or morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure to investment performance, which is subject to smoothing through declared bonuses)	
Unit-linked business	Net neutral direct exposure (indirect exposure to investment performance, through asset management fees)	
Non-participating business	Asset/liability mismatch risk which results in sensitivity to interest rates and credit spreads, particularly for operations where the insurance liability basis is sensitive to current market movements Indirect exposure to investment performance through policyholder charges and guarantees in some cases	
US insurance operations		
All business	Asset/liability mismatch risk Adjusted operating profit is sensitive to market conditions, both with respect to income earned on spread-based products and indirectly with respect to income earned on variable annuity asset management fees.	Mortality risk
Variable annuity business	Net effect of market risk (equity and interest rates) arising from incidence of guarantee features and variability of asset management fees, offset by derivative hedging programme*	Persistency and utilisation risk (risk that utilisation of withdrawal benefits or lapse levels differ from those assumed)
General account business	Credit risk and market risk (equity and interest rate) in meeting guaranteed rates of accumulation on general account annuity and interest sensitive life products which may lead to smaller spread profits, being the difference between the earned rate and the policyholder crediting rate. As at 1 June 2020, the risk has been substantially transferred for the fixed and fixed index annuity products as part of the reinsurance transaction with Athene described in note D1.1. Shareholders' equity is impacted by interest rate and credit risk via impairments and unrealised gains/losses on fixed income securities. For those instruments classified as available-for-sale under IAS 39, unrealised gains/losses do not directly impact profit, unless they are considered permanent reductions in value.	Persistency risk, mitigated in some cases by the application of market value adjustments

* Jackson's derivative programme, is used to manage the economic interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, equity volatility, interest rates and credit spreads materially affect the carrying value of derivatives that are used to manage the liabilities to policyholders and backing investment assets. Movements in the carrying value of derivatives combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities, which is largely insensitive to current year market movements, mean that the Jackson total profit (ie including short-term fluctuations in investment returns) is sensitive to market movements.

The profit for the year of asset management operations is sensitive to the level of assets under management, as this significantly affects the value of management fees earned by the business in the current and future periods. Assets under management will rise and fall as market conditions change, with a consequential impact on profitability. Other than this, there is limited sensitivity to market risks since the Group's asset management and other operations do not hold significant financial investments. At 31 December 2020, the financial investments of the other operations are principally short-term investments held by the Group's treasury function for liquidity purposes and so there is limited sensitivity to interest rate movements.

Sensitivity analyses of IFRS shareholders' equity to key market and other risks by business unit are provided below. The sensitivity analyses provided show the effect on shareholders' equity to changes in the relevant risk variables, all of which are considered to be reasonably possible at the relevant balance sheet date.

The sensitivities reflect all consequential impacts from market movements at the valuation date. The sensitivities below only allow for limited management actions such as changes to policyholder bonuses, where applicable. If the economic conditions set out in the sensitivities persisted, the financial impacts may differ to the instantaneous impacts. Given the continuous risk management processes in place, management could take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

Other limitations of the sensitivities include: the use of hypothetical market movements that cannot be predicted with any certainty to demonstrate potential risk, which only represent Prudential's view of reasonably possible near-term market changes; the assumption that interest rates in all countries move identically; and the lack of consideration of the inter-relation of interest rates, equity markets and foreign currency exchange rates.

The Group benefits from diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. These benefits are not reflected in the simplified sensitivities below. Relevant correlation factors include:

– Correlation across geographic regions for both financial and non-financial risk factors; and
– Correlation across risk factors for longevity risk, expenses, persistency and other risks.

The geographical diversity of the Group's business means that it has some exposure to the risk of foreign exchange rate fluctuations. The Group has no exposure to currency fluctuation from business units that operate in USD, or currencies pegged to the USD (such as HKD), and reduced exposure to currencies partially managed to the USD within a basket of currencies (such as SGD). Sensitivities to exchange rate movements in the Group's key markets are therefore expected to be limited.

C6.2 Sensitivity to interest rate risk

The sensitivities shown below are for movements in risk-free rates (based on local government bond yields at the valuation date) in isolation and are subject to a floor of zero. They do not include movements in credit risk that may affect credit spreads and hence the valuation of debt securities and policyholder liabilities. A one-letter credit downgrade in isolation (ie ignoring any consequential change in valuation) would not have a material impact on IFRS profit or shareholders' equity.

To reflect the substantial fall and current level of low interest rates in 2020, the estimated sensitivity to a decrease in interest rates at 31 December 2020 has been updated to a decrease of 0.5 per cent. This compares to a 1 per cent change at 31 December 2019. The estimated sensitivity to a decrease and increase in interest rates at 31 December 2020 is as follows:

31 December 2020	**Asia insurance $m**		**US insurance $m**	
	Decrease of 0.5%	**Increase of 1%**	**Decrease of 0.5%**	**Increase of 1%**
Net effect on shareholders' equity*	**(1,274)**	**(318)**	**(594)**	**(68)**

* The effect from the instantaneous changes in interest rates above, if they arose, would impact profit after tax for Asia insurance operations and would mostly be recorded within short-term fluctuations in investment returns. The impact on profit after tax would be the same as the net effect on shareholders' equity. For US insurance operations, the instantaneous changes in interest rates above, if they arose, would cause the net effect on equity shown above through two constituent movements. Firstly, profit after tax, net of related changes in the amortisation of DAC, would be impacted (decrease of 0.5 per cent: $(1,319) million; increase of 1 per cent: $1,976 million), and would mostly be recorded within short-term fluctuations in investment returns. Secondly, the effect would also impact other comprehensive income (decrease of 0.5 per cent: $725 million; increase of 1 per cent: $(2,044) million) in respect of the direct effect on the carrying value of the available-for-sale debt securities, net of related changes in the amortisation of DAC and related tax effects.

The estimated sensitivity to a decrease and increase in interest rates at 31 December 2019 was as follows:

31 December 2019	**Asia insurance $m**		**US insurance $m**	
	Decrease of 1%	**Increase of 1%**	**Decrease of 1%**	**Increase of 1%**
Net effect on shareholders' equity*	(702)	(718)	20	(553)

* The effect from the instantaneous changes in interest rates above, if they arose, would impact profit after tax for Asia insurance operations and would mostly be recorded within short-term fluctuations in investment returns. The impact on profit after tax would be the same as the net effect on shareholders' equity. For US insurance operations, the instantaneous changes in interest rates above, if they arose, would cause the net effect on equity shown above through two constituent movements. Firstly, profit after tax, net of related changes in the amortisation of DAC, would be impacted (decrease of 1 per cent: $(2,224) million; increase of 1 per cent: $1,691 million), and would mostly be recorded within short-term fluctuations in investment returns. Secondly, the effect would also impact other comprehensive income (decrease of 1 per cent: $2,244 million; increase of 1 per cent: $(2,244) million) in respect of the direct effect on the carrying value of the available-for-sale debt securities, net of related changes in the amortisation of DAC and related tax effects.

Asia insurance operations

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from year to year. This varies by local business unit.

For example:

– Certain Asia businesses apply US GAAP, for which the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements;
– The level of options and guarantees in the products written in the particular business unit will also affect the degree of sensitivity to interest rate movements; and
– The degree of sensitivity of the results is dependent on the interest rate level at that point of time.

The sensitivity of the Asia operations presented as a whole at a given point in time will also be affected by a change in the relative size of the individual businesses.

For many operations the sensitivities are dominated by the impact of interest rate movements on the value of government and corporate bond investments, which are expected to increase in value as interest rates fall to a greater extent than the offsetting increase in liabilities (and vice versa if rates rise). This arises because the discount rate in some operations does not fluctuate in line with interest rate movements. At higher levels of interest rates the liabilities become less sensitive to interest rate movements and the effects on assets becomes more dominant. This pattern is evident in the 'increase of 1 per cent' sensitivity at 31 December 2020.

The 'decrease of 0.5%' sensitivities reflects that some local business units' liabilities become more sensitive at lower interest rates and the fluctuations in liabilities begin to exceed asset gains. The liability movements also reflect the prudent nature of some of the regulatory regimes which leads to duration of liabilities that are longer than would be expected on a more economic basis and hence results in a mismatch with the assets that are managed on a more realistic basis. Following the substantial fall in interest rates over 2020, at 31 December 2020, the 'decrease of 0.5 per cent' sensitivity is dominated by the impact of interest rate movements on some local business units' policyholder liabilities, which are expected to increase more than the offsetting increase in the value of government and corporate bond investments, if interest rates were to fall further from the historically low levels seen at 31 December 2020. As noted above, the results only allow for limited management actions, and if such economic conditions persisted management could take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, increased use of reinsurance, changes to new business pricing and the mix of new business being sold.

US insurance operations
The GMWB features attached to variable annuity business (other than 'for life' components) are accounted for under US GAAP at fair value and, therefore, will be sensitive to changes in interest rates. Debt securities and related derivatives are marked to fair value. Value movements on derivatives, net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income.

As at 1 June 2020, the interest rate risks relating to Jackson's fixed and fixed index annuity products have been substantially transferred as part of the reinsurance transaction with Athene described in note D1.1, leaving only a limited exposure from residual policies and new policies written post 1 June 2020. Jackson is exposed primarily to the following interest rate risks:

- Related to meeting guaranteed rates of accumulation on general account annuity and interest sensitive life products following a sustained fall in interest rates;
- Related to increases in the present value of projected benefits related to guarantees issued in connection with its variable annuity contracts following a sustained fall in interest rates especially if in conjunction with a fall in equity markets;
- Related to the surrender value guarantee features attached to the Company's general account annuity and interest sensitive life products and to policyholder withdrawals following a sharp and sustained increase in interest rates; and
- The risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk and extension risk inherent in mortgage-backed securities.

A prolonged low interest rate environment may result in a lengthening of maturities of the general account annuity and interest-sensitive life contract holder liabilities from initial estimates, primarily due to lower policy lapses. As interest rates remain at low levels, Jackson may also have to reinvest the cash it receives as interest or proceeds from investments that have matured or that have been sold at lower yields, reducing its investment margins. Moreover, borrowers may prepay or redeem the securities in their investment portfolios with greater frequency in order to borrow at lower market rates, which exacerbates this risk. The majority of Jackson's general account business was designed with contractual provisions that allow crediting rates to be re-set annually, subject to minimum crediting rate guarantees.

The sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors. Jackson's hedging programme is primarily focused on managing the economic risks in the business and protecting statutory solvency under larger market movements, and does not explicitly aim to hedge the IFRS accounting results. The magnitude of the impact of the sensitivities on profit after tax at 31 December 2020 is larger than the impact at 31 December 2019, reflecting the liabilities being more sensitive to further interest rate movements at the current low interest rate levels (after taking into account the impact of interest rate movements on derivatives). In determining the value of liabilities, assumed future separate account return is based on risk-free rates under grandfathered US GAAP. The reduction in the magnitude of the impact of the sensitivities on other comprehensive income, and hence shareholders' equity, reflects the impact of the Athene reinsurance transaction described in note D1.1 on the profile of Jackson's general account liabilities and the consequential reduction in available-for-sale debt securities.

C6.3 Sensitivity to equity and property price risk

In the equity risk sensitivity analysis shown, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a longer period of time, during which the hedge positions within Jackson, where the underlying equity risk is greatest, would be rebalanced. The equity risk sensitivity analysis provided assumes that all equity indices fall by the same percentage.

Asia insurance operations

The estimated sensitivity to a 10 per cent increase and 20 per cent decrease in equity and property prices is as follows:

	31 Dec 2020 $m		31 Dec 2019 $m	
	Decrease of 20%	**Increase of 10%**	**Decrease of 20%**	**Increase of 10%**
Net effect on shareholders' equity*	**(848)**	**410**	(816)	408

* The effect from the instantaneous changes in equity and property prices above, if they arose, would impact profit after tax for Asia insurance operations, which would mostly be recorded within short-term fluctuations in investment returns.

Generally, changes in equity and property investment values are not directly offset by movements in non-linked policyholder liabilities. Movements in equities backing with-profits and unit-linked business have been excluded as they are generally matched by an equal movement in insurance liabilities (including unallocated surplus of with-profits funds). The impact on changes to future profitability as a result of changes to the asset values within unit-linked or with-profits funds have not been included in the instantaneous sensitivity above. The estimated sensitivities shown above include equity and property investments held by the Group's joint venture and associate businesses.

US insurance operations

At December 31, 2020 and 2019, the Company provided variable annuity contracts with guarantees, for which the net amount at risk ("NAR") is defined as the amount of guaranteed benefit in excess of current account value, as follows (dollars in millions):

	31 Dec 2020 $m		31 Dec 2019 $m	
	Account value	**Net amount at risk**	**Account value**	**Net amount at risk**
Return of net deposits plus a minimum return				
GMDB	**170,510**	**2,340**	150,576	2,477
GMWB – premium only	**2,858**	**12**	2,753	16
GMWB	**248**	**11**	257	14
GMAB – premium only	**39**	**–**	37	–
Highest specified anniversary account value minus withdrawals post-anniversary			–	–
GMDB	**13,512**	**86**	12,547	69
GMWB – highest anniversary only	**3,459**	**41**	3,232	51
GMWB	**646**	**55**	698	52
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary			–	–
GMDB	**8,891**	**615**	8,159	687
GMIB	**1,675**	**556**	1,688	616
GMWB	**159,857**	**5,656**	140,529	7,160

* Ranges shown based on simple interest. The upper limits of 5% or 8% simple interest are approximately equal to 4.1% and 6%, respectively, on a compound interest basis over a typical 10-year bonus period. The combination GMWB category also includes benefits with a defined increase in the withdrawal percentage under pre-defined non-market conditions.

Jackson is primarily exposed to equity risk through the guarantees included in certain variable annuity benefits. This risk is managed using an equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels. Jackson purchases futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling guaranteed benefit fees.

Due to the nature of valuation under IFRS of the free-standing derivatives and certain of the variable annuity guarantee features, this hedge, while effective on an economic basis, would not automatically offset within the financial statements as the impact of equity market movements resets the free-standing derivatives immediately while the hedged liabilities reset more slowly and fees are recognised prospectively in the year in which they are earned. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency in the circumstances of large market movements. The hedging programme does not aim to hedge IFRS accounting results, which can lead to volatility in the IFRS results in a period of significant market movements, as was seen in 2020.

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

The estimated sensitivity to a 10 per cent increase and 20 per cent decrease in equity and property prices is shown below.

	31 Dec 2020 $m		31 Dec 2019 $m	
	Decrease of 20%	**Increase of 10%**	**Decrease of 20%**	**Increase of 10%**
Net effect on shareholders' equity*	**744**	**299**	762	608

* The effect from the instantaneous changes in equity and property prices above, if they arose, would impact profit after tax for US insurance operations, which would mostly be recorded within short-term fluctuations in investment returns.

The table above excludes the impact of instantaneous equity movements on future separate account fee income.

The above sensitivities assume instantaneous market movements while the actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2020 and 2019 respectively. The nature of Jackson's dynamic hedging programme means that the portfolio, and hence the results of these sensitivities, will change on an ongoing basis. The impacts shown under an increase or a decrease in equity markets reflect the factors discussed above.

Jackson had variable annuity contracts with guarantees. Account balances of contracts with guarantees were invested in variable separate accounts as follows:

Mutual fund type:	**31 Dec 2020 $m**	**31 Dec 2019 $m**
Equity	**132,213**	121,520
Bond	**20,203**	19,341
Balanced	**39,626**	30,308
Money market	**1,862**	956
Total	**193,904**	172,125

C6.4 Sensitivity to insurance risk

Asia insurance operations
In Asia, adverse persistency experience can impact the IFRS profitability of certain types of business written in the region. This risk is managed at a local business unit level through regular monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection, as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, eg surrender charges, or through the availability of premium holiday or partial withdrawal policy features. The reserving basis in Asia is generally such that a change in lapse assumptions has an immaterial effect on immediate profitability.

Many of the business units in Asia are exposed to mortality and morbidity risk and a provision is made within policyholder liabilities to cover the potential exposure. If all these assumptions were strengthened by 5 per cent then it is estimated that post-tax profit and shareholders' equity would decrease by approximately $77 million (2019: $77 million). Weakening these assumptions by 5 per cent would have a similar opposite impact.

US insurance operations
Jackson is sensitive to mortality risk, lapse risk and other types of policyholder behaviour, such as the utilisation of its GMWB product features. Jackson's persistency assumptions reflect a combination of recent experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. These assumptions vary by relevant factors, such as product, policy duration, attained age and for variable annuity lapse assumptions, the extent to which guaranteed benefits are 'in the money' relative to policy account values. Changes in these assumptions, which are assessed on an annual basis after considering recent experience, could have a material impact on policyholder liabilities and therefore on profit before tax. Any changes in these assumptions are recorded within short-term fluctuations in investment returns in the Group's supplementary analysis of profit (see note B1.2).

In addition, in the absence of hedging, equity and interest rate movements can both cause a direct loss or increase the future sensitivity to policyholder behaviour. Jackson has an extensive derivative programme that seeks to manage the exposure to such altered equity markets and interest rates.

The amount of amortisation charged in any one period is sensitive to separate account investment returns. The sensitivity of DAC amortisation charge is discussed in note C4.2.

C7 Tax assets and liabilities

C7.1 Current tax

At 31 December 2020, of the $444 million (31 December 2019: $492 million) current tax recoverable, the majority is expected to be recovered more than 12 months after the reporting period.

At 31 December 2020, the current tax liability of $280 million (31 December 2019: $396 million) includes $113 million (31 December 2019: $198 million) of provisions for uncertain tax matters. Further detail is provided in note B3.2.

C7.2 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	2020 $m				
	Balance at 1 Jan	**Movement in income statement**	**Movement through other comprehensive income and equity**	**Other movements including foreign currency movements**	**Balance at 31 Dec**
Deferred tax assets					
Unrealised losses or gains on investments	**–**	**–**	**–**	**–**	**–**
Balances relating to investment and insurance contracts	**32**	**55**	**–**	**–**	**87**
Short-term temporary differences	**3,889**	**765**	**–**	**8**	**4,662**
Unused tax losses	**154**	**(50)**	**–**	**5**	**109**
Total	**4,075**	**770**	**–**	**13**	**4,858**
Deferred tax liabilities					
Unrealised losses or gains on investments	**(877)**	**(78)**	**(102)**	**(6)**	**(1,063)**
Balances relating to investment and insurance contracts	**(1,507)**	**(235)**	**–**	**(23)**	**(1,765)**
Short-term temporary differences	**(2,853)**	**(377)**	**–**	**(17)**	**(3,247)**
Total	**(5,237)**	**(690)**	**(102)**	**(46)**	**(6,075)**

	2019 $m					
	Balance at 1 Jan	**Demerger of UK and Europe operations**	**Movement in income statement**	**Movement through other comprehensive income and equity**	**Other movements including foreign currency movements**	**Balance at 31 Dec**
Deferred tax assets						
Unrealised losses or gains on investments	144	–	(16)	–	(128)	–
Balances relating to investment and insurance contracts	1	–	60	–	(29)	32
Short-term temporary differences	2,998	(160)	1,066	(15)	–	3,889
Unused tax losses	162	–	8	–	(16)	154
Total	3,305	(160)	1,118	(15)	(173)	4,075
Deferred tax liabilities						
Unrealised losses or gains on investments	(1,104)	1,053	(231)	(713)	118	(877)
Balances relating to investment and insurance contracts	(1,276)	–	(246)	–	15	(1,507)
Short-term temporary differences	(2,742)	298	(414)	19	(14)	(2,853)
Total	(5,122)	1,351	(891)	(694)	119	(5,237)

C8 Share capital, share premium and own shares

Issued shares of 5p each fully paid	2020 Number of ordinary shares	2020 Share capital $m	2020 Share premium $m	2019 Number of ordinary shares	2019 Share capital $m	2019 Share premium $m
Balance at 1 Jan	**2,601,159,949**	**172**	**2,625**	2,593,044,409	166	2,502
Shares issued under share-based schemes	**8,329,753**	**1**	**12**	8,115,540	–	22
Impact of change in presentation currency	**–**	**–**	**–**	–	6	101
Balance at 31 Dec	**2,609,489,702**	**173**	**2,637**	2,601,159,949	172	2,625

Options outstanding under save as you earn schemes to subscribe for shares at each year end shown below are as follows:

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
31 Dec 2020	**2,320,320**	**964p**	**1,455p**	**2026**
31 Dec 2019	3,805,447	1,104p	1,455p	2025

Transactions by Prudential plc and its subsidiaries in Prudential plc shares
The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or, up until the demerger of its UK and Europe operations (M&G plc) in October 2019, via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of $243 million at 31 December 2020 (31 December 2019: $183 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2020, 11.2 million (31 December 2019: 8.4 million) Prudential plc shares with a market value of $205 million (31 December 2019: $161 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the year was 11.5 million which was in June 2020.

Within the trusts, shares are notionally allocated by business unit reflecting the employees to which the awards were made.

The Company purchased the following number of shares in respect of employee incentive plans:

	2020 Number of shares	2020 Share price Low £	2020 Share price High £	2020 Cost* $	2019 Number of shares	2019 Share price Low £	2019 Share price High £	2019 Cost* $
January	**62,395**	**14.42**	**14.68**	**1,195,275**	75,165	14.25	14.29	1,384,926
February	**62,680**	**14.57**	**14.60**	**1,183,717**	71,044	15.00	15.18	1,390,865
March	**79,057**	**11.18**	**11.40**	**1,110,374**	68,497	15.20	16.32	1,385,182
April	**5,363,563**	**10.21**	**10.48**	**68,010,967**	2,638,429	15.65	16.73	54,052,710
May	**81,377**	**11.16**	**11.30**	**1,117,783**	73,417	16.35	16.45	1,550,109
June	**167,724**	**11.86**	**12.67**	**2,540,749**	217,800	16.20	16.36	4,484,773
July	**87,239**	**12.30**	**12.51**	**1,365,109**	60,514	17.47	17.71	1,321,427
August	**72,287**	**12.21**	**12.33**	**1,167,008**	72,671	14.86	15.21	1,318,593
September	**75,368**	**11.61**	**11.68**	**1,138,447**	73,284	14.14	14.76	1,318,767
October	**116,802**	**11.49**	**11.71**	**1,764,694**	178,359	13.78	14.24	3,148,811
November	**74,178**	**10.62**	**12.76**	**1,233,127**	75,904	13.38	13.85	1,309,146
December	**70,814**	**12.78**	**12.83**	**1,217,842**	68,573	13.07	13.13	1,178,206
Total	**6,313,484**			**83,045,092**	3,673,657			73,843,515

* The cost in USD shown has been calculated from the share prices in GBP using the monthly average exchange rate for the month in which those shares were purchased.

Up until the demerger of M&G plc in October 2019, the Group consolidated a number of authorised investment funds managed by M&G plc that held shares in Prudential plc. The cost of acquiring these shares was included in the cost of own shares in 2019.

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above, the Group did not purchase, sell or redeem any Prudential plc listed securities during 2020 or 2019.

D OTHER INFORMATION

D1 Corporate transactions

D1.1 Gain (loss) attaching to corporate transactions

	2020 $m	**2019 $m**
Gain on disposals[note (i)]	**–**	265
Other transactions[note (ii)]	**(48)**	(407)
Total gain (loss) attaching to corporate transactions as shown separately on the consolidated income statement	**(48)**	(142)
Gain arising on reinsurance of Jackson's in-force fixed and fixed index annuity business[note (iii)]	**804**	–
Gain arising on reinsurance transaction undertaken by the Hong Kong business[note (iv)]	**765**	–
Total gain (loss) attaching to corporate transactions	**1,521**	(142)

Notes

(i) In 2019, the gain on disposals principally related to profits arising from a 4 per cent reduction in the Group's stake in its associate in India, ICICI Prudential Life Insurance Company, and the disposal of Prudential Vietnam Finance Company Limited, a wholly-owned subsidiary that provides consumer finance.

(ii) In 2020, other transactions include $(38) million of costs associated with the work to plan for the separation of Jackson. In 2019, other transactions primarily reflected costs related to the demerger of the Group's UK and Europe operations (M&G plc).

(iii) With effect from 1 June 2020, Jackson reinsured substantially all of its in-force portfolio of US fixed and fixed index annuities with Athene Life Re Ltd, which resulted in a pre-tax gain of $804 million, after allowing for the write-off of DAC associated with the business reinsured and after reflecting post-closing adjustments made in the second half of 2020. The transaction excluded Jackson's legacy life and institutional business as well as the REALIC portfolio and group pay-out annuity business reinsured from John Hancock and was collateralised to reduce the exposure to counterparty risk. Under the reinsurance arrangement, Jackson reinsured $27.6 billion liabilities (valued at 1 June 2020) in return for a premium of $28.9 billion net of ceding commission, comprising principally of bonds. The pre-tax gain also includes the realised gains arising on the bonds net of the DAC written off as a result of the transaction of $2.1 billion. After allowing for tax of $(0.2) billion and the reduction in unrealised gains recorded directly in other comprehensive income of $(1.8) billion, the impact of the reinsurance transaction on IFRS shareholders' equity is a reduction of $(1.2) billion.

(iv) The benefit arises from a co-reinsurance quota share transaction undertaken by the Hong Kong business in December 2020 as part of the Group's on-going asset/liability management. Future surpluses (or losses) arising from the business being reinsured will be shared with the reinsurer in accordance with the terms of the treaty. This treaty helps mitigate the effect of the accounting mismatch under the existing regulatory framework in Hong Kong and is part of our management of the transition to the new RBC regime.

D1.2 Equity investment by Athene into the US business

In 2020, all of the $1,014 million effect of transactions relating to non-controlling interests recognised in the consolidated statement of changes in equity relates to the equity investment by Athene Life Re Ltd ('Athene') into the US business completed on 17 July 2020. Under the transaction, Athene invested $500 million in Prudential's US business in return for an 11.1 per cent economic interest for which the voting interest is 9.9 per cent. Athene's investment is in the form of a cash subscription for the issuance of new common equity in the holding company containing Prudential's US businesses, including Jackson National Life Insurance Company and PPM America.

The following is summarised financial information for non-controlling interest in Prudential's US operations currently held by Athene since July 2020:

– The profit after tax generated by the US operations and attributable to Athene is $57 million;
– The comprehensive loss generated by the US operations and attributable to Athene is $(8) million; and
– Of the US operations' total equity, the amount attributable to Athene is $1,063 million.

D2 Contingencies and related obligations

The Group is involved in various litigation and regulatory proceedings. These may from time to time include class actions involving Jackson. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Group believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

D3 Post balance sheet events

Dividends
The 2020 second interim ordinary dividend approved by the Board of Directors after 31 December 2020 is as described in note B5.

Intention to demerge the Group's US operations in the second quarter of 2021
In January 2021, the Board announced that it had decided to pursue the separation of its US operations (Jackson) from the Group through a demerger, whereby shares in Jackson would be distributed to Prudential shareholders.

Subject to shareholder and regulatory approvals, the planned demerger is expected to complete in the second quarter of 2021 and would lead to a significantly earlier separation of Jackson from the Group than would have been possible through a minority IPO and future sell-downs, which from market precedent may have lasted until 2023. At the point of demerger, Prudential is planning to retain a 19.9 per cent non-controlling interest in Jackson, which will be reported within the consolidated financial position as a financial investment at fair value. Subject to market conditions, the Group intends to monetise a portion of this investment to support investment in Asia within 12 months of the planned demerger, such that the Group will own less than 10 per cent at the end of such period.

Following this decision in January 2021, the US operations (equivalent to the US segment disclosed in these financial statements) are considered to meet the held for distribution criteria in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. It is not practicable to quantify the potential financial effect of the planned demerger and the retained non-controlling interest at this stage.

I Additional financial information

I(i) Group capital position

Overview
Prudential plc applies the local capital summation method (LCSM) that has been agreed with the Hong Kong Insurance Authority (IA) to determine group regulatory capital requirements (both minimum and prescribed levels). Ultimately, Prudential will become subject to the Group-wide Supervision (GWS) Framework. The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements.

The GWS methodology is expected to be largely consistent with that applied under LCSM with the exception of the treatment of debt instruments which will be subject to transitional arrangements under the GWS Framework. As agreed with the Hong Kong IA, only specific bonds (being those subordinated debt instruments issued by Prudential plc at the date of demerger of M&G plc) are currently included as eligible Group LCSM capital resources for the purposes of satisfying group minimum and prescribed capital requirements. Senior debt instruments issued by Prudential plc have not been included as part of the Group capital resources and are treated as a liability in the LCSM results. Under the GWS Framework, Prudential's initial analysis indicates that all debt instruments (senior and subordinated) issued by Prudential plc will meet the transitional conditions set by the Hong Kong IA and will be included as eligible Group capital resources. If this were to be the case, the 31 December 2020 Group shareholder LCSM coverage ratio (over GMCR) presented below would increase by 35 percentage points to 363 per cent. This is subject to final approval by the Hong Kong IA.

Further detail on the LCSM is included in the basis of preparation section below.

For regulated insurance entities, the capital resources and required capital included in the LCSM measure for Hong Kong IA Group regulatory purposes are based on the local solvency regime applicable in each jurisdiction. At 31 December 2020, the Prudential Group's total surplus of capital resources over the regulatory Group Minimum Capital Requirement (GMCR), calculated using this LCSM was $26.4 billion, before allowing for the payment of the 2020 second interim ordinary dividend, equating to a coverage ratio of 329%.

The Group holds material participating business in Hong Kong, Singapore and Malaysia. If the capital resources and minimum capital requirement attributed to this policyholder business are excluded, then the Prudential Group shareholder LCSM surplus of capital resources over the regulatory GMCR at 31 December 2020 was $11.0 billion, before allowing for the payment of the 2020 second interim ordinary dividend, equating to a coverage ratio of 328%.

Estimated Group LCSM capital position based on Group Minimum Capital Requirement (GMCR)

	31 Dec 2020			31 Dec 2019		
Amounts attributable to Prudential plc	**Total**	**Less policyholder**	**Shareholder**	**Total**	**Less policyholder**	**Shareholder**
Capital resources ($bn)	**37.9**	**(22.1)**	**15.8**	33.1	(19.1)	14.0
Group Minimum Capital Requirement ($bn)	**11.5**	**(6.7)**	**4.8**	9.5	(5.0)	4.5
LCSM surplus (over GMCR) ($bn)	**26.4**	**(15.4)**	**11.0**	23.6	(14.1)	9.5
LCSM ratio (over GMCR) (%)	**329%**		**328%**	348%		309%

The shareholder LCSM capital position by segment is presented below at 31 December 2020 and 31 December 2019 for comparison:

Amounts attributable to Prudential plc			**Shareholder**			
31 Dec 2020 ($bn)	**Total Asia**	**Less policyholder**	**Asia**	**US**	**Unallocated to a segment**	**Group total**
Capital resources	**33.7**	**(22.1)**	**11.6**	**4.6**	**(0.4)**	**15.8**
Group Minimum Capital Requirement	**10.1**	**(6.7)**	**3.4**	**1.4**	**-**	**4.8**
LCSM surplus (over GMCR)	**23.6**	**(15.4)**	**8.2**	**3.2**	**(0.4)**	**11.0**

Amounts attributable to Prudential plc			**Shareholder**			
31 Dec 2019 ($bn)	**Total Asia**	**Less policyholder**	**Asia**	**US**	**Unallocated to a segment**	**Group total**
Capital resources	26.8	(19.1)	7.7	5.3	1.0	14.0
Group Minimum Capital Requirement	8.0	(5.0)	3.0	1.5	-	4.5
LCSM surplus (over GMCR)	18.8	(14.1)	4.7	3.8	1.0	9.5

All the amounts above are presented excluding amounts attributable to non-controlling interests. For example, the US amounts relate solely to Prudential's 88.9 per cent economic interest in Jackson Financial Inc.

Sensitivity analysis

The estimated sensitivity of the Group shareholder LCSM capital position (based on GMCR) to significant changes in market conditions is as follows:

	31 Dec 2020		31 Dec 2019	
Impact of market sensitivities[note (1)]	LCSM surplus ($bn)	LCSM ratio (%)	LCSM surplus ($bn)	LCSM ratio (%)
Base position	**11.0**	**328%**	9.5	309%
Impact of:				
10% instantaneous increase in equity markets	**0.3**	**15%**	n/a	n/a
20% instantaneous fall in equity markets	**0.6**	**(13)%**	1.5	(9)%
40% fall in equity markets[note (2)]	**(0.2)**	**(23)%**	(0.2)	(39)%
50 basis points reduction in interest rates	**(1.2)**	**(39)%**	(0.2)	(17)%
100 basis points increase in interest rates	**(1.0)**	**11%**	(1.3)	(19)%
100 basis points increase in credit spreads[note (3)]	**0.1**	**14%**	(1.6)	(36)%

Notes

(1) The Group results consist of the combined impact from the movement in Asia and US LCSM surplus under these stresses. The equity fall and the interest rate reduction sensitivities consist of positive surplus impacts from the US, driven by expected derivative gains, and negative surplus impacts from Asia, which for the interest rate reduction sensitivity is driven by Hong Kong reflecting the accounting mismatch that exists under the current regulatory framework.

(2) Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.

(3) At 31 December 2019 the US RBC solvency position was included using a stress of 10 times expected credit defaults rather than the 100 basis points increase in credit spreads applied at 31 December 2020.

The sensitivity results above assume instantaneous market movements and reflect all consequential impacts as at the valuation dates. An exception to the instantaneous market movements assumed is the -40 per cent equity sensitivity where for Jackson an instantaneous 20 per cent market fall is assumed to be followed by a further market fall of 20 per cent over a four-week period with dynamic hedges assumed to be rebalanced over the period. Aside from this assumed dynamic hedge rebalancing for Jackson in the -40 per cent equity sensitivity, the sensitivity results only allow for limited management actions such as changes to future policyholder bonuses. If such economic conditions persisted, the financial impacts may differ to the instantaneous impacts shown above. In this case management could also take additional actions to help mitigate the impact of these stresses. These actions include, but are not limited to, rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

Analysis of movement in Group shareholder LCSM surplus

A summary of the estimated movement in the Group shareholder LCSM surplus (based on GMCR) from $9.5 billion at 31 December 2019 to $11.0 billion at 31 December 2020 is set out in the table below.

	2020 ($bn)	2019 ($bn)
Balance at 1 Jan	**9.5**	9.7
Operating:		
Operating capital generation from the in-force business	**2.2**	2.5
Investment in new business	**(0.2)**	(0.6)
Operating capital generation	**2.0**	1.9
Non-operating and other capital movements:		
Non-operating experience (including market movements)	**(2.0)**	(0.6)
Regulatory changes	**2.2**	0.1
Reinsurance of US fixed and fixed indexed annuity in-force portfolio to Athene	**0.8**	–
Athene US equity investment	**(0.2)**	**-**
US hedge modelling revision	**(0.4)**	**-**
Other corporate activities	**(0.1)**	(0.8)
M&G Demerger costs	**-**	(0.4)
Subordinated debt redemption	**-**	(0.5)
M&G Demerger related impacts	**-**	1.0
Non-operating results	**0.3**	(1.2)
Remittances from discontinued operations (M&G plc)	**-**	0.7
External dividends	**(0.8)**	(1.6)
Net dividend impact	**(0.8)**	(0.9)
Net movement in LCSM surplus	**1.5**	(0.2)
Balance at 31 Dec	**11.0**	9.5

The estimated movement in the Group shareholder LCSM surplus over 2020 is driven by:

– *Operating capital generation of $2.0 billion:* generated by the expected return on in-force business partially offset by the strain on new business written during the year

– *Non-operating experience of $(2.0) billion*: this includes the negative impact of higher equity markets on Jackson's derivatives net of policyholder reserves and required capital movements, and the negative impact of falling interest rates on the US and Asia surplus over the year, partially offset by management actions, including the benefit from the change to the Hong Kong valuation interest rate as granted by the regulator in July 2020;

– *Regulatory changes of $2.2 billion*: reflecting the benefit from the new Singapore risk-based capital framework (RBC2) effective at 31 March 2020;

- *Reinsurance of US fixed and fixed indexed annuity in-force portfolio to Athene of $0.8 billion*: the impact of the transaction, which was effective at 1 June 2020, was an increase to LCSM surplus comprising of the ceding commission received and required capital released less tax and adverse consequential effects on the US's capital resources;
- *Athene equity investment $(0.2) billion:* this is the net effect on LCSM surplus of Athene's $500 million equity investment in Prudential's US business in return for an 11.1 per cent economic interest in that same business, which completed in July 2020;
- *US hedge modelling revision of $(0.4) billion*: At 31 December 2019, Jackson early adopted the provisions of the National Association of Insurance Commissioners Valuation Manual Minimum Standards No. VM-21. During 2020, Jackson determined that a simplifying modelling assumption was not consistent with its intent in the adoption of VM-21 and the revised modelling adopted for calculating reserves and capital reduced surplus by $390 million;
- *Other* Corporate *activities (excluding demerger items) of $(0.1) billion*: this is the effect on LCSM surplus of other corporate transactions in the period, which in 2020 comprised mainly of a $0.8 billion benefit from the reinsurance transaction in Hong Kong described in note D1.1 of the IFRS financial statements, offset by $(0.9) billion principally from the strategic bancassurance partnership with TMB in Thailand; and
- *Net dividend impact of $(0.8) billion*: this is the payment of external dividends during 2020.

Reconciliation of Group shareholder LCSM surplus to EEV free surplus (excluding intangibles)

	31 Dec 2020 $bn				31 Dec 2019 $bn
	Asia	**US**	**Unallocated to a segment**	**Group total**	**Group total**
Estimated Group shareholder LCSM surplus (over GMCR)	**8.2**	**3.2**	**(0.4)**	**11.0**	9.5
Increase required capital for EEV free surplus[note (1)]	**(0.8)**	**(2.0)**	**-**	**(2.8)**	(2.8)
Adjust surplus assets and core structural borrowings to market value[note (2)]	**0.5**	**0.3**	**(0.4)**	**0.4**	0.3
Add back inadmissible assets[note (3)]	**0.2**	**0.1**	**-**	**0.3**	0.2
Deductions applied to EEV free surplus[note (4)]	**(3.1)**	**-**	**-**	**(3.1)**	(0.9)
Other	**-**	**0.1**	**0.2**	**0.3**	0.3
EEV free surplus excluding intangibles*	**5.0**	**1.7**	**(0.6)**	**6.1**	6.6

* As per the 'Free surplus excluding distribution rights and other intangibles' shown in the statement of Movement in Group free surplus of the Group's EEV basis results.

Notes

(1) Required capital under EEV is set at least equal to local statutory notification requirements for Asia and so can differ from the minimum capital requirement. Jackson required capital is set at 250 per cent of the risk-based capital (RBC) required by the NAIC at the Company Action Level (CAL). This is higher than the solo legal entity statutory minimum capital requirement of 100 per cent CAL that is included in the LCSM surplus (over GMCR).

(2) The EEV Principles require surplus assets to be included at fair value and central core senior debt is held at market value. Within LCSM surplus, some local regulatory regimes value certain assets at cost and core senior debt is held at amortised cost.

(3) LCSM restricts the valuation of certain sundry non-intangible assets. In most cases these assets are considered fully recognisable in free surplus. As an exception to this, both LCSM surplus and EEV free surplus restrict the deferred tax asset held by Jackson to the level allowed to be admitted by the local regulator in local statutory capital resources.

(4) Deductions applied to EEV free surplus primarily include: the impact of reporting EEV free surplus for Singapore based on the Tier 1 requirements under the RBC2 framework, which removes certain negative reserves permitted to be recognised in the full RBC 2 regulatory position used for LCSM, and applying the embedded value reporting approach issued by the China Association of Actuaries (CAA) within EEV free surplus as compared to the C-ROSS surplus reported for local regulatory purposes (predominantly arising from the requirement under the CAA embedded value methodology to establish a deferred profit liability within EEV net worth).

Reconciliation of Group IFRS shareholders' equity to shareholder LCSM capital resources position

	31 Dec 2020 $bn	31 Dec 2019 $bn
Group IFRS shareholders' equity	**20.9**	19.5
Remove DAC, goodwill and intangibles recognised on the IFRS statement of financial position	**(21.1)**	(18.2)
Add subordinated debt at IFRS book value[note (1)]	**4.6**	4.6
Valuation differences[note (2)]	**11.3**	8.6
Other[note (3)]	**0.1**	(0.5)
Estimated Group shareholder LCSM capital resources	**15.8**	14.0

Notes

(1) Subordinated debt is treated as capital resources under LCSM but as a liability under IFRS.

(2) Valuation differences reflect differences in the basis of valuing assets and liabilities between IFRS and local statutory valuation rules, including deductions for inadmissible assets. Material differences arise in Jackson where IFRS variable annuity guarantee reserves are valued on a fair value basis compared to local statutory reserves which reflect long-term historic rates. Further, local US statutory reserves are reduced by an expense allowance linked to surrender charges, whereas IFRS makes no such allowance but instead defers acquisition costs on the balance sheet as a separate asset (which is not recognised on the statutory balance sheet). Other material differences include in Singapore where the local capital resources under RBC2 permits the recognition of certain negative reserves in the local statutory position that are not recognised under IFRS.

(3) Other differences include the consequential impact on non-controlling interests arising from the other reconciling items.

Basis of preparation
In advance of the GWS Framework coming into force, Prudential applies the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). The summation of local statutory capital requirements across the Group is used to determine group regulatory capital requirements, with no allowance for diversification between business operations. The Group capital resources is determined by the summation of capital resources across local solvency regimes for regulated entities and IFRS net assets (with adjustments described below) for non-regulated entities.

In determining the LCSM capital resources and required capital the following principles have been applied:

- For regulated insurance entities, capital resources and required capital are based on the local solvency regime applicable in each jurisdiction, with minimum required capital set at the solo legal entity statutory minimum capital requirements. The treatment of participating funds is consistent with the local basis;
- For the US insurance entities, capital resources and required capital are based on the local US RBC framework set by the NAIC, with minimum required capital set at 100 per cent of the CAL RBC;
- For asset management operations and other regulated entities, the shareholder capital position is derived based on the sectoral basis applicable in each jurisdiction, with minimum required capital based on the solo legal entity statutory minimum capital requirement;
- For non-regulated entities, the capital resources is based on IFRS net assets after deducting intangible assets. No required capital is held in respect of unregulated entities;
- For entities where the Group's shareholding is less than 100%, the contribution of the entity to the Group LCSM capital resources and required capital represents the Group's share of these amounts and excludes any amounts attributable to non-controlling interests;
- Investments in subsidiaries, joint ventures and associates (including, if any, loans that are recognised as capital on the receiving entity's balance sheet) are eliminated from the relevant holding company to prevent the double counting of capital resources; and
- The Hong Kong IA has agreed that specific bonds (being those subordinated debt instruments issued by Prudential plc at the date of demerger of M&G plc) can be included as part of the Group's capital resources for the purposes of satisfying group minimum and prescribed capital requirements. Senior debt instruments issued by Prudential plc have not been included as part of the Group capital resources and are treated as a liability in the LCSM results presented above.

I(ii) Funds under management

For Prudential's asset management businesses, funds managed on behalf of third parties are not recorded on the statement of financial position. They are, however, a driver of profitability. Prudential therefore analyses the movement in the funds under management each year, focusing on those which are external to the Group and those primarily held by the Group's insurance businesses. The table below analyses, by segment, the funds of the Group held in the statement of financial position and the external funds that are managed by Prudential's asset management businesses.

	31 Dec 2020 $bn	31 Dec 2019 $bn
Asia operations:		
Internal funds	**171.4**	141.9
Eastspring Investments external funds, including M&G plc* (as analysed in note I(v))	**109.6**	124.7
	281.0	266.6
US operations – internal funds	**273.7**	273.4
Other operations	**3.6**	3.9
Total Group funds under management	**558.3**	543.9

* Funds managed on behalf of M&G plc are presented as external rather than internal funds under management to align to the presentation since the demerger in October 2019.

Note
Total Group funds under management comprise:

	31 Dec 2020 $bn	31 Dec 2019 $bn
Total investments and cash and cash equivalents on the consolidated statement of financial position	**437.4**	412.6
External funds of Eastspring Investments, including M&G plc	**109.6**	124.7
Internally managed funds held in joint ventures and associate, excluding assets attributable to external unit holders of the consolidated collective investment schemes and other adjustments	**11.3**	6.6
Total Group funds under management	**558.3**	543.9

I(iii) Holding company cash flow

The holding company cash flow describes the movement in the cash and short-term investments of the centrally managed group holding companies and differs from the IFRS cash flow statement, which includes all cash flows in the year including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

	2020 $m	2019 $m
Net cash remitted by business units note (a):		
From continuing operations		
Asia note (b)	**716**	950
Jackson note (b)	**–**	509
Other operations note (c)	**55**	6
Total continuing operations	**771**	1,465
From discontinued UK and Europe operations	**–**	684
Net cash remittances by business units	**771**	2,149
Net interest paid note (d)	**(294)**	(527)
Tax received	**94**	265
Corporate activities	**(235)**	(260)
Total central outflows	**(435)**	(522)
Holding company cash flow before dividends and other movements	**336**	1,627
Dividends paid	**(814)**	(1,634)
Operating holding company cash flow after dividends but before other movements	**(478)**	(7)
Other movements		
Issuance and redemption of debt for continuing operations	**983**	(504)
Other non-operating transactions relating to continuing operations note (e)	**(1,230)**	(338)
Transactions to effect the demerger, including debt substitution note (f)	**–**	(146)
Demerger costs associated with the discontinued UK and Europe operations	**(17)**	(424)
Early settlement of UK-inflation-linked derivative liability	**–**	(587)
Total other movements	**(264)**	(1,999)
Total holding company cash flow	**(742)**	(2,006)
Cash and short-term investments at 1 Jan	**2,207**	4,121
Foreign exchange movements	**(2)**	92
Cash and short-term investments at 31 Dec	**1,463**	2,207

Notes

(a) Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.

(b) Significant cash remittances from business units were hedged into sterling using forward contracts during 2019 and these contracts determine the amount of sterling recorded in the holding company cash flow for the relevant remittances. The implicit rates may therefore differ from that applied to present the holding company cash flow in US dollars (see note (g)).

(c) $55 million remittances from other operations reflects intragroup interest income which is not expected to recur.

(d) The net interest paid in 2019 included $231 million on debt substituted to M&G plc prior to its demerger in October 2019.

(e) Other corporate activities relating to continuing operations primarily reflect payments made for bancassurance arrangements including those with UOB and TMB Bank.

(f) Transactions to effect the demerger represented the effects on holding company cash flow of steps taken in 2019 as part of the preparation for the demerger of the UK and Europe operations (M&G plc). These included the transfer of subsidiaries, settlement of intercompany loans, receipt of the pre-demerger dividend and the substitution of M&G plc as issuer of certain sub-ordinated debt in place of Prudential plc.

(g) At 31 December 2019, the Group changed its basis of managing central cash-holdings from sterling to US dollars. Accordingly, the 2020 holding company cash flow statement presented above has been prepared directly in US dollars and 2019 amounts are re-presented from those previously published to reflect the change. 2019 comparatives were prepared in sterling, reflecting the management of holding company cash at that time. Cash movements in the year were converted from sterling into US dollars by using the month-end sterling to US dollar exchange rate for the month in which the transaction occurred. Cash balances at the start and end of the year were translated from sterling to US dollars using the spot rates at the beginning and end of the year respectively. As an exception to the above, external dividends paid during 2019 were translated at the exchange rate relevant to the day they were paid to ensure consistency with the financial statements.

I(iv) Analysis of adjusted operating profit by driver

This schedule classifies the Group's adjusted operating profit from continuing operations into the underlying drivers using the following categories:

- **Spread income** represents the difference between net investment income and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
- **Fee income** represents profit driven by net investment performance, being fees that vary with the size of the underlying policyholder funds, net of investment management expenses.
- **With-profits** represents the pre-tax shareholders' transfer from the with-profits business for the period.
- **Insurance margin** primarily represents profit derived from the insurance risks of mortality and morbidity.
- **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses (see below).
- **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. These exclude items such as restructuring and IFRS 17 implementation costs, which are not included in the segment profit, as well as items that are more appropriately included in other categories (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
- **DAC adjustments** comprise DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business written in the period.

(a) Margin analysis

The following analysis expresses certain of the Group's sources of adjusted operating profit as a margin of policyholder liabilities or other relevant drivers. The 2019 comparative information has been presented at both AER and CER to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates. For Asia, CER average liabilities have been translated using the corresponding current year opening and closing or quarter-end closing exchange rates.

	2020				
	Asia $m note (b)	**US $m** note (c)	**Group total $m**	**Average liability $m**	**Margin bps**
Spread income	**296**	**521**	**817**	**86,596**	**94**
Fee income	**282**	**3,386**	**3,668**	**217,863**	**168**
With-profits	**117**	**–**	**117**	**73,375**	**16**
Insurance margin	**2,648**	**1,298**	**3,946**		
Margin on revenues	**2,936**	**–**	**2,936**		
Expenses:					
Acquisition costs*	**(1,904)**	**(991)**	**(2,895)**	**5,619**	**(52)%**
Administration expenses	**(1,539)**	**(1,744)**	**(3,283)**	**312,215**	**(105)**
DAC adjustments	**382**	**317**	**699**		
Expected return on shareholder assets	**212**	**–**	**212**		
	3,430	**2,787**	**6,217**		
Share of related tax charges from joint ventures and associates	**(46)**	**–**	**(46)**		
Adjusted operating profit from long-term business	**3,384**	**2,787**	**6,171**		
Adjusted operating profit from asset management	**283**	**9**	**292**		
Total segment adjusted operating profit	**3,667**	**2,796**	**6,463**		

* The ratio of acquisition costs is calculated as a percentage of APE sales in the year.

	2019 AER				
	Asia $m note (b)	**US $m** note (c)	**Group total $m**	**Average liability $m**	**Margin bps**
Spread income	321	642	963	86,887	111
Fee income	286	3,292	3,578	208,353	172
With-profits	107	-	107	58,032	18
Insurance margin	2,244	1,317	3,561		
Margin on revenues	3,035	-	3,035		
Expenses:					
Acquisition costs*	(2,156)	(1,074)	(3,230)	7,384	(44)%
Administration expenses	(1,437)	(1,675)	(3,112)	303,339	(103)
DAC adjustments	430	510	940		
Expected return on shareholder assets	194	26	220		
	3,024	3,038	6,062		
Share of related tax charges from joint ventures and associates	(31)	-	(31)		
Adjusted operating profit from long-term business	2,993	3,038	6,031		
Adjusted operating profit from asset management	283	32	315		
Total segment adjusted operating profit	3,276	3,070	6,346		

* The ratio of acquisition costs is calculated as a percentage of APE sales in the year.

	2019 CER				
	Asia **$m** note (b)	**US** **$m** note (c)	**Group total** **$m**	**Average liability** **$m**	**Margin** **bps**
Spread income	319	642	961	87,413	110
Fee income	283	3,292	3,575	208,095	172
With-profits	107	–	107	58,492	18
Insurance margin	2,234	1,317	3,551		
Margin on revenues	3,032	–	3,032		
Expenses:					
Acquisition costs*	(2,156)	(1,074)	(3,230)	7,391	(44)%
Administration expenses	(1,430)	(1,675)	(3,105)	303,607	(102)
DAC adjustments	426	510	936		
Expected return on shareholder assets	193	26	219		
	3,008	3,038	6,046		
Share of related tax charges from joint ventures and associates	(30)	–	(30)		
Adjusted operating profit from long-term business	2,978	3,038	6,016		
Adjusted operating profit from asset management	278	32	310		
Total segment adjusted operating profit	3,256	3,070	6,326		

* The ratio of acquisition costs is calculated as a percentage of APE sales in the year.

(b) Margin analysis – Asia

	2020			2019 AER			2019 CER		
	Profit **$m**	**Average liability** **$m** note (1)	**Margin** **bps** note (2)	**Profit** **$m**	**Average liability** **$m** note (1)	**Margin** **bps** note (2)	**Profit** **$m**	**Average liability** **$m** note (1)	**Margin** **bps** note (2)
Spread income	**296**	**39,895**	**74**	321	29,706	108	319	30,232	106
Fee income	**282**	**28,014**	**101**	286	27,413	104	283	27,155	104
With-profits	**117**	**73,375**	**16**	107	58,032	18	107	58,492	18
Insurance margin	**2,648**			2,244			2,234		
Margin on revenues	**2,936**			3,035			3,032		
Expenses:									
Acquisition costs[note (3)]	**(1,904)**	**3,696**	**(52)%**	(2,156)	5,161	(42)%	(2,156)	5,168	(42)%
Administration expenses	**(1,539)**	**67,909**	**(227)**	(1,437)	57,119	(252)	(1,430)	57,387	(249)
DAC adjustments[note (4)]	**382**			430			426		
Expected return on shareholder assets	**212**			194			193		
	3,430			3,024			3,008		
Share of related tax charges from joint ventures and associates[note (5)]	**(46)**			(31)			(30)		
Adjusted operating profit from long-term business	**3,384**			2,993			2,978		
Adjusted operating profit from asset management (Eastspring Investments)	**283**			283			278		
Total Asia adjusted operating profit	**3,667**			3,276			3,256		

Notes

(1) The calculation of average liabilities for Asia is generally derived from opening and closing balances. In 2020, given the significant market volatility in certain months during the year, average liabilities used to derive the margin for fee income in Asia have been calculated using quarter-end balances throughout the year as opposed to opening and closing balances only to provide a more meaningful analysis. The 2019 margins have been amended for consistency albeit impacts are minimal.

(2) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

(3) The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. The ratio of shareholder acquisition cost to shareholder-related APE sales in 2020 (excluding with-profits) is 68 per cent (2019: 66 per cent).

(4) The DAC adjustments contain a credit of $73 million in respect of joint ventures and associates in 2020 (2019: credit of $72 million on an AER basis).

(5) Under IFRS, the Group's share of results from its investments in joint ventures and associates accounted for using the equity method is included in the Group's profit before tax on a net of related tax basis. These tax charges are shown separately in the analysis of Asia operating profit drivers in order for the contribution from the joint ventures and associates to be included in the margin analysis on a consistent basis with the rest of Asia operations.

(c) Margin analysis – US

	2020			2019		
	Profit $m	**Average liability $m** note (1)	**Margin bps** note (2)	**Profit $m**	**Average liability $m** note (1)	**Margin bps** note (2)
Spread income	**521**	**46,701**	**112**	642	57,181	112
Fee income	**3,386**	**189,849**	**178**	3,292	180,940	182
Insurance margin	**1,298**			1,317		
Expenses						
Acquisition costs[note (3)]	**(991)**	**1,923**	**(52)%**	(1,074)	2,223	(48)%
Administration expenses	**(1,744)**	**244,306**	**(71)**	(1,675)	246,220	(68)
DAC adjustments	**317**			510		
Expected return on shareholder assets	**-**			26		
Adjusted operating profit from long-term business[note (4)]	**2,787**			3,038		
Adjusted operating profit from asset management	**9**			32		
Total US adjusted operating profit	**2,796**			3,070		

Notes

(1) The calculation of average liabilities for the US is generally derived from month-end balances throughout the period as opposed to opening and closing balances only. The average liabilities for fee income in the US have been calculated using daily balances instead of month-end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. Average liabilities for spread income are based on the general account liabilities to which spread income is attached and exclude the liabilities reinsured to Athene since the June 2020 month-end balance. Average liabilities used to calculate the administration expenses margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson and the liabilities reinsured to Athene since the June 2020 month-end balance.

(2) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities.

(3) The ratio of acquisition costs is calculated as a percentage of APE sales relating to shareholder-backed business.

(4) Analysis of adjusted operating profit from long-term business before and after acquisition costs and DAC adjustments is shown below:

	2020 $m			
	Before acquisition costs and DAC adjustments	**Acquisition costs and DAC adjustments**		**After acquisition costs and DAC adjustments**
		Incurred	**Deferred**	
Total adjusted operating profit before acquisition costs and DAC adjustments	**3,461**	**–**	**–**	**3,461**
Acquisition costs	–	**(991)**	**740**	**(251)**
DAC adjustments – amortisation of previously deferred acquisition costs:				
Normal	**–**	**–**	**(753)**	**(753)**
Deceleration	**–**	**–**	**330**	**330**
Total US adjusted operating profit – long-term business	**3,461**	**(991)**	**317**	**2,787**

	2019 $m			
	Before acquisition costs and DAC adjustments	**Acquisition costs and DAC adjustments**		**After acquisition costs and DAC adjustments**
		Incurred	**Deferred**	
Total adjusted operating profit before acquisition costs and DAC adjustments	3,602	–	–	3,602
Acquisition costs	–	(1,074)	807	(267)
DAC adjustments – amortisation of previously deferred acquisition costs:				
Normal	–	–	(577)	(577)
Deceleration	–	–	280	280
Total US adjusted operating profit – long-term business	3,602	(1,074)	510	3,038

I(v) Asia operations – analysis of adjusted operating profit by business unit

(a) Analysis of adjusted operating profit by business unit

Adjusted operating profit for Asia operations are analysed below. The table below presents the 2019 results on both AER and CER bases to eliminate the impact of exchange translation.

	2020 $m	2019 $m		2020 vs 2019 %	
		AER	CER	AER	CER
China JV	**251**	219	219	15%	15%
Hong Kong	**891**	734	742	21%	20%
Indonesia	**519**	540	525	(4)%	(1)%
Malaysia	**309**	276	272	12%	14%
Philippines	**95**	73	76	30%	25%
Singapore	**574**	493	487	16%	18%
Taiwan	**85**	74	77	15%	10%
Thailand	**210**	170	169	24%	24%
Vietnam	**270**	237	237	14%	14%
Other	**73**	70	68	4%	7%
Non-recurrent items*	**153**	138	136	11%	13%
Total insurance operations	**3,430**	3,024	3,008	13%	14%
Share of related tax charges from joint ventures and associate	**(46)**	(31)	(30)	(48)%	(53)%
Total long-term business	**3,384**	2,993	2,978	13%	14%
Asset management (Eastspring Investments)	**283**	283	278	–	2%
Total Asia adjusted operating profit	**3,667**	3,276	3,256	12%	13%

* Representing a number of small items that are not expected to reoccur.

(b) Analysis of Eastspring Investments adjusted operating profit

	2020 $m	2019 $m
Operating income before performance-related fees[note (1)]	**646**	636
Performance-related fees	**7**	12
Operating income (net of commission)[note (2)]	**653**	648
Operating expense[note (2)]	**(336)**	(329)
Group's share of tax on joint ventures' operating profit	**(34)**	(36)
Adjusted operating profit	**283**	283
Average funds managed by Eastspring Investments	**$227.1bn**	$214.0bn
Margin based on operating income*	**28bps**	30bps
Cost/income ratio†	**52%**	52%

Notes

(1) Operating income before performance-related fees for Eastspring Investments can be further analysed as follows:

	Retail $m	Margin* bps	Institutional‡ $m	Margin* bps	Total $m	Margin* bps
2020	**390**	**52**	**256**	**17**	**646**	**28**
2019	392	52	244	18	636	30

* Margin represents operating income before performance-related fees as a proportion of the related funds under management (FUM). Monthly closing internal and external funds managed by Eastspring have been used to derive the average. Any funds held by the Group's insurance operations that are managed by third parties outside the Prudential Group are excluded from these amounts.

† Cost/income ratio represents cost as a percentage of operating income before performance-related fees.

‡ Institutional includes internal funds.

(2) Operating income and expense include the Group's share of contribution from joint ventures and associates. In the consolidated income statement of the Group IFRS basis results, the net income after tax from the joint ventures and associates is shown as a single line item.

(c) Eastspring Investments total funds under management

Eastspring Investments, the Group's asset management business in Asia, manages funds from external parties and also funds for the Group's insurance operations. The table below analyses the total funds managed and Eastspring Investments.

	31 Dec 2020 $bn	31 Dec 2019 $bn
External funds under management, excluding funds managed on behalf of M&G plc[note (1)]		
Retail	**66.9**	73.7
Institutional	**13.8**	11.0
Money market funds (MMF)	**13.2**	13.3
	93.9	98.0
Funds managed on behalf of M&G plc[note (2)]	**15.7**	26.7
External funds under management including M&G plc	**109.6**	124.7
Internal funds under management	**138.2**	116.4
Total funds under management[note (3)]	**247.8**	241.1

Notes

(1) The movements of external funds under management, excluding those managed on behalf of M&G plc, are analysed below:

	2020 $m	2019 $m
At 1 Jan	**98,005**	77,762
Market gross inflows	**116,743**	282,699
Redemptions	**(126,668)**	(276,215)
Market and other movements	**5,783**	13,759
At 31 Dec	**93,863**	98,005

The analysis of movements above includes $13,198 million relating to Asia Money Market Funds at 31 December 2020 (31 December 2019: $13,337 million). Investment flows for 2020 include Eastspring Money Market Funds gross inflows of $76,317 million (2019: $236,603 million) and net inflows of $48 million (2019: net outflows of $(1,856) million).

(2) The movements of funds managed on behalf of M&G plc are analysed below:

	2020 $m
At 1 Jan	**26,717**
Net flows	**(10,033)**
Other	**(947)**
At 31 Dec	**15,737**

(3) Total funds under management by asset class are analysed below:

	31 Dec 2020		31 Dec 2019	
	$bn	% of total	$bn	% of total
Equity	**103.9**	**42%**	107.0	44%
Fixed income	**125.7**	**51%**	116.2	48%
Alternatives	**2.7**	**1%**	3.4	2%
Money Market Funds	**15.5**	**6%**	14.5	6%
Total funds under management	**247.8**	**100%**	241.1	100%

II Calculation of alternative performance measures

The annual report uses alternative performance measures (APMs) to provide more relevant explanations of the Group's financial position and performance. This section sets out explanations for each APM and reconciliations to relevant IFRS balances.

II(i) Reconciliation of adjusted operating profit to profit before tax

Adjusted operating profit presents the operating performance of the business. This measurement basis adjusts for the following items within total IFRS profit before tax:

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Gain or loss on corporate transactions, as described in note D1.1 in the IFRS financial statements.

More details on how adjusted operating profit is determined are included in note B1.3 of the Group IFRS basis results. A full reconciliation to profit after tax is given in note B1.1.

II(ii) Calculation of IFRS net gearing ratio

The IFRS net gearing ratio is calculated as net core structural borrowings of shareholder-financed businesses divided by closing IFRS shareholders' equity plus net core structural borrowings.

	31 Dec 2020 $m	31 Dec 2019 $m
Core structural borrowings of shareholder-financed businesses	**6,633**	5,594
Less holding company cash and short-term investments	**(1,463)**	(2,207)
Net core structural borrowings of shareholder-financed businesses	**5,170**	3,387
Closing shareholders' equity	**20,878**	19,477
Closing shareholders' equity plus net core structural borrowings	**26,048**	22,864
IFRS net gearing ratio	**20%**	15%

II(iii) Return on IFRS shareholders' equity

As stated in the 2019 Annual Report, the Group has introduced a new return on equity performance measure for the Group's 2020 Prudential Long-Term Incentive Plan (PLTIP) awards alongside other metrics. This measure has been calculated as adjusted operating profit after tax, and net of non-controlling interests, divided by average shareholders' equity. Accordingly, the calculation of the return on IFRS shareholders' equity has been aligned to be based on average shareholders' equity. The 2019 returns disclosed in the table below are consistent with those previously published and use profit from continuing operations and closing shareholders' equity. As supplementary information, 2019 Asia and US returns on shareholders' equity have also been presented on an average shareholders' equity basis.

A detailed reconciliation of adjusted operating profit to IFRS profit before tax for the Group is shown in note B1.1 to the Group IFRS basis results.

	2020 $m			
	Asia	**US**	**Other**	**Group**
Adjusted operating profit	**3,667**	**2,796**	**(956)**	**5,507**
Tax on adjusted operating profit	**(495)**	**(313)**	**8**	**(800)**
Operating profit attributable to non-controlling interests	**(11)**	**(138)**	**1**	**(148)**
Adjusted operating profit, net of tax and non-controlling interests	**3,161**	**2,345**	**(947)**	**4,559**
Average shareholders' equity	**12,377**	**8,720**	**(919)**	**20,178**
Operating return on average shareholders' equity (%)	**26%**	**27%**	**n/a**	**23%**

	2019 $m					
Continuing operations	**Asia**	**US**	**Other**	**Group**	**Add back demerger-related items***	**Adjusted Group (excluding demerger-related items)**
Adjusted operating profit	3,276	3,070	(1,036)	5,310	179	5,489
Tax on adjusted operating profit	(436)	(437)	100	(773)	(34)	(807)
Operating profit attributable to non-controlling interests	(6)	-	(3)	(9)	–	(9)
Adjusted operating profit, net of tax and non-controlling interests	2,834	2,633	(939)	4,528	145	4,673
Closing shareholders' equity	10,866	8,929	(318)	19,477	–	19,477
Operating return on closing shareholders' equity (%)	26%	29%	n/a	23%	–	24%
Supplementary information:						
Average shareholders' equity	9,521	8,046				
Operating return on average shareholders' equity (%)	30%	33%				

* Demerger-related items comprise interest on the subordinated debt that was substituted to M&G plc prior to the demerger ($179 million pre-tax) and one-off costs of the demerger ($407 million pre-tax).

Average shareholders' equity has been based on opening and closing balances as follows:

	2020 $m				2019 $m	
	Asia	**US**	**Other**	**Group**	**Asia**	**US**
Balance at 1 Jan	**10,866**	**8,929**	**(318)**	**19,477**	8,175	7,163
Balance at 31 Dec	**13,887**	**8,511**	**(1,520)**	**20,878**	10,866	8,929
Average shareholders' equity	**12,377**	**8,720**	**(919)**	**20,178**	9,521	8,046

II(iv) Calculation of IFRS shareholders' equity per share

IFRS shareholders' equity per share is calculated as closing IFRS shareholders' equity divided by the number of issued shares at 31 December 2020 of 2,609 million shares (31 December 2019: 2,601 million shares).

	2020			
	Asia	**US**	**Other**	**Group total**
Closing IFRS shareholders' equity ($ million)	**13,887**	**8,511**	**(1,520)**	**20,878**
Shareholders' equity per share (cents)	**532¢**	**326¢**	**(58)¢**	**800¢**

	2019			
	Asia	**US**	**Other**	**Group total**
Closing IFRS shareholders' equity ($ million)	10,866	8,929	(318)	19,477
Shareholders' equity per share (cents)	418¢	343¢	(12)¢	749¢

II(v) Calculation of asset management cost/income ratio

The asset management cost/income ratio is calculated as asset management operating expenses, adjusted for commission and joint venture contribution, divided by asset management total IFRS revenue adjusted for commission, joint venture contribution, performance-related fees and non-operating items.

	Eastspring Investments	
	2020 $m	**2019 $m**
Operating income before performance-related fees[note]	**646**	636
Share of joint venture revenue	**(235)**	(244)
Commission	**194**	165
Performance-related fees	**7**	12
IFRS revenue	**612**	569
Operating expense	**336**	329
Share of joint venture expense	**(84)**	(102)
Commission	**194**	165
IFRS charges	**446**	392
Cost/income ratio: operating expense/operating income before performance-related fees	**52%**	52%

Note

IFRS revenue and charges for Eastspring Investments are included within the IFRS Income statement in 'other income' and 'acquisition costs and other expenditure' respectively. Operating income and expense include the Group's share of contribution from joint ventures and associates. In the consolidated income statement of the Group IFRS basis results, the net income after tax from the joint ventures and associates is shown as a single line item.

II(vi) Reconciliation of Asia renewal insurance premium to gross premiums earned

Reconciliation of Asia renewal insurance premium to gross earned premiums and calculation of Asia Life weighted premium income.

	2020 $m	2019 $m	
		AER	**CER**
Asia renewal insurance premium	**20,123**	19,007	19,011
Add: General insurance premium	**130**	135	136
Add: IFRS gross earned premium from new regular and single premium business	**5,045**	6,386	6,404
Less: Renewal premiums from joint ventures	**(1,957)**	(1,771)	(1,733)
Asia segment IFRS gross premiums earned	**23,341**	23,757	23,818
Asia renewal insurance premium (as above)	**20,123**	19,007	19,011
Asia APE	**3,696**	5,161	5,168
Asia life weighted premium income	**23,819**	24,168	24,179

II(vii) Reconciliation of APE new business sales to gross premiums earned

The Group reports annual premiums equivalent (APE) as a measure of new business sales, which is a key metric for the Group's management of the development and growth of the business. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. The use of the one-tenth of single premiums is to normalise policy premiums into the equivalent of regular annual payments. This measure is commonly used in the insurance industry to allow comparisons of the amount of new business written in a period by life insurance companies, particularly when the sales contain both single premium and regular premium business.

This differs from the IFRS measure of gross premiums earned as shown below:

	2020 $m			2019 $m		
	Asia	**US**	**Total segment** note (a)	**Asia**	**US**	**Total segment** note (a)
Gross premiums earned	**23,341**	**19,026**	**42,367**	23,757	21,209	44,966
Less: premiums from in-force renewal business[note (b)]	**(18,166)**	**(845)**	**(19,011)**	(17,236)	(956)	(18,192)
Adjustment to include 10% of single premiums[note (c)]	**(2,131)**	**(17,306)**	**(19,437)**	(2,606)	(20,008)	(22,614)
Add: deposit accounting for investment contracts[note (d)]	**–**	**1,284**	**1,284**	255	2,522	2,777
Inclusion of APE Sales from joint ventures and associates on equity accounting method[note (e)]	**820**	**–**	**820**	899	–	899
Other adjustments[note (f)]	**(168)**	**(236)**	**(404)**	92	(544)	(452)
Annual premium equivalents (APE)	**3,696**	**1,923**	**5,619**	5,161	2,223	7,384

Notes

(a) Gross premiums earned of $154 million (2019: $98 million) in the Group's Africa operations are unallocated to a segment, giving total Group gross premiums earned of $42,521 million (2019: $45,064 million) in the income statement. The Africa business sold new business APE of $112 million (2019: $82 million). Given the relative immaturity of the Africa business, it is excluded from the APE metric.

(b) Gross premiums earned include premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written.

(c) APE new business sales only include one-tenth of single premiums, recorded on policies sold in the year. Gross premiums earned include 100 per cent of such premiums.

(d) APE includes new policies written in the year which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts. These are excluded from gross premiums earned and recorded as deposits;

(e) For the purpose of reporting APE new business sales, the Group's share of amounts sold by the Group's insurance joint ventures and associates are included. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.

(f) APE new business sales are annualised while gross premiums earned are recorded only when revenues are due. Other adjustments also reflect the exclusion of general insurance and reinsurance premiums earned on an IFRS basis.

II(viii) Reconciliation between IFRS and EEV shareholders' equity

The table below shows the reconciliation of EEV shareholders' equity and IFRS shareholders' equity at the end of the year:

	31 Dec 2020 $m	**31 Dec 2019 $m**
EEV shareholders' equity	**54,007**	54,711
Less: Value of in-force business of long-term business[note (a)]	**(41,007)**	(41,893)
Deferred acquisition costs assigned zero value for EEV purposes	**16,216**	14,239
Other[note (b)]	**(8,338)**	(7,580)
IFRS shareholders' equity	**20,878**	19,477

Notes

(a) The EEV shareholders' equity comprises the present value of the shareholders' interest in the value of in-force business, total net worth of long-term business operations and IFRS shareholders' equity of asset management and other operations. The value of in-force business reflects the present value of expected future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Total net worth represents the net assets for EEV reporting that reflect the regulatory basis position, with adjustments to achieve consistency with the IFRS treatment of certain items as appropriate.

(b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value total net worth for long-term insurance operations. These also include the mark-to-market value movements of the Group's core structural borrowings which are fair valued under EEV but are held at amortised cost under IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson, IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset), whereas the local regulatory basis used for EEV reporting is based on expected future cash flows due to the policyholder on a prudent basis, with the consideration of an expense allowance, as applicable, but with no separate deferred acquisition cost asset.

European Embedded Value (EEV) Basis Results

Additional EEV financial information*

Description of EEV basis reporting

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in 2016. All results are stated net of tax and converted using actual exchange rates (AER) unless otherwise stated. AER are actual historical exchange rates for the relevant accounting period. Constant exchange rate (CER) results are calculated by translating prior year results using current period foreign currency exchange rates, ie current period average rates for the income statements and current period closing rate for the balance sheet. Where appropriate, the EEV basis results include the effects of adoption of IFRS Standards.

The Directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. In preparing the EEV basis supplementary information, the Directors have satisfied themselves that the Group remains a going concern. Further information is provided in note A1 of the IFRS financial statements.

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

European Embedded Value (EEV) Basis Results

BASIS OF PREPARATION

In broad terms, IFRS profit for long-term business reflects the aggregate of results on a traditional accounting basis. By contrast, EEV is a way of measuring the value of the in-force life insurance business. The value of future new business is excluded from the embedded value. The EEV Principles provide consistent definitions of the components of EEV, a framework for setting assumptions and an approach to the underlying methodology and disclosures. Results prepared under the EEV Principles represent the present value of the shareholders' interest in the post-tax future profits (on a local statutory basis) expected to arise from the current book of long-term business, after sufficient allowance has been made for the aggregate risks in the business. The shareholders' interest in the Group's long-term business is the sum of the shareholders' total net worth and the value of in-force business.

For the purposes of preparing EEV basis results, insurance joint ventures and associates are included at the Group's proportionate share of their embedded value and not at their market value. Asset management and other non-insurance subsidiaries, joint ventures and associates are included in the EEV basis results at the Group's proportionate share of IFRS basis shareholders' equity, with central Group debt shown on a market value basis.

Key features of the Group's EEV methodology include:

– *Economic assumptions:* The projected post-tax profits assume a level of future investment return and are discounted using a risk discount rate. Both the risk discount rate and the investment return assumptions are updated at each valuation date to reflect current market risk-free rates, such that changes in market risk-free rates impact all projected future cash flows. Risk-free rates, and hence investment return assumptions, are based on observable market data, with current market risk-free rates assumed to remain constant throughout the projection, with no trending or mean reversion to longer-term assumptions. Different products will be sensitive to different assumptions, for example, spread-based products or products with guarantees are likely to benefit disproportionately from higher assumed investment returns.
– *Time value of financial options and guarantees:* Explicit quantified allowances are made for the time value of financial options and guarantees (TVOG). The TVOG is determined by weighting the probability of outcomes across a large number of different economic scenarios, centred around current historically low risk-free interest rates, and is typically less applicable to health and protection business that generally contains more limited financial options or guarantees.
– *Allowance for risk in the risk discount rates:* Risk discount rates are set equal to the risk-free rate at the valuation date plus product-specific allowances for market and non-market risks. Risks that are explicitly captured elsewhere, such as via the TVOG, are not included in the risk discount rates. The allowance for market risk is based on a product-by-product assessment of the sensitivity of shareholder cash flows to varying market returns. Products with greater market exposure will have an appropriately higher risk discount rate, for example savings and unit-linked products will typically have a higher allowance for market risk compared to health and protection products due to the higher proportion of equity-type assets in the investment portfolio. Other product design and business features also affect the sensitivity of shareholder cash flows to market returns. For example, the construct of UK-style with-profits funds in some business units reduce the sensitivity of both policyholder and shareholder cash flows for participating products, and products where shareholder cash flows are based on a fixed charging structure (rather than charges that are sensitive to investment performance) typically attract a lower allowance for market risk. The allowance for non-market risk comprises a base Group-wide allowance of 50 basis points plus additional allowances for emerging market risk where appropriate. At 31 December 2020 the total allowance for non-market risk in Asia is equivalent to a $(3.2) billion reduction, or around (7) per cent of the Asia embedded value.

EEV RESULTS HIGHLIGHTS

	2020 ($m)			Change compared to prior year % (CER)			Change compared to prior year % (AER)		
	Group excluding US note (iii)	US note (iii)	Group total note (iii)	Group excluding US	US	Group total	Group excluding US	US	Group total
New business profit	2,201	601	2,802	(38)%	(32)%	(37)%	(38)%	(32)%	(36)%
Annual premium equivalent (APE)	3,696	1,923	5,619	(28)%	(13)%	(24)%	(28)%	(13)%	(24)%
Present value of new business premiums (PVNBP)	21,587	19,229	40,816	(26)%	(14)%	(21)%	(26)%	(14)%	(21)%
New business margin (APE) (%)	60%	31%	50%						
EEV operating profit note (i)	3,376	1,844	5,220	(34)%	4%	(24)%	(34)%	4%	(24)%
EEV operating profit, net of non-controlling interests note (i)	3,366	1,721	5,087	(34)%	(3)%	(26)%	(34)%	(3)%	(26)%
Operating return on average EEV shareholders' equity, net of non-controlling interests (%)	8%	12%	9%						
Operating free surplus generated note (ii)	1,895	1,109	3,004	8%	(1)%	4%	7%	(1)%	4%
Closing EEV shareholders' equity, net of non-controlling interests	41,926	12,081	54,007				9%	(26)%	(1)%
Closing EEV shareholders' equity, net of non-controlling interests per share (in cents)	1,607¢	463¢	2,070¢				9%	(26)%	(2)%

Notes

(i) Group excluding US represents the Group EEV operating profit (which is stated after central expenditure, restructuring and IFRS 17 implementation costs) after deducting amounts attributable to the US.
(ii) Long-term and asset management businesses only, before restructuring, IFRS 17 implementation costs, centrally incurred costs and eliminations (as described in note 5).
(iii) Segment results are attributed to the shareholders of the Group before deducting the amount attributable to non-controlling interests. This presentation is applied consistently throughout the document.

MOVEMENT IN GROUP EEV SHAREHOLDERS' EQUITY

	Note	2020 $m				2019 $m
		Asia	US	Other note 5	Group total	Group total
Continuing operations:						
New business profit	1	**2,201**	**601**		**2,802**	4,405
Profit from in-force long-term business	2	**1,933**	**1,273**		**3,206**	3,240
Long-term business		**4,134**	**1,874**		**6,008**	7,645
Asset management		**253**	**6**		**259**	275
Operating profit from long-term and asset management businesses		**4,387**	**1,880**		**6,267**	7,920
Other income and expenditure		**-**	**-**	**(858)**	**(858)**	(923)
Operating profit (loss) before restructuring and IFRS 17 implementation costs		**4,387**	**1,880**	**(858)**	**5,409**	6,997
Restructuring and IFRS 17 implementation costs		**(88)**	**(36)**	**(65)**	**(189)**	(92)
Operating profit (loss) for the year		**4,299**	**1,844**	**(923)**	**5,220**	6,905
Short-term fluctuations in investment returns	2	**1,909**	**(230)**	**28**	**1,707**	3,254
Effect of changes in economic assumptions	2	**(996)**	**(5,054)**	**-**	**(6,050)**	(1,868)
Impact of 2019 NAIC reform and related changes in the US[note (i)]		**-**	**-**	**-**	**-**	(3,457)
Loss attaching to corporate transactions	2	**(91)**	**(471)**	**(30)**	**(592)**	(207)
Mark-to-market value movements on core structural borrowings	6	**-**	**(5)**	**(247)**	**(252)**	(466)
Non-operating profit (loss)		**822**	**(5,760)**	**(249)**	**(5,187)**	(2,744)
Profit (loss) for the year from continuing operations		**5,121**	**(3,916)**	**(1,172)**	**33**	4,161
Loss for the year from discontinued operations[note (ii)]		**-**	**-**	**-**	**-**	(4,797)
Profit (loss) for the year		**5,121**	**(3,916)**	**(1,172)**	**33**	(636)
Non-controlling interests share of profit		**(11)**	**130**	**1**	**120**	(9)
Profit (loss) for the year attributable to equity holders of the Company		**5,110**	**(3,786)**	**(1,171)**	**153**	(645)
Foreign exchange movements on operations		**561**	**-**	**2**	**563**	666
Intra-group dividends and investment in operations[note (iii)]		**(741)**	**-**	**741**	**-**	-
External dividends		**-**	**-**	**(814)**	**(814)**	(1,634)
Mark-to-market value movements on US assets backing net worth		**-**	**552**	**-**	**552**	206
Other movements		**76**	**111**	**(207)**	**(20)**	95
Athene equity investment[note (iv)]		**-**	**(1,112)**	**-**	**(1,112)**	-
Non-controlling interests share of other equity items		**-**	**(26)**	**-**	**(26)**	-
Demerger dividend in specie of M&G plc[note (ii)]		**-**	**-**	**-**	**-**	(7,379)
Net increase (decrease) in shareholders' equity		**5,006**	**(4,261)**	**(1,449)**	**(704)**	(8,691)
Shareholders' equity at beginning of year		**39,235**	**16,342**	**(866)**	**54,711**	63,402
Shareholders' equity at end of year		**44,241**	**12,081**	**(2,315)**	**54,007**	54,711
Contribution to Group EEV:						
At end of year:						
Long-term business	2	**42,808**	**12,076**	**-**	**54,884**	54,179
Asset management and other	5	**635**	**5**	**(2,338)**	**(1,698)**	(290)
Goodwill attributable to equity holders		**798**	**-**	**23**	**821**	822
EEV shareholders' equity ($ million)		**44,241**	**12,081**	**(2,315)**	**54,007**	54,711
EEV shareholders' equity per share (in cents)[note (v)]		**1,696¢**	**463¢**	**(89)¢**	**2,070¢**	2,103¢
At beginning of year:						
Long-term business	2	**37,843**	**16,336**	**-**	**54,179**	64,174
Asset management and other	5	**596**	**6**	**(892)**	**(290)**	(2,874)
Goodwill attributable to equity holders		**796**	**-**	**26**	**822**	2,102
EEV shareholders' equity ($ million)		**39,235**	**16,342**	**(866)**	**54,711**	63,402
EEV shareholders' equity per share (in cents)[note (v)]		**1,508¢**	**628¢**	**(33)¢**	**2,103¢**	2,445¢

EEV basis basic earnings per share[note (v)]	2020				2019
	Net of tax $m	Non-controlling interests $m	Net of tax and non-controlling interests $m	Basic earnings per share cents	Basic earnings per share cents
Based on operating profit from continuing operations after non-controlling interests	**5,220**	**(133)**	**5,087**	**195.9¢**	266.6¢
Based on profit for the year attributable to equity holders of the Company:					
From continuing operations	**33**	**120**	**153**	**5.9¢**	160.5¢
From discontinued operations				**-**	(185.4)¢
				5.9¢	(24.9)¢

Notes

(i) The $(3,457) million impact of NAIC reform and other related changes in the US in full year 2019 related to the implementation of the National Association of Insurance Commissioners' (NAIC) changes to the US statutory reserve and capital framework for variable annuities, early-adopted by Jackson at 31 December 2019. As part of the implementation of these changes, enhancements were made to the model used to allow for hedging within US statutory reporting, which were subsequently utilised within EEV to update the allowance for the long-term cost of hedging under EEV economic assumptions, alongside a number of other changes following the NAIC reform with the objective of bringing the EEV free surplus more in line with the US statutory basis of reporting. Subsequent changes to the approach to the long-term cost of hedging allowance for EEV reporting in 2020 are included within economic assumption changes.

(ii) Discontinued operations for 2019 related to the UK and Europe operations (M&G plc) that were demerged from the Group in October 2019. The demerger dividend in specie of M&G plc was recorded at the fair value of M&G plc at the date of the demerger on 18 October 2019. The difference between the fair value and its carrying value, together with profit earned up to the date of the demerger were recorded as loss for the year from the discontinued UK and Europe operations in 2019.

(iii) Intra-group dividends represent dividends that have been declared in the year. Investment in operations reflects movements in share capital.

(iv) In 2020, the $(1,112) million relates to the equity investment by Athene into the US business as described in note D1.2 of the IFRS basis results.

(v) Based on the number of issued shares at 31 December 2020 of 2,609 million shares (31 December 2019: 2,601 million shares), and weighted average number of issued shares of 2,597 million shares in 2020 (2019: 2,587 million shares).

MOVEMENT IN GROUP FREE SURPLUS

For long-term business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (total net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to total net worth so that backing assets are included at market value, rather than at cost, to comply with the EEV Principles. In the Group's Asia and US operations, assets deemed to be inadmissible on a local regulatory basis are generally included in net worth, with the exception of deferred tax assets in the US that are inadmissible under the local regulatory basis, which have been included in the value of in-force business (VIF) within the Group's EEV results.

Free surplus for asset management and other non-insurance operations (including the Group's central operations and Africa operations) is taken to be IFRS basis shareholders' equity, net of goodwill attributable to equity holders, with central Group debt shown on a market value basis and subordinated debt recorded as free surplus to the extent that it is classified as available capital under the Group's capital regime. A reconciliation of EEV free surplus to the Group's Local Capital Summation Method (LCSM) surplus over Group minimum capital requirements is set out in note I(i) of the additional financial information.

	2020 $m					2019 $m
	Asia	**US**	**Total insurance and asset management**	**Other** note 5	**Group total**	**Group total**
Expected transfer from in-force business	**1,878**	**1,114**	**2,992**		**2,992**	3,081
Expected return on existing free surplus	**101**	**25**	**126**		**126**	141
Changes in operating assumptions and experience variances	**222**	**156**	**378**		**378**	558
Operating free surplus generated from in-force long-term business note (i)	**2,201**	**1,295**	**3,496**		**3,496**	3,780
Investment in new business note (ii)	**(559)**	**(192)**	**(751)**		**(751)**	(1,158)
Long-term business	**1,642**	**1,103**	**2,745**		**2,745**	2,622
Asset management	**253**	**6**	**259**		**259**	275
Operating free surplus generated from long-term and asset management businesses	**1,895**	**1,109**	**3,004**		**3,004**	2,897
Other income and expenditure	**-**	**-**	**-**	**(858)**	**(858)**	(923)
Operating free surplus generated before restructuring and IFRS 17 implementation costs	**1,895**	**1,109**	**3,004**	**(858)**	**2,146**	1,974
Restructuring and IFRS 17 implementation costs	**(82)**	**(36)**	**(118)**	**(65)**	**(183)**	(92)
Operating free surplus generated	**1,813**	**1,073**	**2,886**	**(923)**	**1,963**	1,882
Non-operating free surplus generated note (iii)	**444**	**(2,046)**	**(1,602)**	**(128)**	**(1,730)**	(1,016)
Free surplus generated from continuing operations	**2,257**	**(973)**	**1,284**	**(1,051)**	**233**	866
Free surplus generated from discontinued operations	**-**	**-**	**-**	**-**	**-**	2,512
Free surplus generated	**2,257**	**(973)**	**1,284**	**(1,051)**	**233**	3,378
Non-controlling interests share of profit	**(11)**	**245**	**234**	**1**	**235**	(9)
Free surplus generated attributable to equity holders of the Company	**2,246**	**(728)**	**1,518**	**(1,050)**	**468**	3,369
Net cash flows paid to parent company note (iv)	**(716)**	**-**	**(716)**	**716**	**-**	-
External dividends	**-**	**-**	**-**	**(814)**	**(814)**	(1,634)
Demerger dividend in specie of M&G plc	**-**	**-**	**-**	**-**	**-**	(7,379)
Foreign exchange movements on operations	**131**	**-**	**131**	**5**	**136**	267
Mark-to-market value movements on US assets backing net worth	**-**	**552**	**552**	**-**	**552**	206
Other movements and timing differences	**49**	**111**	**160**	**(182)**	**(22)**	(252)
Athene equity investment	**-**	**63**	**63**	**-**	**63**	-
Non-controlling interests share of other equity items	**-**	**(26)**	**(26)**	**-**	**(26)**	-
Net movement in free surplus	**1,710**	**(28)**	**1,682**	**(1,325)**	**357**	(5,423)
Balance at beginning of year	**4,220**	**1,777**	**5,997**	**3,739**	**9,736**	15,159
Balance at end of year	**5,930**	**1,749**	**7,679**	**2,414**	**10,093**	9,736
Representing:						
Free surplus excluding distribution rights and other intangibles	**5,023**	**1,731**	**6,754**	**(686)**	**6,068**	6,604
Distribution rights and other intangibles	**907**	**18**	**925**	**3,100**	**4,025**	3,132
	5,930	**1,749**	**7,679**	**2,414**	**10,093**	9,736
Contribution to Group free surplus:						
At end of year:						
Long-term business note 2	**5,295**	**1,744**	**7,039**	**-**	**7,039**	5,395
Asset management and other	**635**	**5**	**640**	**2,414**	**3,054**	4,341
Free surplus	**5,930**	**1,749**	**7,679**	**2,414**	**10,093**	9,736
At beginning of year:						
Long-term business note 2	**3,624**	**1,771**	**5,395**	**-**	**5,395**	9,587
Asset management and other	**596**	**6**	**602**	**3,739**	**4,341**	5,572
Free surplus	**4,220**	**1,777**	**5,997**	**3,739**	**9,736**	15,159

Notes

(i) US in-force free surplus generation in 2019 included a $355 million benefit from the release of incremental reserves in the first half of 2019 following the integration of the John Hancock business.

(ii) Free surplus invested in new business primarily represents acquisition costs and amounts set aside for required capital.

(iii) Asia non-operating free surplus generation in 2020 includes a reinsurance commission of $770m received as part of a reinsurance transaction undertaken by our business in Hong Kong as described in note D1 of the IFRS financial statements. Non-operating free surplus generated for other operations represents the post-tax IFRS basis short-term fluctuations in investment returns for other entities, as shown in Note B1.2 of the IFRS Financial Statements, along with mark-to-market value movements on core structural borrowings (unless classified as available capital under the Group's capital regime).

(iv) Net cash flows to parent company for Asia operations reflect the flows as included in the holding company cash flow at transaction rates. The difference to the intra-group dividends and investment in operations in the movement in EEV shareholders' equity primarily relates to intra-group loans, foreign exchange and other non-cash items.

NOTES ON THE EEV BASIS RESULTS

1 Analysis of new business profit and EEV for long-term business operations

	2020 $m					
	New business profit (NBP) note (i)	**Annual premium equivalent (APE)**	**Present value of new business premiums (PVNBP)**	**New business margin (APE)**	**New business margin (PVNBP)**	**Closing EEV shareholders' equity** note (ii)
Hong Kong	**787**	**758**	**5,095**	**104%**	**15%**	**20,156**
China JV	**269**	**582**	**2,705**	**46%**	**10%**	**2,798**
Indonesia	**155**	**267**	**1,154**	**58%**	**13%**	**2,630**
Malaysia	**209**	**346**	**2,023**	**60%**	**10%**	**4,142**
Singapore	**341**	**610**	**5,354**	**56%**	**6%**	**8,160**
Other	**440**	**1,133**	**5,256**	**39%**	**8%**	**4,922**
Total Asia insurance	**2,201**	**3,696**	**21,587**	**60%**	**10%**	**42,808**
US insurance	**601**	**1,923**	**19,229**	**31%**	**3%**	**12,076**
Total long-term business	**2,802**	**5,619**	**40,816**	**50%**	**7%**	**54,884**

	2019 (AER) $m					
	New business profit (NBP) note (i)	**Annual premium equivalent (APE)**	**Present value of new business premiums (PVNBP)**	**New business margin (APE)**	**New business margin (PVNBP)**	**Closing EEV shareholders' equity** note (ii)
Hong Kong	2,042	2,016	12,815	101%	16%	18,255
China JV	262	590	2,586	44%	10%	2,180
Indonesia	227	390	1,668	58%	14%	2,737
Malaysia	210	355	2,090	59%	10%	3,535
Singapore	387	660	4,711	59%	8%	7,337
Other	394	1,150	5,374	34%	7%	3,799
Total Asia insurance	3,522	5,161	29,244	68%	12%	37,843
US insurance	883	2,223	22,231	40%	4%	16,336
Total long-term business	4,405	7,384	51,475	60%	9%	54,179

	2019 (CER) $m					
	New business profit (NBP) note (i)	**Annual premium equivalent (APE)**	**Present value of new business premiums (PVNBP)**	**New business margin (APE)**	**New business margin (PVNBP)**	**Closing EEV shareholders' equity** note (ii)
Hong Kong	2,063	2,037	12,946	101%	16%	18,344
China JV	262	590	2,588	44%	10%	2,322
Indonesia	220	379	1,622	58%	14%	2,704
Malaysia	207	349	2,061	59%	10%	3,594
Singapore	383	653	4,659	59%	8%	7,464
Other	398	1,160	5,402	34%	7%	3,829
Total Asia insurance	3,533	5,168	29,278	68%	12%	38,257
US insurance	883	2,223	22,231	40%	4%	16,336
Total long-term business	4,416	7,391	51,509	60%	9%	54,593

Notes

(i) The movement in new business profit is analysed as follows:

	Asia $m	**US $m**	**Group $m**
2019 new business profit	3,522	883	4,405
Foreign exchange movement	11	-	11
Effect of changes in interest rates and other economic assumptions	2	(283)	(281)
Sales volume	(986)	(73)	(1,059)
Business mix, product mix and other items	(348)	74	(274)
2020 new business profit	**2,201**	**601**	**2,802**

(ii) Long-term business only, excluding goodwill attributable to equity holders.

2 Analysis of movement in EEV for long-term business operations

	2020 $m					2019 $m
	Free surplus	Required capital	Net worth	Value of in-force business	Embedded value	Embedded value
Total long-term business						
Balance at beginning of year from continuing operations	**5,395**	**6,891**	**12,286**	**41,893**	**54,179**	49,643
New business contribution[note 1]	**(751)**	**563**	**(188)**	**2,990**	**2,802**	4,405
Existing business – transfer to net worth	**2,992**	**(716)**	**2,276**	**(2,276)**	**-**	-
Expected return on existing business[note (ii)]	**126**	**186**	**312**	**1,646**	**1,958**	2,270
Changes in operating assumptions and experience variances[note (iii)]	**378**	**3**	**381**	**867**	**1,248**	970
Operating profit before restructuring and IFRS 17 implementation costs	**2,745**	**36**	**2,781**	**3,227**	**6,008**	7,645
Restructuring and IFRS 17 implementation costs	**(92)**	**-**	**(92)**	**(6)**	**(98)**	(5)
Operating profit	**2,653**	**36**	**2,689**	**3,221**	**5,910**	7,640
Non-operating (loss) profit[note (iv)]	**(1,602)**	**320**	**(1,282)**	**(3,656)**	**(4,938)**	(1,840)
Profit (loss) for the year	**1,051**	**356**	**1,407**	**(435)**	**972**	5,800
Non-controlling interests share of profit	**245**	**124**	**369**	**(239)**	**130**	(1)
Profit (loss) for the year attributable to equity holders of the Company	**1,296**	**480**	**1,776**	**(674)**	**1,102**	5,799
Foreign exchange movements	**116**	**15**	**131**	**415**	**546**	369
Intra-group dividends and investment in operations	**(582)**	**-**	**(582)**	**-**	**(582)**	(1,633)
Mark-to-market value movements on US assets backing net worth	**552**	**-**	**552**	**-**	**552**	206
Other movements[note (v)]	**225**	**-**	**225**	**-**	**225**	(205)
Athene equity investment	**63**	**(548)**	**(485)**	**(627)**	**(1,112)**	-
Non-controlling interests share of other equity items	**(26)**	**-**	**(26)**	**-**	**(26)**	-
Balance at end of year[note (i)]	**7,039**	**6,838**	**13,877**	**41,007**	**54,884**	54,179
Asia long-term business						
Balance at beginning of year	**3,624**	**3,182**	**6,806**	**31,037**	**37,843**	30,985
New business contribution[note 1]	**(559)**	**181**	**(378)**	**2,579**	**2,201**	3,522
Existing business – transfer to net worth	**1,878**	**(107)**	**1,771**	**(1,771)**	**-**	-
Expected return on existing business[note (ii)]	**101**	**62**	**163**	**1,238**	**1,401**	1,542
Changes in operating assumptions and experience variances[note (iii)]	**222**	**(38)**	**184**	**348**	**532**	824
Operating profit before restructuring and IFRS 17 implementation costs	**1,642**	**98**	**1,740**	**2,394**	**4,134**	5,888
Restructuring and IFRS 17 implementation costs	**(63)**	**-**	**(63)**	**(6)**	**(69)**	-
Operating profit	**1,579**	**98**	**1,677**	**2,388**	**4,065**	5,888
Non-operating profit[note (iv)]	**444**	**150**	**594**	**228**	**822**	1,962
Profit for the year	**2,023**	**248**	**2,271**	**2,616**	**4,887**	7,850
Non-controlling interests share of profit	**-**	**-**	**-**	**-**	**-**	(1)
Profit for the year attributable to equity holders of the Company	**2,023**	**248**	**2,271**	**2,616**	**4,887**	7,849
Foreign exchange movements	**116**	**15**	**131**	**415**	**546**	369
Intra-group dividends and investment in operations	**(582)**	**-**	**(582)**	**-**	**(582)**	(1,108)
Other movements[note (v)]	**114**	**-**	**114**	**-**	**114**	(252)
Balance at end of year[note (i)]	**5,295**	**3,445**	**8,740**	**34,068**	**42,808**	37,843
US long-term business						
Balance at beginning of year	**1,771**	**3,709**	**5,480**	**10,856**	**16,336**	18,658
New business contribution[note 1]	**(192)**	**382**	**190**	**411**	**601**	883
Existing business – transfer to net worth	**1,114**	**(609)**	**505**	**(505)**	**-**	-
Expected return on existing business[note (ii)]	**25**	**124**	**149**	**408**	**557**	728
Changes in operating assumptions and experience variances[note (iii)]	**156**	**41**	**197**	**519**	**716**	146
Operating profit before restructuring and IFRS 17 implementation costs	**1,103**	**(62)**	**1,041**	**833**	**1,874**	1,757
Restructuring and IFRS 17 implementation costs	**(29)**	**-**	**(29)**	**-**	**(29)**	(5)
Operating profit	**1,074**	**(62)**	**1,012**	**833**	**1,845**	1,752
Non-operating (loss) profit[note (iv)]	**(2,046)**	**170**	**(1,876)**	**(3,884)**	**(5,760)**	(3,802)
(Loss) profit for the year	**(972)**	**108**	**(864)**	**(3,051)**	**(3,915)**	(2,050)
Non-controlling interests share of profit	**245**	**124**	**369**	**(239)**	**130**	-
(Loss) profit for the year attributable to equity holders of the Company	**(727)**	**232**	**(495)**	**(3,290)**	**(3,785)**	(2,050)
Intra-group dividends and investment in operations	**-**	**-**	**-**	**-**	**-**	(525)
Mark-to-market value movements on US assets backing net worth	**552**	**-**	**552**	**-**	**552**	206
Other movements[note (v)]	**111**	**-**	**111**	**-**	**111**	47
Athene equity investment	**63**	**(548)**	**(485)**	**(627)**	**(1,112)**	-
Non-controlling interests share of other equity items	**(26)**	**-**	**(26)**	**-**	**(26)**	-
Balance at end of year[note (i)]	**1,744**	**3,393**	**5,137**	**6,939**	**12,076**	16,336

Notes

(i) The total embedded value for long-term business operations, excluding goodwill attributable to equity holders, can be summarised as follows:

	31 Dec 2020 $m			31 Dec 2019 $m		
	Asia	**US**	**Group total**	**Asia**	**US**	**Group total**
Value of in-force business before deduction of cost of capital and time value of options and guarantees	**36,729**	**7,416**	**44,145**	32,396	11,417	43,813
Cost of capital	**(749)**	**(457)**	**(1,206)**	(866)	(370)	(1,236)
Time value of options and guarantees*	**(1,912)**	**(20)**	**(1,932)**	(493)	(191)	(684)
Net value of in-force business	**34,068**	**6,939**	**41,007**	31,037	10,856	41,893
Free surplus	**5,295**	**1,744**	**7,039**	3,624	1,771	5,395
Required capital	**3,445**	**3,393**	**6,838**	3,182	3,709	6,891
Net worth	**8,740**	**5,137**	**13,877**	6,806	5,480	12,286
Embedded value	**42,808**	**12,076**	**54,884**	37,843	16,336	54,179

* The time value of options and guarantees (TVOG) arises from the variability of economic outcomes in the future and is, where appropriate, calculated as the difference between an average outcome across a range of economic scenarios, calibrated around a central scenario, and the outcome from the central economic scenario, as described in note 8(i)(d). The TVOG and the outcome from the central scenario are linked; as the central scenario is updated for market conditions and the outcome reflects more or less of the guaranteed benefit payouts and associated product charges, there will be consequential changes to the TVOG. At 31 December 2020 the TVOG for Asia operations is $(1,912) million, with the substantial majority arising in Hong Kong, reflecting the variability of guaranteed benefit payouts across the range of economic scenarios around current low interest rates. The TVOG represents some of the market risk for the key products in Hong Kong. As this market risk is explicitly allowed for via the TVOG, no further adjustment is made to allow for this within the EEV risk discount rate, as described in note 8(i)(h), leading to a lower risk discount rate. The magnitude of the TVOG for Asia operations at 31 December 2020 would be approximately equivalent to a 30 basis point increase in the Asia weighted average risk discount rate.

(ii) The expected return on existing business reflects the effect of changes in economic and operating assumptions in the current year, as described in note 8(ii)(c). The movement in this amount compared to the prior year is analysed as follows:

	Asia $m	**US $m**	**Group total $m**
2019 expected return on existing business	1,542	728	2,270
Foreign exchange movement	(8)	-	(8)
Effect of changes in interest rates and other economic assumptions	(312)	(114)	(426)
Growth in opening value of in-force business and other items	179	(57)	122
2020 expected return on existing business	**1,401**	**557**	**1,958**

(iii) The effect of changes in operating assumptions of $390 million (2019: $539 million) in Asia principally reflects the benefit of medical pricing actions, the introduction of a more simplified framework for policyholder charges for guarantees in Hong Kong and the beneficial effect on the effective tax rate for Indonesia from changes to local tax legislation in the first half of 2020, together with the outcome of the regular review of persistency, claims and expenses. Experience variances and other items of $142 million (2019: $285 million) has been driven by positive mortality and morbidity experience in a number of local business units. In the US, the effect of changes in operating assumptions, experience variances and other items of $716 million (2019: $146 million) mainly includes the effect of positive persistency experience and assumption changes and the regular amortisation of interest-related gains and losses.

(iv) The EEV non-operating profit (loss), can be summarised as follows:

	31 Dec 2020 $m			31 Dec 2019 $m		
	Asia	**US**	**Group total**	**Asia**	**US**	**Group total**
Short-term fluctuations in investment returns[note (a)]	**1,909**	**(230)**	**1,679**	2,451	876	3,327
Effect of changes in economic assumptions[note (b)]	**(996)**	**(5,054)**	**(6,050)**	(667)	(1,201)	(1,868)
Impact of 2019 NAIC reform and related changes in the US	**-**	**-**	**-**	-	(3,457)	(3,457)
Mark-to-market value movements on core structural borrowings[note 6(iii)]	**-**	**(5)**	**(5)**	-	(18)	(18)
Loss (gain) attaching to corporate transactions[note (c)]	**(91)**	**(471)**	**(562)**	178	(2)	176
Non-operating profit (loss)	**822**	**(5,760)**	**(4,938)**	1,962	(3,802)	(1,840)

(a) The credit of $1,909 million in Asia for short-term fluctuations in investment returns mainly reflects higher than expected bond and equity returns, particularly in Hong Kong. In the US, the charge of $(230) million mainly reflects losses arising from changes to the asset portfolio following the Athene transaction.

(b) The charge for economic assumption changes of $(996) million in Asia is mainly driven by Hong Kong and primarily arises from movements in long-term interest rates, resulting in lower assumed fund earned rates that impact projected future cash flows across the majority of local business units, partially offset by lower risk discount rates. This impact includes a benefit from a change to the calculation of the valuation interest rate used to value long-term insurance liabilities in Hong Kong and reflects the impact of changes to longer-term views on economic assumptions as described in note 9(i). In the US, the charge of $(5,054) million largely reflects the effect of lower interest rates in the year, with the US 10 year Treasury falling by 99 basis points over the course of 2020. Lower interest rates, have the effect of decreasing future separate account return and hence lowering future projected fee income, increasing future projected hedging costs and reducing future reinvestment rates. These effects have been partially offset by lower risk discount rates and the increase in the US equity risk premium as described in note 9(i). Further, the US charge includes the impact of refinements that Jackson implemented to its EEV hedge modelling as a result of the changes made for its statutory reserves and capital that reduced EEV by $795 million as at 1 January 2020.

(c) The impact of corporate transactions in the year is as follows:

	2020 $m	**2019 $m**
Loss on reinsurance of Jackson's in-force fixed and fixed indexed annuity portfolio*	**(457)**	-
Gain on disposals†	**-**	178
Other transactions‡	**(105)**	(2)
Total	**(562)**	176

* In June 2020, the Group announced the reinsurance of substantially all of Jackson's in-force portfolio of fixed and fixed indexed annuity business to Athene Life Re Ltd. Further details are included in note D1.1 of the IFRS basis results. The effect on the EEV position largely reflects the loss of future profits recorded in the value of in-force business as a result of the reinsurance and the loss of unrealised gains on assets passed to Athene, partly offset by the reinsurance commission received after deducting tax.

† In 2019, the gain on disposals principally related to profits arising from a 4 per cent reduction in the Group's stake in its associate in India, ICICI Prudential Life Insurance Company, and the disposal of Prudential Vietnam Finance Company Limited, a wholly-owned subsidiary that provides consumer finance.

‡ In 2020, other transactions includes a loss of $(91) million from the reinsurance transaction undertaken by our business in Hong Kong described in note D1.1 of the IFRS financial statements together with costs incurred by Jackson in relation to its proposed separation. Outside of the long-term business (and hence not included in the table above) central operations incurred $30 million of costs associated with corporate transactions largely in relation to the proposed separation of Jackson.

(v) Other movements include reserve movements in respect of share capital subscribed, share-based payments, treasury shares, intra-group loans and other intra-group transfers between operations that have no overall effect on the Group's shareholders' equity.

3 Sensitivity of results for long-term business operations to alternative assumptions

(i) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value and the new business profit for long-term business operations to:

- 1 per cent and 2 per cent (for 2020 only) increases in interest rates, including consequential changes in assumed investment returns for all asset classes, market values of fixed interest assets and local statutory reserves and capital requirements and risk discount rates (but excluding changes in the allowance for market risk);
- 0.5 per cent decrease in interest rates, including consequential changes in assumed investment returns for all asset classes, market values of fixed interest assets and local statutory reserves and capital requirements and risk discount rates (but excluding changes in the allowance for market risk);
- 1 per cent rise in equity and property yields;
- 20 per cent fall (10 per cent fall for 2019) in the market value of equity and property assets (embedded value only);
- 1 per cent and 2 per cent (for 2020 only) increases in the risk discount rates. The main driver for changes in the risk discount rates from year to year is changes in the risk-free rates, the impact of which is expected to be broadly offset by a corresponding change in assumed investment returns, the effect of which is not included in these sensitivities. The impact of higher investment returns can be approximated as the difference between the sensitivity to increases in interest rates and the sensitivity to increases in risk discount rates; and
- The Group minimum capital requirements under the LCSM in contrast to EEV basis required capital (embedded value only).

The sensitivities shown below are for the impact of instantaneous and permanent changes (with no trending or mean reversion) on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets (including derivatives) held at the valuation dates indicated. The sensitivities reflect the consequential impacts from market movements at the valuation date. The results only allow for limited management actions such as changes to future policyholder bonuses where applicable. If such economic conditions persisted, the financial impacts may differ to the instantaneous impacts shown below. In this case management could also take additional actions to help mitigate the impact of these stresses. No change in the assets held at the valuation date is assumed when calculating sensitivities. The sensitivity impacts are expected to be non-linear, to aid understanding of this non linearity, impacts of both a 1% and 2% increase to interest rates and risk discount rates are shown.

If the changes in assumptions shown in the sensitivities were to occur, the effects shown below would be recorded within two components of the profit analysis for the following year, namely the effect of changes in economic assumptions and short-term fluctuations in investment returns. In addition, for changes in interest rates, the effect shown below for the US (Jackson) would also be recorded within mark-to-market value movements on Jackson assets backing surplus and required capital, which are taken directly to shareholders' equity. In addition to the sensitivity effects shown below, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business profit and expected return on existing business, together with the effect of other changes such as altered corporate bond spreads.

New business profit from long-term business

	2020 $m			2019 $m		
	Asia	**US**	**Group total**	**Asia**	**US**	**Group total**
New business profit	**2,201**	**601**	**2,802**	3,522	883	4,405
Interest rates and consequential effects – 2% increase	**107**	**669**	**776**	n/a	n/a	n/a
Interest rates and consequential effects – 1% increase	**78**	**375**	**453**	(46)	207	161
Interest rates and consequential effects – 0.5% decrease	**(98)**	**(149)**	**(247)**	(121)	(123)	(244)
Equity/property yields – 1% rise	**140**	**88**	**228**	210	70	280
Risk discount rates – 2% increase	**(626)**	**112**	**(514)**	n/a	n/a	n/a
Risk discount rates – 1% increase	**(372)**	**33**	**(339)**	(715)	(22)	(737)

Embedded value of long-term business

	31 Dec 2020 $m			31 Dec 2019 $m		
	Asia	**US**	**Group total**	**Asia**	**US**	**Group total**
Embedded value	**42,808**	**12,076**	**54,884**	37,843	16,336	54,179
Interest rates and consequential effects – 2% increase	**(3,589)**	**2,275**	**(1,314)**	n/a	n/a	n/a
Interest rates and consequential effects – 1% increase	**(1,429)**	**1,667**	**238**	(1,408)	798	(610)
Interest rates and consequential effects – 0.5% decrease	**177**	**(162)**	**15**	(28)	(686)	(714)
Equity/property yields – 1% rise	**1,949**	**506**	**2,455**	1,758	556	2,314
Equity/property market values – 10% fall	**n/a**	**n/a**	**n/a**	(810)	(1,205)	(2,015)
Equity/property market values – 20% fall	**(1,912)**	**(2,173)**	**(4,085)**	n/a	n/a	n/a
Risk discount rates – 2% increase	**(9,225)**	**(568)**	**(9,793)**	n/a	n/a	n/a
Risk discount rates – 1% increase	**(5,286)**	**(286)**	**(5,572)**	(5,263)	(509)	(5,772)
Group minimum capital requirements	**150**	**275**	**425**	175	221	396

Overall, the directional movements in the sensitivities from 31 December 2019 to 31 December 2020 reflect the generally lower government bond yields and higher equity markets at 31 December 2020, and, in the case of the US, the actual hedging portfolio in place at both valuation dates, which varies from year to year due to the nature of Jackson's dynamic hedging programme.

Asia insurance operations
Interest rate sensitivities for the Asia long-term business embedded value show broadly similar movements at 31 December 2020 as compared to 31 December 2019. These interest rate sensitivities illustrate the impact of using different economic assumptions within our EEV framework. For a 1 per cent increase in assumed interest rates the $(1,429) million negative effect comprises a $(5,286) million negative impact of increasing the risk discount rate by 1 per cent, partially offset by a $3,857 million benefit from assuming 1 per cent higher investment returns. Similarly, for a 2 per cent increase in assumed interest rates the $(3,589) million negative effect comprises a $(9,225) million negative impact of increasing the risk discount rates by 2 per cent, partially offset by a $5,636 million benefit from higher assumed investment returns. Finally, for a 0.5 per cent decrease in assumed interest rates there would be a $177 million positive effect from the 0.5 per cent reduction in assumed discount rates being partially offset by lower assumed investment returns. For a 1 per cent increase in the assumed Asia equity risk premium and property risk premium the EEV would increase by $1,949 million.

In order to illustrate the impact on EEV of varying specific economic assumptions, all other assumptions are held constant in the sensitivities above, and therefore the actual changes in EEV were these economic effects to materialise may differ from the sensitivities shown. For example, if interest rates decreased by 0.5 per cent, as well as changes to the risk free rate, market risk allowances would likely also be increased within the risk discount rate, leading to a larger increase in the risk discount rate than 0.5 per cent, and a larger reduction in EEV of $(1,264) million (compared to the $177 million benefit shown above from reducing both the earned rate and discount rate by 0.5 per cent). However, if interest rates actually increased by 1 per cent the likely change in EEV would not materially differ to the impact of the 1 per cent interest rate sensitivity shown above.

US insurance operations
The interest rate and equity/property market values sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the valuation date, while the actual impact on financial results would vary contingent upon a number of factors.

The sensitivity of the US long-term business embedded value to interest rates is driven by the change in assumed investment returns, and the consequential impact on future fee income and projected benefit and dynamic hedging costs, offset by the impact of market value movements on derivatives and other assets. At the lower interest rates at 31 December 2020, the positive impact from higher assumed investment returns from a 1 per cent increase in risk-free rates is higher than at 31 December 2019. For a 0.5 per cent decrease in interest rates the increase in expected benefit costs is offset by the hedging protection held to manage such a risk to a greater extent than in 2019.

The equity/property market values sensitivity is driven by a negative effect from lower future fee income and increased projected benefit and dynamic hedging costs on variable annuity business, partially offset by market value movements on equity derivatives held at the valuation date.

(ii) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value and the new business profit for long-term business operations to:

– 10 per cent proportionate decrease in maintenance expenses (for example, a 10 per cent sensitivity on a base assumption of $10 per annum would represent an expense assumption of $9 per annum);
– 10 per cent proportionate decrease in lapse rates (for example, a 10 per cent sensitivity on a base assumption of 5.0 per cent would represent a lapse rate of 4.5 per cent per annum); and
– 5 per cent proportionate decrease in base mortality (ie increased longevity) and morbidity rates.

New business profit from long-term business

	2020 $m			2019 $m		
	Asia	**US**	**Group total**	**Asia**	**US**	**Group total**
New business profit	**2,201**	**601**	**2,802**	3,522	883	4,405
Maintenance expenses – 10% decrease	**47**	**18**	**65**	67	15	82
Lapse rates – 10% decrease	**156**	**(4)**	**152**	211	24	235
Mortality and morbidity – 5% decrease	**106**	**(12)**	**94**	116	(2)	114

Embedded value of long-term business

	31 Dec 2020 $m			31 Dec 2019 $m		
	Asia	**US**	**Group total**	**Asia**	**US**	**Group total**
Embedded value	**42,808**	**12,076**	**54,884**	37,843	16,336	54,179
Maintenance expenses – 10% decrease	**476**	**193**	**669**	411	200	611
Lapse rates – 10% decrease	**1,774**	**251**	**2,025**	1,459	624	2,083
Mortality and morbidity – 5% decrease	**1,689**	**(20)**	**1,669**	1,323	94	1,417

4 Expected transfer of value of in-force business and required capital to free surplus for Asia long-term business operations on a discounted basis

The table below shows how the value of in-force business (VIF) and the associated required capital for Asia long-term business operations are projected as emerging into free surplus over future years. Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities. The projected emergence of VIF and required capital into free surplus in 2021 will be the starting point for expected free surplus generation next year, after updating for operating and economic assumption changes. See note I(vi) of the additional financial information for further detail.

Post its separation from the Group, Jackson will no longer publish EEV results and so this section covers Asia only.

	Total expected emergence	**Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus at 31 Dec**					
		1-5 years	**6-10 years**	**11-15 years**	**16-20 years**	**21-40 years**	**40+ years**
2020 ($m)	**38,594**	**9,112**	**6,932**	**5,511**	**4,234**	**9,193**	**3,612**
(%)	**100%**	**24%**	**18%**	**14%**	**11%**	**24%**	**9%**
2019 ($m)	34,295	8,561	6,335	4,394	3,398	7,715	3,892
(%)	100%	25%	18%	13%	10%	23%	11%

The required capital and value of in-force business for Asia long-term business operations can be reconciled to the total discounted emergence of future free surplus shown above as follows:

	31 Dec 2020 $m	**31 Dec 2019 $m**
Required capital[note 2]	**3,445**	3,182
Value of in-force business (VIF)[note 2]	**34,068**	31,037
Other items*	**1,081**	76
Asia long-term business operations	**38,594**	34,295

* 'Other items' represent the impact of the time value of options and guarantees and amounts incorporated into VIF where there is no definitive time frame for when the payments will be made or receipts received. These items are excluded from the expected free surplus generation profile above.

5 EEV basis results for other operations

EEV basis other income and expenditure represents the post-tax IFRS basis results for other operations (before restructuring and IFRS 17 implementation costs), together with an adjustment to deduct the unwind of expected margins on the internal management of the assets of the covered business, as shown in the table below. It includes interest costs on core structural borrowings, corporate expenditure for head office functions in London and Hong Kong that is not recharged/allocated to the insurance operations, and Africa operations.

In line with the EEV Principles, the allowance for the future cost of internal asset management services within the EEV basis results for long-term insurance operations excludes the projected future profits or losses generated by any non-insurance entities within the Prudential Group in providing those services (ie the EEV for long-term insurance operations assumes that the cost of internal asset management services will be that incurred by the Group as a whole, not the cost that will be borne by the insurance business). The results of the Group's asset management operations include the current period profit from the management of both internal and external funds, consistent with their presentation within the Group's IFRS basis reporting. An adjustment is accordingly made to Group EEV operating profit, within the EEV basis results for other operations, to deduct the expected profit anticipated to arise in the current period in the opening VIF from internal asset management services, such that Group EEV operating profit includes the actual profit earned in respect of the management of these assets.

Any costs incurred within the head office functions in London and Hong Kong that are attributable to the long-term insurance (covered) business are recharged/allocated to the insurance operations and recorded within the results for those operations. The assumed future expenses within the value of in-force business for long-term insurance operations allow for amounts expected to be recharged/allocated by the head office functions. Other costs that are not recharged/allocated to the insurance operations are shown as part of other income and expenditure for the current year, and are not included within the projection of future expenses for in-force insurance business.

	2020 $m	2019 $m
IFRS basis other income and expenditure*	**(748)**	(926)
Tax effects on IFRS basis results	**(17)**	82
Less: unwind of expected profit on internal management of the assets of the Asia long-term business	**(68)**	(56)
Less: unwind of expected profit on internal management of the assets of the US long-term business	**(25)**	(23)
EEV basis other income and expenditure	**(858)**	(923)

* As recorded in note B1.1 of the IFRS Financial Statements.

The EEV basis shareholders' equity for other operations is taken to be IFRS basis shareholders' equity, with central Group debt shown on a market value basis. Free surplus for other operations is taken to be IFRS basis shareholders' equity, net of goodwill attributable to equity holders, with central Group debt shown on a market value basis and subordinated debt recorded as free surplus to the extent that it is classified as available capital under the Group's capital regime. Shareholders' equity for other operations can be compared across metrics as shown in the table below.

Other operations:	31 Dec 2020 $m	31 Dec 2019 $m
IFRS basis shareholders' equity*	**(1,520)**	(318)
Mark-to-market value adjustment on central borrowings[note 6]	**(795)**	(548)
EEV basis shareholders' equity	**(2,315)**	(866)
Record applicable subordinated debt as available capital[note 6]	**4,752**	4,631
Less: goodwill attributable to equity holders	**(23)**	(26)
Free surplus	**2,414**	3,739

* As recorded in note C1 of the IFRS Financial Statements.

For asset managers and other operations (including the Group's central operations and Africa operations), EEV basis shareholders' equity and free surplus is identical to IFRS basis shareholders' equity, net of goodwill attributable to equity holders as applicable.

6 Net core structural borrowings of shareholder-financed businesses

	31 Dec 2020 $m			31 Dec 2019 $m		
	IFRS basis note (ii)	**Mark-to -market value adjustment** note (iii)	**EEV basis at market value**	**IFRS basis** note (ii)	**Mark-to -market value adjustment** note (iii)	**EEV basis at market value**
Holding company cash and short-term investments[note (i)]	**(1,463)**	**-**	**(1,463)**	(2,207)	-	(2,207)
Central borrowings:						
Subordinated debt	**4,332**	**420**	**4,752**	4,304	327	4,631
Senior debt	**1,701**	**375**	**2,076**	690	221	911
Bank loan	**350**	**-**	**350**	350	-	350
Total central borrowings	**6,383**	**795**	**7,178**	5,344	548	5,892
Total net central funds	**4,920**	**795**	**5,715**	3,137	548	3,685
Jackson Surplus Notes	**250**	**90**	**340**	250	85	335
Net core structural borrowings of shareholder-financed businesses	**5,170**	**885**	**6,055**	3,387	633	4,020

Notes

(i) Holding company includes centrally managed group holding companies.

(ii) As recorded in note C5.1 of the IFRS Financial Statements.

(iii) The movement in the value of core structural borrowings includes foreign exchange effects for pounds sterling denominated debts, which are included in 'Exchange movements on foreign operations'. The movement in the mark-to-market value adjustment can be analysed as follows:

	2020 $m	**2019 $m**
Mark-to-market value adjustment at beginning of year	**633**	233
Charge included in the income statement*	**252**	466
Movement on subordinated debt substituted to M&G plc and foreign exchange movements	**-**	(66)
Mark-to-market value adjustment at end of year	**885**	633
*Representing:		
Total central borrowings	**247**	448
Jackson Surplus Notes	**5**	18
Total	**252**	466

7 Comparison of EEV basis shareholders' equity with IFRS basis shareholders' equity

	31 Dec 2020 $m	**31 Dec 2019 $m**
Assets less liabilities before deduction of insurance funds	**421,987**	396,241
Less insurance funds[note (i)]		
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	**(399,868)**	(376,572)
Shareholders' accrued interest in the long-term business	**33,129**	35,234
	(366,739)	(341,338)
Less non-controlling interests	**(1,241)**	(192)
Total net assets attributable to equity holders of the Company	**54,007**	54,711
Share capital	**173**	172
Share premium	**2,637**	2,625
IFRS basis shareholders' reserves	**18,068**	16,680
IFRS basis shareholders' equity	**20,878**	19,477
Shareholders' accrued interest in the long-term business	**33,129**	35,234
EEV basis shareholders' equity[note (ii)]	**54,007**	54,711

Notes

(i) Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

(ii) Excluding non-controlling interests.

8 Methodology and accounting presentation

(i) Methodology

(a) Covered business
The EEV basis results for the Group are prepared for 'covered business' as defined by the EEV Principles. Covered business represents the Group's long-term insurance business (including the Group's investments in joint venture and associate insurance operations), for which the value of new and in-force contracts is attributable to shareholders.

The EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's asset management and other operations (including interest costs on core structural borrowings, corporate expenditure for head office functions in London and Hong Kong that is not recharged/allocated to the insurance operations, and Africa operations), with an adjustment to deduct the unwind of expected margins on the internal management of the assets of the covered business. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note (g) below.

The definition of long-term insurance business comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall under the technical definition.

(b) Valuation of in-force and new business
The EEV basis results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, persistency, mortality, morbidity and expenses, as described in note 9(iii). These assumptions are used to project future cash flows. The present value of the projected future cash flows is then calculated using a discount rate, as shown in note 9(i), which reflects both the time value of money and all other non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

The total profit that emerges over the lifetime of an individual contract as calculated under the EEV basis is the same as that calculated under the IFRS basis. Since the EEV basis reflects discounted future cash flows, under the EEV methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the year.

New business
In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing regular and single premium business as set out in the Group's new business sales reporting.

New business premiums reflect those premiums attaching to the covered business, including premiums for contracts classified as investment contracts under IFRS 4. New business premiums for regular premium products are shown on an annualised basis.

New business profit represents profit determined by applying operating and economic assumptions as at the end of the year. New business profitability is a key metric for the Group's management of the development of the business. In addition, new business margins are shown by reference to annual premium equivalent (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums on new business written in the period and one-tenth of single premiums. PVNBP is calculated as the aggregate of single premiums and the present value of expected future premiums from regular premium new business, allowing for lapses and the other assumptions made in determining the EEV new business profit.

Valuation movements on investments
With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for the covered business conceptually reflect the aggregate of the post-tax IFRS basis results and the movements in the additional shareholders' interest recognised on an EEV basis. Therefore, the start point for the calculation of the EEV basis results for Jackson, as for other businesses, reflects the market value movements recognised on an IFRS basis.

In determining the movements in the additional shareholders' interest, for Jackson's debt securities backing liabilities, the aggregate EEV basis results reflect the fact that the value of in-force business incorporates the discounted value of expected future spread earnings. This value is generally not affected by short-term market movements in debt securities that, broadly speaking, are held for the longer term. Consequently, within EEV total net worth, Jackson's debt securities backing liabilities are held on a statutory basis (largely at book value), while those backing surplus and required capital are accounted for at market value. Consistent with the treatment applied under IFRS 4, for Jackson's debt securities classified as available-for-sale, movements in unrealised appreciation and depreciation on these securities are accounted for directly in equity rather than in the income statement, as shown in 'Mark-to-market value movements on Jackson assets backing surplus and required capital' in the statement of movement in Group EEV shareholders' equity.

(c) Cost of capital
A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital held and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The EEV results are affected by the movement in this cost from year to year, which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets within the fund is already adjusted to reflect its expected release over time and so no further adjustment to the shareholder position is necessary.

(d) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia

Participating products in Asia, principally written in Hong Kong, Singapore and Malaysia, have both guaranteed and non-guaranteed elements. These products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: regular and final. Regular bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular products. Final bonuses are guaranteed only until the next bonus declaration.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that typically accrue at rates set at inception and do not vary subsequently with market conditions. Similar to participating products, the policyholder charges incorporate an allowance for the cost of providing these guarantees. During 2020 the approach to determining these charges was reviewed and simplified for certain whole-of-life products in Hong Kong; the charges will now remain constant throughout varying economic conditions, rather than reducing as the economic environment improves and vice versa.

US

Jackson issues variable annuity contracts for which it contractually guarantees to the contract holder, subject to specific conditions, either: a) a return of no less than total deposits made to the contract, adjusted for any partial withdrawals; b) total deposits made to the contract, adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date, adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable upon depletion of funds (Guaranteed Minimum Withdrawal Benefits (GMWB)) or as death benefits (Guaranteed Minimum Death Benefits (GMDB)). These guarantees generally protect the policyholder's contract value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, with an expected long-term future hedging cost allowed for within the EEV value of in-force business to reflect the derivatives expected to be held based on the Group's current dynamic hedging programme and consideration of past practice. Jackson also historically issued a small amount of income benefits (Guaranteed Minimum Income Benefits (GMIB)), which are now materially fully reinsured.

In June 2020 the Group announced the reinsurance of substantially all of Jackson's in-force portfolio of fixed and fixed indexed annuity business to Athene Life Re Ltd. These contracts included some financial options and guarantees that are now materially fully reinsured as at 31 December 2020.

Time value

The value of financial options and guarantees comprises the intrinsic value (arising from a deterministic valuation on best estimate assumptions) and the time value (arising from the variability of economic outcomes in the future).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of financial options and guarantees. The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, such as separate modelling of individual asset classes with an allowance for correlations between various asset classes. Details of the key characteristics of each model are given in note 9(ii).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, investment allocation decisions, levels of regular and final bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions. In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options available to management.

The time value of financial options and guarantees reflects how the market value of the assets (including derivatives) held to manage the liability portfolios are expected to vary across the range of economic scenarios considered. In some economic scenarios the derivative portfolio may project gains in excess of the cost of the underlying guarantees on an EEV basis. If the calculation of the time value of options and guarantees results in a positive outcome for a particular product then the figure is capped at zero, reflecting the strong interaction between the outcome of the central economic scenario and the time value of financial options and guarantees in these circumstances, and the reported value of in-force business before deduction of cost of capital and time value of options and guarantees will reflect the outcome from the full stochastic valuation.

(e) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on the applicable local statutory regulations, including any amounts considered to be required above the local statutory minimum requirements to satisfy regulatory constraints.

For shareholder-backed businesses, the following capital requirements for long-term business apply:

– Asia: the level of required capital has been set to an amount at least equal to local statutory notification requirements.
  - For Singapore life operations, from 31 March 2020 the level of net worth and required capital is based on the Tier 1 Capital position under the new risk-based capital framework (RBC2), which removes certain negative reserves permitted to be recognised in the full RBC2 regulatory position applicable to the Group's LCSM position, in order to better reflect free surplus and its generation;
  - For China JV life operations, the level of required capital follows the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime; and
– US: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL).

(f) With-profits business and the treatment of the estate

For the Group's relevant Asia operations, the proportion of surplus allocated to shareholders from the with-profits funds has been based on the applicable profit distribution between shareholders and policyholders. The EEV methodology includes the value attributed to the shareholders' interest in the residual estate of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. As required, adjustments are also made to reflect any capital requirements for with-profits business in Asia in excess of the available capital of the with-profits funds.

(g) Internal asset management

In line with the EEV Principles, the in-force and new business results from long-term business include the projected future profit or loss from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current period profit from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the expected profit anticipated to arise in the current period in the opening VIF from internal asset management and other services. This deduction is on a basis consistent with that used for projecting the results for covered insurance business. Accordingly, Group operating profit includes the actual profit earned in respect of the management of these assets.

(h) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of expected future cash flows are set by reference to risk-free rates plus a risk margin.

The risk-free rates are largely based on local government bond yields at the valuation date and are assumed to remain constant throughout the projection, with no trending or mean reversion to longer-term assumptions that cannot be observed in the current market.

The risk margin reflects any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. In order to better reflect differences in relative market risk volatility inherent in each product group, Prudential sets the risk discount rates to reflect the expected volatility associated with the expected future shareholder cash flows for each product group in the embedded value model, rather than at a Group level.

Since financial options and guarantees are explicitly valued under the EEV methodology, risk discount rates exclude the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by the equity risk premium.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product-specific cash flows. These are determined by considering how the profit from each product is affected by changes in expected returns across asset classes. By converting this into a relative rate of return, it is possible to derive a product-specific beta. This approach contrasts with a top-down approach to market risk where the risks associated with each product are not directly reflected in the valuation basis.

Additional credit risk allowance

The Group's methodology allows for credit risk. The total allowance for credit risk covers expected long-term defaults, a credit risk premium (to reflect the volatility in downgrade and default levels) and short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses largely backed by holdings of debt securities, the allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending on the type of business as described below:

Asia

For Asia, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance is considered to be sufficient. Accordingly, no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of a term-dependent spread (net of an allowance for expected defaults) over the risk-free rate.

US

For Jackson, an allowance for long-term defaults, as shown in note 9(i)(b), is reflected in the risk margin reserve charge that is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for the credit risk premium and short-term downgrades and defaults, as shown in note 9(i)(b). In determining this allowance, a number of factors have been considered, in particular including:

- How much of the credit spread on debt securities represents an increased short-term credit risk not reflected in the risk margin reserve long-term default assumptions and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments that cannot be easily converted into cash at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimate the liquidity premium by considering recent statistical data; and
- Policyholder benefits for certain lines of business are not fixed. It is possible, in adverse economic scenarios, to pass on a component of credit losses to policyholders (subject to guarantee features), through lower investment returns credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. In 2020 the additional allowance for non-variable annuity business was increased by 50 basis points, primarily to reflect additional market volatility over the year. The additional allowance for variable annuity business has been set at one-fifth of the additional allowance for non-variable annuity business to reflect the long-term proportion of variable annuity business invested in general account debt securities.

Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. An allowance for non-diversifiable non-market risks is estimated as set out below.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's covered business. For the Group's businesses in less mature markets (such as the Philippines and Thailand), additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. The level and application of these allowances are reviewed and updated based on an assessment of the Group's exposure and experience in the markets. For the Group's business in more mature markets, no additional allowance is necessary. At 31 December 2020 the total allowance for non-diversifiable non-market risk in Asia is equivalent to a $(3.2) billion reduction to the Asia EEV, or around (7) per cent of the embedded value.

(i) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency transactions are translated at the spot rate prevailing at the date of the transactions. Foreign currency assets and liabilities have been translated at closing exchange rates. The principal exchange rates are shown in note A1 of the Group IFRS financial statements.

(j) Taxation

In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected future cash flows to determine the value of in-force business are calculated using tax rates that have been announced and substantively enacted by the end of the reporting period.

(ii) Accounting presentation

(a) Analysis of post-tax profit

To the extent applicable, the presentation of the EEV basis profit or loss for the year is consistent with the classification between operating and non-operating results that the Group applies for the analysis of IFRS basis results. Operating results are determined as described in note (b) below and incorporate the following:

- New business profit, as defined in note (i)(b) above;
- Expected return on existing business, as described in note (c) below;
- The impact of routine changes of estimates relating to operating assumptions, as described in note (d) below; and
- Operating experience variances, as described in note (e) below.

In addition, operating results include the effect of changes in tax legislation, unless these changes are one-off and structural in nature, or primarily affect the level of projected investment returns, in which case they are reflected as a non-operating result.

Non-operating results comprise:

- Short-term fluctuations in investment returns;
- Mark-to-market value movements on core structural borrowings;
- Effect of changes in economic assumptions;
- Impact of NAIC reform and other related changes in the US in full year 2019; and
- The impact of corporate transactions undertaken in the year.

Total profit or loss in the year attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

(b) Investment returns included in operating profit

For the investment element of the assets covering the total net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rates of return. These expected returns are calculated by reference to the asset mix of the portfolio.

For the purpose of determining the long-term returns for debt securities of Jackson for general account business, a risk margin reserve charge is included, which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds; for equity-related investments, a long-term rate of return is assumed (as shown in note 9(i)(b)), which reflects the aggregation of risk-free rates and the equity risk premium at the end of the reporting period. For variable annuity separate account business, operating profit includes the expected return on existing business adjusted to reflect projected rates of return at the end of the reporting period, with the excess or deficit of the actual return recognised within non-operating results, together with related hedging activity variances.

(c) Expected return on existing business

Expected return on existing business comprises the expected unwind of discounting effects on the opening value of in-force business and required capital and the expected return on existing free surplus. The unwind of discount and the expected return on existing free surplus are determined after adjusting for the effect of changes in economic and operating assumptions in the current period on the embedded value at the beginning of the year, for example the unwind of discount on the value of in-force business and required capital is determined after adjusting both the opening value and the risk discount rates for the effect of changes in economic and operating assumptions in the current period.

(d) Effect of changes in operating assumptions

Operating profit includes the effect of changes to operating assumptions on the value of in-force business at the end of the reporting period. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force business as operating assumption changes, with the experience variances subsequently being determined by reference to the assumptions at the end of the reporting period, as discussed below.

(e) Operating experience variances

Operating profit includes the effect of experience variances on operating assumptions, such as persistency, mortality, morbidity, expenses and other factors, which are calculated with reference to the assumptions at the end of the reporting period.

(f) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the year caused by changes in economic assumptions, net of the related changes in the time value of financial options and guarantees, are recorded in non-operating results.

9 Assumptions

(i) Principal economic assumptions

The EEV basis results for the Group's covered business are determined using economic assumptions where both the risk discount rates and long-term expected rates of return on investments are set with reference to risk-free rates of return at the end of the reporting period. Both the risk discount rate and expected rates of return are updated at each valuation date to reflect current market risk-free rates, with the effect that changes in market risk-free rates impact all projected future cash flows. The risk-free rates of return are largely based on local government bond yields and are assumed to remain constant throughout the projection, with no trending or mean reversion to longer-term assumptions that cannot be observed in the current market. The risk-free rates of return are shown below for each of the Group's insurance operations. Expected returns on equity and property assets and corporate bonds are derived by adding a risk premium to the risk-free rate based on the Group's long-term view. Following the regular review of expected long-term returns across economies, equity risk premiums in the majority of business units were reduced by 50 basis points at 31 December 2020 from those applied at 31 December 2019, and the US dollar equity risk premium was increased by 60 basis points. Following an in-depth and more granular review of historic data across economies, long-term expected spreads (net of expected defaults) on corporate bonds were increased compared to the prior year. The related expected returns on equity and corporate bond assets and risk discount rates have been adjusted accordingly.

As described in note 8(i)(h), risk discount rates are set equal to the risk-free rate at the valuation date plus allowances for market risk, additional credit risk and non-diversifiable non-market risks appropriate to the features and risks of the underlying products and markets. Risks that are explicitly allowed for elsewhere in the EEV basis, such as via the cost of capital and the time value of options and guarantees, (as set out in note 2), are not included in the risk discount rates.

Given the linkage to current risk-free rates, which are at historically low levels, risk discount rates at 31 December 2020 are generally lower than has historically been the case. Under our EEV methodology there is a corresponding reduction in assumed future investment returns, which will also be lower than historical norms, countering the impact of the lower risk discount rates.

(a) Asia[notes (1)(2)]

	Risk discount rate %				10-year government bond yield %		Equity return (geometric) %	
	New business		In-force business					
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
China JV	**7.7**	8.2	**7.7**	8.2	**3.2**	3.2	**7.2**	7.7
Hong Kong[note (1)]	**2.0**	3.7	**2.1**	3.7	**0.9**	1.9	**4.4**	4.8
Indonesia	**8.9**	10.8	**10.0**	10.8	**6.5**	7.2	**10.8**	11.9
Malaysia	**4.4**	5.8	**4.9**	5.9	**2.6**	3.3	**6.1**	7.3
Philippines	**10.3**	12.3	**10.3**	12.3	**3.1**	4.6	**7.3**	9.3
Singapore	**2.3**	3.3	**2.9**	3.9	**0.9**	1.7	**4.4**	5.7
Taiwan	**3.0**	3.4	**2.5**	3.0	**0.3**	0.7	**4.3**	5.2
Thailand	**8.5**	9.2	**8.5**	9.2	**1.3**	1.5	**5.5**	6.2
Vietnam	**4.3**	5.3	**4.5**	5.5	**2.6**	3.4	**6.8**	8.1
Total weighted average (new business)[note (3)]	**4.1**	4.9	**n/a**	n/a	**2.1**	2.6	**5.8**	6.1
Total weighted average (in-force business)[note (3)]	**n/a**	n/a	**3.6**	4.9	**1.7**	2.6	**5.3**	6.1

Notes

(1) For Hong Kong, the assumptions shown are for US dollar denominated business. For other businesses, the assumptions shown are for local currency denominated business.

(2) Expected long-term inflation assumptions in Asia range from 1.5 per cent to 5.5 per cent (31 December 2019: 1.5 per cent to 5.5 per cent).

(3) Total weighted average assumptions for Asia have been determined by weighting each business's assumptions by reference to the EEV basis new business profit and the net closing value of in-force business. The changes in the risk discount rates for individual Asia businesses reflect the movements in the local government bond yields, changes in the equity risk premiums, changes in the allowance for market risk (including as a result of changes in asset mix) and changes in product mix.

(b) US

	31 Dec 2020 %	31 Dec 2019 %
Risk discount rate:		
Variable annuity[note]	**6.0**	6.5
Non-variable annuity[note]	**3.2**	3.7
New business weighted average	**5.7**	6.1
In-force business weighted average	**5.8**	6.2
Allowance for long-term defaults included in projected spread[note 8(i)(h)]	**0.2**	0.2
US 10-year treasury bond yield	**0.9**	1.9
Equity risk premium (geometric)	**3.5**	2.9
Pre-tax expected long-term nominal rate of return for US equities (geometric)	**4.4**	4.8
Expected long-term rate of inflation	**3.0**	2.9
S&P 500 equity return volatility[note (ii)(b)]	**17.5**	17.5

Note

Includes an additional allowance for credit risk of 0.3 per cent for variable annuity business and 1.5 per cent for non-variable annuity business (31 December 2019: 0.2 per cent and 1.0 per cent respectively) as described in note 8(i)(h).

(ii) Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of financial options and guarantees as referred to in note 8(i)(d).

(a) Asia

- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore, Taiwan and Vietnam businesses;
- The principal asset classes are government bonds, corporate bonds and equity;
- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields;
- Equity returns are assumed to follow a log-normal distribution;
- The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread;
- The volatility of equity returns ranges from 18 per cent to 35 per cent for both years; and
- The volatility of government bond yields ranges from 1.1 per cent to 2.0 per cent for both years.

(b) US (Jackson)

- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data;
- Corporate bond returns are based on treasury yields plus a spread that reflects current market conditions;
- The volatility of equity returns ranges from 17 per cent to 26 per cent for both years; and
- The standard deviation of interest rates ranges from 1.7 per cent to 1.8 per cent (31 December 2019: from 3.1 per cent to 3.3 per cent).

(iii) Operating assumptions

Best estimate assumptions are used for projecting future cash flows, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the time value of financial options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, and reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations. When projecting future cash flows for medical reimbursement business that is repriced annually, explicit allowance is made for expected future premium inflation and separately for future medical claims inflation.

Expense assumptions

Expense levels, including those of the service companies that support the Group's long-term business, are based on internal expense analysis and are appropriately allocated to acquisition of new business and renewal of in-force business. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. An allowance is made for short-term required expenses that are not representative of the longer-term expense loadings of the relevant businesses. At 31 December 2020 the allowance held for these costs across the Group was $128 million, arising in Asia. Expense overruns are reported where these are expected to be short-lived, including businesses that are growing rapidly or are sub-scale.

For Asia, expenses comprise costs borne directly and costs recharged/allocated from the Group head office functions in London and Hong Kong that are attributable to the long-term insurance (covered) business. The assumed future expenses for the long-term insurance business allow for amounts expected to be recharged/allocated by the head office functions. Development expenses are allocated to Asia covered business and are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises expenditure of the Group head office functions in London and Hong Kong that is not recharged/allocated to the long-term insurance or asset management operations, primarily for corporate related activities that are charged as incurred, together with restructuring and IFRS 17 implementation costs incurred across the Group.

Tax rates

The assumed long-term effective tax rates for operations reflect the expected incidence of taxable profit and loss in the projected future cash flows as explained in note 8(i)(j). The local standard corporate tax rates applicable for 2020 and 2019 are as follows:

	%
Asia operations:	
China JV	25.0
Hong Kong	16.5 per cent on 5 per cent of premium income
Indonesia[note]	2019: 25.0; 2020 and 2021: 22.0; from 2022: 20.0
Malaysia	24.0
Philippines	30.0
Singapore	17.0
Taiwan	20.0
Thailand	20.0
Vietnam	20.0
US operations	21.0

Note

Reflects a reduction from 25 per cent effective in the first half of 2020.

10 Insurance new business[note (a)]

	Single premiums		Regular premiums		Annual premium equivalent (APE)		Present value of new business premiums (PVNBP)	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**	**2020 $m**	**2019 $m**	**2020 $m**	**2019 $m**
Asia								
Cambodia	**-**	-	**10**	24	**10**	24	**45**	111
China JV[note (b)]	**1,068**	710	**475**	518	**582**	590	**2,705**	2,586
Hong Kong	**184**	387	**741**	1,977	**758**	2,016	**5,095**	12,815
India[note (c)]	**225**	155	**154**	245	**177**	260	**902**	1,179
Indonesia	**226**	292	**244**	361	**267**	390	**1,154**	1,668
Laos	**-**	-	**1**	-	**1**	-	**3**	-
Malaysia	**90**	209	**337**	333	**346**	355	**2,023**	2,090
Myanmar	**-**	-	**-**	-	**-**	-	**1**	-
Philippines	**49**	51	**134**	153	**139**	158	**528**	561
Singapore	**1,496**	1,217	**460**	539	**610**	660	**5,354**	4,711
Taiwan	**201**	544	**367**	278	**387**	332	**1,445**	1,418
Thailand	**122**	192	**171**	140	**183**	159	**768**	763
Vietnam	**21**	22	**234**	215	**236**	217	**1,564**	1,342
Total Asia	**3,682**	3,779	**3,328**	4,783	**3,696**	5,161	**21,587**	29,244
US								
Variable annuities	**14,564**	12,692	**-**	-	**1,456**	1,270	**14,564**	12,692
Elite Access (variable annuities)	**2,057**	2,002	**-**	-	**206**	200	**2,057**	2,002
Fixed annuities	**327**	1,194	**-**	-	**33**	119	**327**	1,194
Fixed indexed annuities	**997**	3,821	**-**	-	**100**	382	**997**	3,821
Institutional	**1,284**	2,522	**-**	-	**128**	252	**1,284**	2,522
Total US	**19,229**	22,231	**-**	-	**1,923**	2,223	**19,229**	22,231
Group total[note (d)]	**22,911**	26,010	**3,328**	4,783	**5,619**	7,384	**40,816**	51,475

Notes

(a) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profit for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the Group IFRS income statement.

(b) New business in China JV is included at Prudential's 50 per cent interest in the joint venture.

(c) New business in India is included at Prudential's 22 per cent interest in the associate.

(d) In 2020, the Africa business sold new business APE of $112 million (2019: $82 million on an actual exchange rate basis, $74 million on a constant exchange rate basis). Given the relative immaturity of the Africa business, it is incorporated into the Group's EEV basis results on an IFRS basis and is excluded from new business sales and profit metrics.

11 Post balance sheet events

Intention to demerge the Group's US operations in the second quarter of 2021

In January 2021, the Board announced that it had decided to pursue the separation of its US operations (Jackson) from the Group through a demerger, whereby shares in Jackson would be distributed to Prudential shareholders.

Subject to shareholder and regulatory approvals, the planned demerger is expected to complete in the second quarter of 2021 and would lead to a significantly earlier separation of Jackson from the Group than would have been possible through a minority IPO and future sell-downs, which from market precedent may have lasted until 2023. At the point of demerger, Prudential is planning to retain a 19.9 per cent non-controlling interest in Jackson, which will be reported within the consolidated financial position as a financial investment at fair value. Subject to market conditions, the Group intends to monetise a portion of this investment to support investment in Asia within 12 months of the planned demerger, such that the Group will own less than 10 per cent at the end of such period.

Additional EEV financial information*

A New business schedules

Basis of preparation

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for local regulatory reporting purposes.

The details shown for insurance products include contributions for contracts that are classified under IFRS 4, 'Insurance Contracts', as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS 4. Contracts included in this category are primarily Guaranteed Investment Contracts and similar funding agreements written in Jackson and certain unit-linked and similar contracts written in Asia insurance operations.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts designed as investment products for IFRS reporting and for regular premium products are shown on an annualised basis.

Investment products referred to in the tables for funds under management are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

Post-tax new business profit has been determined using the European Embedded Value (EEV) methodology set out in our EEV basis results supplement.

In determining the EEV basis value of new business written in the year when policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for local statutory basis reporting.

Annual premium equivalent (APE) sales are subject to rounding.

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

Notes to Schedules A(i) to A(iv)

(1) Prudential plc reports its results using both actual exchange rates (AER) and constant exchange rates (CER) to eliminate the impact of exchange translation. The rates below are for US dollars (USD) against local currency.

	Closing rate at year end		Average rate for the year to date	
USD : local currency	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Chinese yuan (CNY)	**6.54**	6.97	**6.90**	6.91
Hong Kong dollar (HKD)	**7.75**	7.79	**7.76**	7.84
Indian rupee (INR)	**73.07**	71.38	**74.12**	70.43
Indonesian rupiah (IDR)	**14,050.00**	13,882.50	**14,541.70**	14,140.84
Malaysian ringgit (MYR)	**4.02**	4.09	**4.20**	4.14
Singapore dollar (SGD)	**1.32**	1.34	**1.38**	1.36
Taiwan dollar (TWD)	**28.10**	29.98	**29.44**	30.91
Thai baht (THB)	**30.02**	29.75	**31.29**	31.05
UK pound sterling (GBP)	**0.73**	0.75	**0.78**	0.78
Vietnamese dong (VND)	**23,082.50**	23,172.50	**23,235.84**	23,227.64

(2) Annual premium equivalent (APE) is calculated as the aggregate of regular premiums on business written in the year and one-tenth of single premiums. Present value of new business premiums (PVNBP) are calculated as the aggregate of single premiums and the present value of expected future premiums from regular premium new business, allowing for lapses and the other assumptions applied in determining the EEV new business profit.
(3) New business in China JV is included at Prudential's 50 per cent interest in the joint venture.
(4) New business in India is included at Prudential's 22 per cent interest in the associate.
(5) Mandatory Provident Fund (MPF) product flows in Hong Kong are included at Prudential's 36 per cent interest in the Hong Kong MPF business.
(6) Investment flows for the year exclude Eastspring Money Market Funds (MMF) gross inflow of $76,317 million (2019: gross inflow of $236,603 million) and net inflow of $48 million (2019: net outflow of $(1,856) million). The flows exclude any amounts managed by M&G plc, which was demerged from the Group in October 2019.
(7) Balance sheet figures have been calculated at the closing exchange rates.

Schedule A(i) Insurance operations (actual and constant exchange rates)

AER	Single premiums			Regular premiums			APE[note (2)]			PVNBP[note (2)]		
	2020 $m	2019 $m	+/(-) %	2020 $m	2019 $m	+/(-) %	2020 $m	2019 $m	+/(-) %	2020 $m	2019 $m	+/(-) %
Asia												
Cambodia	-	-	-	10	24	(58)%	10	24	(58)%	45	111	(59)%
China JV[note (3)]	1,068	710	50%	475	518	(8)%	582	590	(1)%	2,705	2,586	5%
Hong Kong	184	387	(52)%	741	1,977	(63)%	758	2,016	(62)%	5,095	12,815	(60)%
India[note (4)]	225	155	45%	154	245	(37)%	177	260	(32)%	902	1,179	(23)%
Indonesia	226	292	(23)%	244	361	(32)%	267	390	(32)%	1,154	1,668	(31)%
Laos	-	-	-	1	-	-	1	-	-	3	-	-
Malaysia	90	209	(57)%	337	333	1%	346	355	(3)%	2,023	2,090	(3)%
Myanmar	-	-	-	-	-	-	-	-	-	1	-	-
Philippines	49	51	(4)%	134	153	(12)%	139	158	(12)%	528	561	(6)%
Singapore	1,496	1,217	23%	460	539	(15)%	610	660	(8)%	5,354	4,711	14%
Taiwan	201	544	(63)%	367	278	32%	387	332	17%	1,445	1,418	2%
Thailand	122	192	(36)%	171	140	22%	183	159	15%	768	763	1%
Vietnam	21	22	(5)%	234	215	9%	236	217	9%	1,564	1,342	17%
Total Asia	3,682	3,779	(3)%	3,328	4,783	(30)%	3,696	5,161	(28)%	21,587	29,244	(26)%
US												
Variable annuities	14,564	12,692	15%	-	-	-	1,456	1,270	15%	14,564	12,692	15%
Elite Access (variable annuity)	2,057	2,002	3%	-	-	-	206	200	3%	2,057	2,002	3%
Fixed annuities	327	1,194	(73)%	-	-	-	33	119	(72)%	327	1,194	(73)%
Fixed indexed annuities	997	3,821	(74)%	-	-	-	100	382	(74)%	997	3,821	(74)%
Wholesale	1,284	2,522	(49)%	-	-	-	128	252	(49)%	1,284	2,522	(49)%
Total US	19,229	22,231	(14)%	-	-	-	1,923	2,223	(13)%	19,229	22,231	(14)%
Group total	22,911	26,010	(12)%	3,328	4,783	(30)%	5,619	7,384	(24)%	40,816	51,475	(21)%

* In 2020, the Africa business operations sold APE new business of $112 million (2019: $82 million on an actual exchange rate basis). Given the relative immaturity of the Africa business, it is incorporated into the Group's EEV basis results on an IFRS basis and is excluded from new business sales and profit metrics.

CER	Single premiums			Regular premiums			APE[note(2)]			PVNBP[note(2)]		
	2020 $m	2019 $m	+/(-) %	2020 $m	2019 $m	+/(-) %	2020 $m	2019 $m	+/(-) %	2020 $m	2019 $m	+/(-) %
Asia												
Cambodia	-	-	-	10	24	(58)%	10	24	(58)%	45	110	(59)%
China JV[note (3)]	1,068	711	50%	475	518	(8)%	582	590	(1)%	2,705	2,588	5%
Hong Kong	184	391	(53)%	741	1,997	(63)%	758	2,037	(63)%	5,095	12,946	(61)%
India[note (4)]	225	147	53%	154	233	(34)%	177	247	(28)%	902	1,120	(19)%
Indonesia	226	284	(20)%	244	351	(30)%	267	379	(30)%	1,154	1,622	(29)%
Laos	-	-	-	1	-	-	1	-	-	3	-	-
Malaysia	90	206	(56)%	337	329	2%	346	349	(1)%	2,023	2,061	(2)%
Myanmar	-	-	-	-	-	-	-	-	-	1	-	-
Philippines	49	53	(8)%	134	160	(16)%	139	165	(16)%	528	586	(10)%
Singapore	1,496	1,204	24%	460	533	(14)%	610	653	(7)%	5,354	4,659	15%
Taiwan	201	571	(65)%	367	291	26%	387	349	11%	1,445	1,489	(3)%
Thailand	122	191	(36)%	171	139	23%	183	158	16%	768	756	2%
Vietnam	21	22	(5)%	234	215	9%	236	217	9%	1,564	1,341	17%
Total Asia	3,682	3,780	(3)%	3,328	4,790	(31)%	3,696	5,168	(28)%	21,587	29,278	(26)%
US												
Variable annuities	14,564	12,692	15%	-	-	-	1,456	1,270	15%	14,564	12,692	15%
Elite Access (variable annuity)	2,057	2,002	3%	-	-	-	206	200	3%	2,057	2,002	3%
Fixed annuities	327	1,194	(73)%	-	-	-	33	119	(72)%	327	1,194	(73)%
Fixed indexed annuities	997	3,821	(74)%	-	-	-	100	382	(74)%	997	3,821	(74)%
Wholesale	1,284	2,522	(49)%	-	-	-	128	252	(49)%	1,284	2,522	(49)%
Total US	19,229	22,231	(14)%	-	-	-	1,923	2,223	(13)%	19,229	22,231	(14)%
Group total	22,911	26,011	(12)%	3,328	4,790	(31)%	5,619	7,391	(24)%	40,816	51,509	(21)%

* In 2020, the Africa business operations sold APE new business of $112 million (2019: $74 million on a constant exchange rate basis). Given the relative immaturity of the Africa business, it is incorporated into the Group's EEV basis results on an IFRS basis and is excluded from new business sales and profit metrics.

Schedule A(ii) Insurance new business APE (actual and constant exchange rates)

	AER				CER			
	2020 $m		2019 $m		2020 $m		2019 $m	
	H1	H2	H1	H2	H1	H2	H1	H2
Asia								
Cambodia	**4**	**6**	15	9	**4**	**6**	14	10
China JV[note (3)]	**319**	**263**	350	240	**327**	**255**	344	246
Hong Kong	**388**	**370**	1,075	941	**389**	**369**	1,086	951
India[note (4)]	**83**	**94**	137	123	**83**	**94**	130	117
Indonesia	**123**	**144**	156	234	**123**	**144**	152	227
Laos	**-**	**1**	-	-	**-**	**1**	-	-
Malaysia	**123**	**223**	158	197	**124**	**222**	155	194
Myanmar	**-**	**-**	-	-	**-**	**-**	-	-
Philippines	**56**	**83**	71	87	**56**	**83**	74	91
Singapore	**229**	**381**	299	361	**232**	**378**	294	359
Taiwan	**155**	**232**	149	183	**158**	**229**	158	191
Thailand	**90**	**93**	62	97	**91**	**92**	63	95
Vietnam	**95**	**141**	88	129	**95**	**141**	88	129
Total Asia	**1,665**	**2,031**	2,560	2,601	**1,682**	**2,014**	2,558	2,610
US								
Variable annuities	**643**	**813**	628	642	**643**	**813**	628	642
Elite Access (variable annuity)	**88**	**118**	96	104	**88**	**118**	96	104
Fixed annuities	**31**	**2**	23	96	**31**	**2**	23	96
Fixed indexed annuities	**89**	**11**	120	262	**89**	**11**	120	262
Wholesale	**128**	**-**	208	44	**128**	**-**	208	44
Total US	**979**	**944**	1,075	1,148	**979**	**944**	1,075	1,148
Group total	**2,644**	**2,975**	3,635	3,749	**2,661**	**2,958**	3,633	3,758

Note

Comparative results for the first half (H1) and second half (H2) of 2019 are presented on both actual exchange rates (AER) and constant exchange rates (CER). The H2 amounts are presented on year-to-date average exchange rates (including the effect of retranslating H1 results for movements in average exchange rates between H1 and the year-to-date).

Schedule A(iii) Insurance new business profit (actual and constant exchange rates)

	AER				CER			
	2020		2019		2020		2019	
	HY	FY	HY	FY	HY	FY	HY	FY
New business profit ($m)								
Asia	**912**	**2,201**	1,675	3,522	**919**	**2,201**	1,681	3,533
US	**248**	**601**	450	883	**248**	**601**	450	883
Group total	**1,160**	**2,802**	2,125	4,405	**1,167**	**2,802**	2,131	4,416
APE ($m)[note (2)]								
Asia	**1,665**	**3,696**	2,560	5,161	**1,682**	**3,696**	2,558	5,168
US	**979**	**1,923**	1,075	2,223	**979**	**1,923**	1,075	2,223
Group total	**2,644**	**5,619**	3,635	7,384	**2,661**	**5,619**	3,633	7,391
New business margin (NBP as a % of APE)								
Asia	**55%**	**60%**	65%	68%	**55%**	**60%**	66%	68%
US	**25%**	**31%**	42%	40%	**25%**	**31%**	42%	40%
Group total	**44%**	**50%**	58%	60%	**44%**	**50%**	59%	60%
PVNBP ($m)[note (2)]								
Asia	**9,173**	**21,587**	14,218	29,244	**9,259**	**21,587**	14,217	29,278
US	**9,789**	**19,229**	10,752	22,231	**9,789**	**19,229**	10,752	22,231
Group total	**18,962**	**40,816**	24,970	51,475	**19,048**	**40,816**	24,969	51,509
New business margin (NBP as a % of PVNBP)								
Asia	**9.9%**	**10.2%**	11.8%	12.0%	**9.9%**	**10.2%**	11.8%	12.1%
US	**2.5%**	**3.1%**	4.2%	4.0%	**2.5%**	**3.1%**	4.2%	4.0%
Group total	**6.1%**	**6.9%**	8.5%	8.6%	6.1%	6.9%	8.5%	8.6%

Schedule A(iv) Investment operations (actual exchange rates)

	2020 $m		2019 $m	
Eastspring investment operations:*	**H1**	**H2**	**H1**	**H2**
Third-party retail:note (5)				
Opening FUM	**73,644**	**59,346**	55,198	62,441
Net Flows:note (6)	**(8,026)**	**(2,602)**	2,682	3,313
- Gross Inflows	**19,983**	**17,329**	19,628	23,005
- Redemptions	**(28,009)**	**(19,931)**	(16,946)	(19,692)
Other Movements†	**(6,272)**	**10,094**	4,561	7,890
Closing FUMnote (7)	**59,346**	**66,838**	62,441	73,644
Third-party institutional:				
Opening FUM	**11,024**	**9,957**	7,788	9,431
Net Flows:	**(336)**	**992**	1,274	1,071
- Gross Inflows	**1,621**	**1,494**	1,661	1,802
- Redemptions	**(1,957)**	**(502)**	(387)	(731)
Other Movements	**(731)**	**2,878**	369	522
Closing FUMnote (7)	**9,957**	**13,827**	9,431	11,024
Total third-party (excluding MMF)	**69,303**	**80,665**	71,872	84,668

* Excluding those managed on behalf of the discontinued UK and Europe operations (M&G plc).

† Other movements in H2 2019 included an inflow of $7.0 billion funds under management (excluding MMF) from the acquisition of Thanachart Fund Management Co., Ltd. ('TFUND') in Thailand.

B Reconciliation of expected transfer of value of in-force business and required capital to free surplus for Asia long-term business operations

The table below shows how the value of in-force business (VIF) and the associated required capital for Asia long-term business operations are projected as emerging into free surplus over the next 40 years. Although circa 8 per cent of the embedded value for Asia operations emerges after this date, analysis of cash flows emerging in the years shown is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2020 results.

Post its separation from the Group, Jackson will no longer publish EEV results and so this section covers Asia only.

In addition to showing the amounts, on both a discounted and undiscounted basis, expected to be generated from all in-force business at 31 December 2020, the table also presents the future free surplus expected to be generated from the investment made in new business during 2020 over the same 40-year period.

	31 Dec 2020 $m			
	Asia long-term business operations			
	Expected generation from all in-force business*		Expected generation from new business written in 2020*	
Expected period of emergence	Undiscounted	Discounted	Undiscounted	Discounted
2021	**2,156**	**2,088**	**261**	**252**
2022	**2,084**	**1,924**	**184**	**166**
2023	**2,085**	**1,843**	**176**	**151**
2024	**1,978**	**1,679**	**158**	**130**
2025	**1,928**	**1,578**	**160**	**126**
2026	**1,895**	**1,495**	**149**	**114**
2027	**1,924**	**1,472**	**155**	**118**
2028	**1,938**	**1,440**	**154**	**112**
2029	**1,647**	**1,146**	**148**	**104**
2030	**1,953**	**1,379**	**151**	**103**
2031	**1,867**	**1,267**	**142**	**92**
2032	**1,794**	**1,169**	**140**	**87**
2033	**1,726**	**1,085**	**128**	**75**
2034	**1,679**	**1,022**	**122**	**68**
2035	**1,641**	**968**	**133**	**69**
2036	**1,592**	**916**	**111**	**58**
2037	**1,571**	**880**	**110**	**56**
2038	**1,558**	**846**	**109**	**53**
2039	**1,552**	**822**	**108**	**50**
2040	**1,507**	**770**	**117**	**50**
2041-2045	**7,008**	**3,315**	**510**	**208**
2046-2050	**6,287**	**2,589**	**485**	**162**
2051-2055	**5,218**	**1,878**	**433**	**124**
2056-2060	**4,488**	**1,411**	**398**	**96**
Total free surplus expected to emerge in the next 40 years	**59,076**	**34,982**	**4,742**	**2,624**

* The analysis excludes amounts incorporated into VIF and required capital at 31 December 2020 where there is no definitive time frame for when the payments will be made or receipts received. It also excludes any free surplus projected to emerge after 2060.

The expected free surplus generation from new business written in 2020 can be reconciled to the new business profit as follows:

	2020 $m
Undiscounted expected free surplus generation for years 2021 to 2060	**4,742**
Less: discount effect	**(2,118)**
Discounted expected free surplus generation for years 2021 to 2060	**2,624**
Discounted expected free surplus generation for years after 2060	**252**
Discounted expected free surplus generation from new business written in 2020	**2,876**
Free surplus investment in new business	**(559)**
Other items*	**(116)**
New business profit	**2,201**

* Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation is translated at closing rates.

The discounted expected free surplus generation from in-force business can be reconciled to the embedded value for long-term business operations as follows:

	31 Dec 2020 $m
Discounted expected generation from all in-force business for years 2021 to 2060	**34,982**
Discounted expected generation from all in-force business for years after 2060	**3,612**
Discounted expected generation from all in-force business at 31 December 2020	**38,594**
Free surplus of long-term business operations at 31 December 2020	**5,295**
Other items*	**(1,081)**
EEV for long-term business operations	**42,808**

* Other items represent the impact of the time value of options and guarantees and other non-modelled items.

The undiscounted expected free surplus generation from all in-force business at 31 December 2020 can be reconciled to the amount that was expected to be generated at 31 December 2019 as follows:

	2020 $m	2021 $m	2022 $m	2023 $m	2024 $m	2025 $m	Other $m	Total $m
2019 expected free surplus generation for years 2020 to 2059	**1,963**	**2,088**	**1,941**	**1,965**	**1,895**	**1,874**	**51,297**	**63,023**
Less: Amounts expected to be realised in the current year	**(1,963)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,963)**
Add: Expected free surplus to be generated in year 2060*	**-**	**-**	**-**	**-**	**-**	**-**	**1,204**	**1,204**
Foreign exchange differences	**-**	**23**	**24**	**23**	**21**	**20**	**652**	**763**
New business	**-**	**261**	**184**	**176**	**158**	**160**	**3,803**	**4,742**
Operating movements	**-**	**11**	**53**	**42**	**43**	**18**		
Non-operating and other movements	**-**	**(227)**	**(118)**	**(121)**	**(139)**	**(144)**	**(8,111)**	**(8,693)**
2020 expected free surplus generation for years 2021 to 2060	**-**	**2,156**	**2,084**	**2,085**	**1,978**	**1,928**	**48,845**	**59,076**

* Excluding 2020 new business.

At 31 December 2020, the total free surplus expected to be generated over the next five years (2021 to 2025 inclusive) for Asia long-term business operations, using the same assumptions and methodology as those underpinning our 2020 embedded value reporting, was $10.2 billion (31 December 2019: $9.9 billion).

At 31 December 2020, the total free surplus expected to be generated on an undiscounted basis over the next 40 years for Asia long-term business operations is $59.1 billion, $3.9 billion lower than the $63.0 billion expected at the end of 2019. In Asia, the effect of generally lower interest rates across the region decreasing projected returns is partially offset by the increase from new business of $4.7 billion, together with favourable foreign exchange gains and operating assumption updates following the annual review of experience.

Actual underlying free surplus generated in 2020 from Asia long-term business in force at the end of 2019, before restructuring and IFRS 17 implementation costs, was $2.2 billion, including $0.2 billion of changes in operating assumptions and experience variances. This compares with the expected 2020 realisation at the end of 2019 of $2.0 billion and can be analysed further as follows:

	2020 $m
Expected transfer from in-force business to free surplus in 2020	**1,878**
Expected return on existing free surplus	**101**
Changes in operating assumptions and experience variances	**222**
Underlying free surplus generated from long-term business in force before restructuring and IFRS 17 implementation costs	**2,201**
2020 free surplus expected to be generated at 31 December 2019	**1,963**

C Calculation of return on embedded value

Operating return on embedded value is calculated as the post-tax EEV operating profit for the year as a percentage of average EEV basis shareholders' equity.

	2020			
	Asia	**US**	**Other**	**Group**
EEV basis operating profit (loss) for the year	**4,387**	**1,880**	**(858)**	**5,409**
Operating profit (loss) attributable to non-controlling interests	**(11)**	**(123)**	**1**	**(133)**
EEV basis operating profit (loss) for the year, net of non-controlling interest ($ million)	**4,376**	**1,757**	**(857)**	**5,276**
Restructuring and IFRS 17 implementation costs	**(88)**	**(36)**	**(65)**	**(189)**
EEV basis operating profit (loss) for the year, after restructuring and IFRS 17 implementation costs, net of non-controlling interests ($ million)	**4,288**	**1,721**	**(922)**	**5,087**
Average EEV basis shareholders' equity ($ million)	**41,738**	**14,212**	**(1,591)**	**54,359**
Operating return on average shareholders' equity, before restructuring and IFRS 17 implementation costs (%)	**10%**	**12%**	**n/a**	**10%**
Operating return on average shareholders' equity, after restructuring and IFRS 17 implementation costs (%)	**10%**	**12%**	**n/a**	**9%**

	2019	
	Asia	**US**
EEV basis operating profit for the year	6,138	1,782
Operating profit attributable to non-controlling interests	(6)	-
EEV basis operating profit for the year, net of non-controlling interest ($ million)	6,132	1,782
Restructuring and IFRS 17 implementation costs	(31)	(5)
EEV basis operating profit for the year, after restructuring and IFRS 17 implementation costs, net of non-controlling interests ($ million)	6,101	1,777
Average EEV basis shareholders' equity ($ million)	35,622	17,526
Operating return on average shareholders' equity, before restructuring and IFRS 17 implementation costs (%)	17%	10%
Operating return on average shareholders' equity, after restructuring and IFRS 17 implementation costs (%)	17%	10%

New business profit over embedded value is calculated as the post-tax EEV new business profit for the year as a percentage of average EEV basis shareholders' equity.

	2020		2019	
	Asia	**US**	**Asia**	**US**
New business profit ($ million)*	**2,201**	**601**	3,522	883
Average EEV basis shareholders' equity ($ million)	**41,738**	**14,212**	35,622	17,526
New business profit over embedded value (%)	**5%**	**4%**	10%	5%

* New business profit is attributed to the shareholders of the Group before deducting the amount attributable to non-controlling interests.

Average EEV basis shareholders' equity has been based on opening and closing balances as follows:

	2020 $m				2019 $m	
	Asia	**US**	**Other**	**Group**	**Asia**	**US**
Balance at beginning of year	**39,235**	**16,342**	**(866)**	**54,711**	32,008	18,709
Balance at end of year	**44,241**	**12,081**	**(2,315)**	**54,007**	39,235	16,342
Average EEV basis shareholders' equity	**41,738**	**14,212**	**(1,591)**	**54,359**	35,622	17,526

D Calculation of EEV shareholders' funds per share

EEV shareholders' equity per share is calculated as closing EEV shareholders' equity divided by the number of issued shares at 31 December 2020 of 2,609 million (31 December 2019: 2,601 million). EEV shareholders' equity per share excluding goodwill attributable to equity holders is calculated in the same manner, except goodwill attributable to equity holders is deducted from closing EEV shareholders' equity.

	31 Dec 2020			
	Asia	**US**	**Other**	**Group total**
Closing EEV shareholders' equity ($ million)	**44,241**	**12,081**	**(2,315)**	**54,007**
Less: Goodwill attributable to equity holders ($ million)	**(798)**	**-**	**(23)**	**(821)**
Closing EEV shareholders' equity excluding goodwill attributable to equity holders ($ million)	**43,443**	**12,081**	**(2,338)**	**53,186**
Shareholders' equity per share (in cents)	**1,696¢**	**463¢**	**(89)¢**	**2,070¢**
Shareholders' equity per share excluding goodwill attributable to equity holders (in cents)	**1,666¢**	**463¢**	**(90)¢**	**2,039¢**

	31 Dec 2019			
	Asia	**US**	**Other**	**Group total**
Closing EEV shareholders' equity ($ million)	39,235	16,342	(866)	54,711
Less: Goodwill attributable to equity holders ($ million)	(796)	-	(26)	(822)
Closing EEV shareholders' equity excluding goodwill attributable to equity holders ($ million)	38,439	16,342	(892)	53,889
Shareholders' equity per share (in cents)	1,508¢	628¢	(33)¢	2,103¢
Shareholders' equity per share excluding goodwill attributable to equity holders (in cents)	1,478¢	628¢	(34)¢	2,072¢

Risk Factors

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

Prudential's approaches to managing risks are explained in the section of this document headed 'Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed'.

1. RISKS RELATING TO PRUDENTIAL'S FINANCIAL SITUATION

1.1 The Covid-19 pandemic has had a significant impact on financial market volatility and global economic activity, increased operational disruption risks to the Group and has adversely impacted Prudential's sales in affected markets and its financial condition, results of operations and prospects. The full extent of the longer-term impacts from the pandemic remains uncertain

The Covid-19 pandemic has significantly increased the volatility of equity markets, interest rates and credit spreads, reduced market liquidity and reduced global economic activity. The potential adverse impacts to the Group of these effects are detailed in the *Financial Market and Economic Conditions* risk factor detailed below. However, the full extent of the impact of the pandemic on financial markets and economic growth remains highly uncertain and unpredictable and will be influenced by the actions of governments, policymakers and the public. This includes the duration and effectiveness of mitigating measures against the current and future strains of the coronavirus, including a continued reliance on restrictions of movement and the deployment of vaccination programmes (which may occur over a prolonged period of time), the effectiveness and timing of which remains uncertain across markets. Where these impacts are prolonged, this may affect the solvency position of Prudential's subsidiaries and prevent or limit their ability to make remittances, adversely impacting the financial condition and prospects of the Group.

The immediate regulatory and supervisory responses to the Covid-19 pandemic have been broad and have included increased scrutiny of the operational resilience, liquidity and capital strength (including the impact of making dividend payments) of financial services companies. Various governments have effected, or may effect, the postponement of elections and other constitutional or legislative processes in response to the pandemic, and this may result in an increase in constitutional and political uncertainty in the markets in which the Group operates. Governments are either starting or planning the roll-out of Covid-19 vaccination programmes, and accessibility to vaccine supplies has the potential to contribute to an increase in geopolitical tensions. The longer term political, regulatory and supervisory developments resulting from the Covid-19 pandemic remain highly uncertain. These may include changes to government fiscal policies, laws or regulations aimed at increasing financial stability and/or measures on businesses or specific industries to contribute to, lessen or otherwise support, the financial cost to governments in addressing the pandemic. This may include requirements on private insurance companies and healthcare providers to cover the costs associated with the treatment of Covid-19 beyond contractual or policy terms.

The Covid-19 pandemic, and measures to contain it, have slowed economic and social activity in the Group's geographical markets. While these conditions persist, the level of sales activity in affected markets has been, and will continue to be, adversely impacted through a reduction in travel and agency and bancassurance activity, which may be prolonged in markets which continue to rely on containment measures based on restrictions of movement rather than vaccine deployment. The impact to economic activity and employment levels may result in an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums or reduce deposits into retirement plans. The pandemic may also indirectly result in elevated claims and policy lapses or surrenders, and with some delay in time before being felt by the Group, due to factors such as policyholders deferring medical treatment during the pandemic, or policyholders lapsing or surrendering their policies on the expiry of grace periods for premium payments provided by the Group's businesses. Extended restrictions on movement in particular may adversely impact product persistency in the Group's Asia business. While these impacts to the Group have not been material to date, the full extent of the impact of the Covid-19 pandemic is currently highly uncertain and the Group's claims experience to date and its current insurance assumptions cannot be taken as an indicator of future potential experience from the Covid-19 pandemic which may deteriorate significantly and have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

Disruption to Prudential's operations may result where its employees, or those of its service partners and counterparties, contract the coronavirus or are affected by restrictions on movement; where office closures and other measures impacting working practices are effected, such as the imposition of remote working arrangements; and where quarantine requirements and isolation measures under local laws apply, and as a result of social distancing and/or other psychosocial impacts. While such measures are in place, there may be an increase in attempts to compromise IT systems through phishing and social engineering tactics.

In some markets Prudential has implemented changes to its sales and distribution processes. These include virtual face-to-face sales of its products and the online recruitment, training and, where possible, licensing of agents. Such changes may increase or introduce new operational and regulatory risks, in particular those focused on customer outcomes and conduct. A failure to implement appropriate governance and management of these new or incremental risks may adversely impact Prudential's reputation and brand and the results of its operations. In markets where the level of sales under these new processes is material or where such processes become permanent distribution channels, the commercial value of the Group's existing sale and distribution arrangements, such as bancassurance arrangements, may be adversely impacted.

1.2 Prudential's businesses are inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, during 2020 interest rates in the United States ('US') and some Asian countries in which Prudential operates have decreased to historic lows driven by the responses of central banks to mitigate the impact of the Covid-19 pandemic. The transition to a lower carbon economy may also impact long-term asset valuations.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include slowdowns or reversals in world economic growth (particularly where this is abrupt, as has been the case with the impact of the Covid-19 pandemic), fluctuations in global energy prices, changes in monetary policy in China, the US and other jurisdictions together with their impact on the valuation of all asset classes and effect on interest rates and inflation expectations, and concerns over sovereign debt. Other factors include the increased level of (geo)political risk and policy-related uncertainty (including the broader market impacts resulting from the trade negotiations between the US and China) and socio-political, climate-driven and pandemic events. The extent of financial market and economic impact of these factors may be highly uncertain and unpredictable and influenced by the actions, including the duration and effectiveness of mitigating measures of governments, policymakers and the public.

The adverse effects of such factors could be felt principally through the following items:

– Lower interest rates and reduced investment returns arising on the Group's portfolios including impairment of debt securities and loans, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees included in Jackson's variable annuities and non-unit-linked products with a savings component in Asia, increase reinvestment risk for some of the Group's investments from accelerated prepayments and increased redemptions and/or have a negative impact on its assets under management and profit.

– A reduction in the financial strength and flexibility of corporate entities which may result in a deterioration of the credit rating profile and valuation of the Group's invested credit portfolio (which may result in an increase in regulatory capital requirements for the Group or its businesses), as well as higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses. Similarly, mortgages and mortgage-backed securities in the Group's investment portfolio are subject to default risk and may be adversely impacted by delays or failures of borrowers to make payments of principal and interest when due.

– Failure of counterparties who have transactions with Prudential (such as banks, reinsurers and counterparties to derivative transactions) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place. Concentrations of counterparty credit risk could exacerbate the impact of these events where they materialise.

– Estimates of the value of financial instruments becoming more difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time). Where the Group is required to sell its investments within a defined timeframe, such market conditions may result in the sale of these investments at below expected or recorded prices.

– The Group holds certain investments that may lack liquidity, such as privately placed fixed maturity securities, mortgage loans, complex structured securities and alternative investments. If these investments were required to be liquidated on short notice, the Group may experience difficulty in doing so and may be forced to sell them at a lower price than it otherwise would have been able to realise.

– A reduction in revenue from the Group's products where fee income is linked to account values or the market value of the funds under management. In particular, equity price falls impact the amount of revenue derived from fees from the unit-linked products in the Group's Asia business and from annuity contracts at Jackson, where fees are charged on account and asset values.

– Increased illiquidity, which includes the risk that expected cash inflows from investments and operations will not be adequate to meet the Group's anticipated short-term and long-term policyholder benefits and expense payment obligations. Increased illiquidity also adds to uncertainty over the accessibility of financial resources which in extreme conditions can impact the functioning of markets and may reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums or reduce deposits into retirement plans. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked products with a savings component, in particular those written in some of the Group's Asia operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are less developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit and the solvency of its business units. In addition, part of the profit from the Group's Asia operations is related to bonuses for policyholders declared on with-profits products, which are impacted by the difference between actual investment returns of the with-profits fund (which are broadly based on historical and current rates of return on equity, real estate and fixed income securities) and minimum guarantee rates offered to policyholders. This profit could be lower in particular in a sustained low interest rate environment.

Jackson writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Changes in markets, or deviations in policyholder behaviour experience from assumptions, may result in the need to hold additional reserves for these products, which may impact Jackson's liquidity, require it to raise additional capital and/or adversely impact its net income. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There may be circumstances where the derivatives that Jackson enters into to hedge its market risks may not sufficiently or effectively offset its exposures under the guarantees, or where its exposures may be over-hedged. This includes circumstances where:

– The derivative markets for the instruments which most appropriately reflect the equity funds in which policyholders have invested may not be of sufficient size or liquidity to effectively hedge these risks;

– Operational errors occur in the execution of Jackson's hedging strategy; or

– Actual experience materially deviates from the assumptions used in the models which inform Jackson's hedging strategy. These assumptions include, amongst others, mortality, lapse, surrender and withdrawal rates and amounts of withdrawals, election rates, fund performance, equity market returns and volatility, interest rate levels and correlation among various market movements.

If the results from Jackson's hedging programs do not correlate with the economic effect of changes in benefit exposures to customers, it could experience economic losses and increased volatility in its earnings which could adversely impact the Group's business, financial condition and results of operations. The cost of any guarantees that remain unhedged will also affect Jackson's results.

Periods of significant and sustained downturns in securities markets, increased equity volatility, reduced interest rates, or deviations in expected policyholder behaviour could also increase the cost of hedging beyond that anticipated in the pricing of the products being hedged and could produce losses not addressed by the risk management techniques employed.

In addition, Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group International Financial Reporting Standards ('IFRS') reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

Also, Jackson has a mix of spread-based and mortality business with assets invested in fixed-income securities and its results are therefore affected by fluctuations in prevailing interest rates. In particular, stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Any of the foregoing factors and events, individually or together, could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

1.3 As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this 'Risk Factors' section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are subject to applicable insurance, foreign exchange and tax laws, rules and regulations (including in relation to distributable profits) that can limit their ability to make remittances. In some circumstances, including where there are changes to general market conditions, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

A material change in the financial condition of any of Prudential's subsidiaries may have a material effect on its business, financial condition, results of operations and prospects.

1.4 (Geo)political risks and uncertainty may adversely impact economic conditions, increase market volatility, cause operational disruption to the Group and impact its strategic plans, which could have adverse effects on Prudential's business, financial condition, results of operations and prospects

The Group is exposed to (geo)political risks and uncertainty in the markets in which it operates. Recent shifts in the focus of some national governments toward more protectionist or restrictive economic and trade policies with specific markets, and international trade disputes, could impact on the macroeconomic outlook and the environment for global financial markets. This could take effect, for example, through increased friction in cross-border trade, such as implementation of trade tariffs or the withdrawal from existing trading blocs or agreements and the exercise of executive powers to restrict overseas trade, financial transactions, capital movements and/or investment. The degree and nature of regulatory changes and Prudential's competitive position in some geographic markets may also be impacted, for example, through measures favouring local enterprises, such as changes to the maximum level of non-domestic ownership by foreign companies or differing treatment under regulations and tax rules.

(Geo)political risks and political uncertainty may also adversely impact the Group's operations and its operational resilience. Increased (geo)political tensions may increase cross-border cyber activity and therefore increase cyber security risks. (Geo)political tensions may also lead to civil unrest and/or acts of civil disobedience. This includes the unrest in Hong Kong, where mass anti-government demonstrations have given rise to increased disruption throughout the region. Such events could impact operational resilience by disrupting Prudential's systems, operations, new business sales and renewals, distribution channels and services to customers, which may result in a reduction in contributions from business units to the central cash balances and profit of the Group, decreased profitability, financial loss, adverse customer impacts and reputational damage and may impact Prudential's business, financial condition, results of operations and prospects.

Responses by the US, UK and other governments to the enactment and application of the national security law in Hong Kong and other constitutional or legislative changes in the territory, which continue to develop, may adversely impact Hong Kong's economy with potential adverse sales, operational and product distribution impacts to the Group due to the territory being a key market which also hosts regional and head office functions. For internationally active groups such as Prudential, operating across multiple jurisdictions, government measures and responses may also add to the complexity of legal and regulatory compliance and increase the risk of conflicts between the requirements of one jurisdiction and another. See risk factor 3.1 below.

1.5 Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers of such debt are located and to the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur as has happened on occasion in the past, other financial institutions may also suffer losses or experience solvency or other concerns, which may result in Prudential facing additional risks relating to investments in such financial institutions that are held in the Group's investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions.

If a sovereign were to default on its obligations, or adopt policies that devalued or otherwise altered the currencies in which its obligations were denominated, this could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

1.6 Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current policyholders, and the Group's ability to compete for acquisition and strategic opportunities. Downgrades may also impact the Group's financial flexibility, including its ability to issue commercial paper at current levels and pricing. The interest rates at which Prudential is able to borrow funds are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Any such downgrades could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects. Prudential cannot predict what actions rating agencies may take, or what actions Prudential may therefore take in response to the actions of rating agencies, which could adversely affect its business.

1.7 Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to fluctuations in Prudential's consolidated financial statements upon the translation of results into the Group's presentation currency. This exposure is not currently separately managed. The Group presents its consolidated financial statements in US dollars, which is the currency in which a large proportion of the Group's earnings and assets and liabilities are denominated or to which they are linked (such as the Hong Kong dollar). There remain some entities within the Group the results of which are not denominated in or linked to the US dollar and transactions which are conducted in non-US dollar currencies. Prudential is subject to the risk of exchange rate fluctuations from the translation of the results of these entities and transactions and the risks from the maintenance of the Hong Kong dollar peg to the US dollar.

2. RISKS RELATING TO PRUDENTIAL'S BUSINESS ACTIVITIES AND INDUSTRY

2.1 The proposed demerger of Jackson carries with it execution risk and will require significant management attention

The proposed demerger of Jackson is subject to a number of factors and dependencies, such as prevailing market and political conditions and external approvals (including those from regulators and shareholders). In addition, preparing for and implementing the proposed demerger of Jackson is expected to require significant time from management, and management time will continue to be required in respect of any future sale of Prudential's remaining stake in Jackson. Management's attention may be diverted from other aspects of Prudential's business as a result.

Therefore, there can be no certainty that the demerger of Jackson will be implemented on the anticipated timetable, or that it will be completed as proposed (or at all). Further, if the proposed demerger of Jackson is completed, there can be no assurance that either Prudential or Jackson will realise the anticipated benefits of the transaction, or that the proposed demerger of Jackson and/or the future sale of Prudential's remaining stake in Jackson will not adversely affect the trading value or liquidity of the shares of either or both of the two businesses.

If the demerger of Jackson does complete, Prudential will continue to hold shares in Jackson. The market price of Jackson shares may be volatile and can go down as well as up. It is therefore possible that the value of Prudential's shareholding may be lower than anticipated, and the gross proceeds due to Prudential from any future sale may be lower than Prudential might otherwise achieve.

Failure to complete the demerger of Jackson would result in the potential benefits of the separation not being realised and may have an adverse effect on the reputation of Prudential and on the external perception of its ability to implement large-scale projects successfully. This may be the case even where the failure to implement the demerger of Jackson is due to factors outside the control of Prudential. A failure to complete the demerger of Jackson may also result in increased regulatory scrutiny on Prudential, in particular where the reasons for the demerger of Jackson not proceeding are internal to Prudential.

2.2 The implementation of large-scale transformation, including complex strategic initiatives, gives rise to significant design and execution risks, may affect Prudential's operational capability and capacity, and may adversely impact the Group and the delivery of its strategy if these initiatives fail to meet their objectives

In order to implement its business strategies for growth, improve customer experiences, strengthen operational resilience, meet regulatory and industry requirements and maintain market competitiveness, Prudential undertakes Group restructuring, large-scale transformation and acquisitions and disposals across its business. Many of these change initiatives are complex, interconnected and/or of large scale, including a current focus on preparations for the proposed demerger of Jackson, advancing the Group's digital capability, expanding strategic partnerships and industry and regulatory-driven change. There may be a material adverse effect to Prudential's business, customers, financial condition, results of operations and prospects if these initiatives incur unplanned costs, are subject to implementation delays, or fail to fully meet their objectives. Additionally, there may be adverse non-financial (including operational, regulatory, conduct and reputational) implications for the Group. These initiatives inherently give rise to design and execution risks, and may increase existing business risks, such as placing additional strain on the operational capacity, or weakening the control environment, of the Group.

Implementing further initiatives related to significant regulatory changes, such as IFRS 17 and the transition to a legislative framework in Hong Kong for the group-wide supervision of insurance groups, may amplify these risks. Risks relating to these regulatory changes are explained in the 'Legal and Regulatory Risk' risk factor below.

The speed of technological change in the business could outpace the Group's ability to anticipate all the unintended consequences that may arise from such change. Innovative technologies, such as artificial intelligence, expose Prudential to potential information security, operational, ethical and conduct risks which, if improperly managed, could result in customer detriment and reputational damage.

2.3 Prudential's businesses are conducted in highly competitive environments with developing demographic

trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance and fund management trends, historical bonus levels, the ability to respond to developing demographic trends, customer appetite for certain savings products and technological advances. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees, agents and independent financial advisers may limit Prudential's potential to grow its business as quickly as planned. Technological advances, including the increased capability for gathering large volumes of customer health data and developments in capabilities and tools in analysing and interpreting such data (such as artificial intelligence and machine learning), may result in increased competition to the Group, both from within and outside the insurance industry, and may increase the competition risks resulting from a failure to be able to attract sufficient numbers of skilled staff.

In Asia, the Group's principal competitors include global life insurers together with regional insurers and multinational asset managers. In most Asia markets, there are also local companies that have a material market presence.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies.

Prudential believes that competition will intensify across all regions in response to consumer demand, digital and other technological advances (including the emergence of new distribution channels), the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. This includes managing the potential adverse impacts to the commercial value of the Group's existing sale and distribution arrangements, such as bancassurance arrangements, in markets where new distribution channels develop.

Failure to do so may negatively impact Prudential's ability to attract and retain customers and, importantly, may limit Prudential's ability to take advantage of new business arising in the markets in which it operates, which may have an adverse interest on the Group's business, financial condition, results of operations and prospects.

2.4 Adverse experience in the operational risks inherent in Prudential's business, and those of its material outsourcing partners, could disrupt its business functions and have a negative impact on its business, financial condition, results of operations and prospects

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems or human error, fraud, the effects of natural or man-made catastrophic events (such as natural disasters, pandemics, cyber-attacks, acts of terrorism, civil unrest and other catastrophes) or from other external events. These risks may also adversely impact Prudential through its partners which provide bancassurance and product distribution, outsourcing, external technology, data hosting and other services.

Exposure to such events could impact Prudential's operational resilience and ability to perform necessary business functions by disrupting its systems, operations, new business sales and renewals, distribution channels and services to customers, or result in the loss of confidential or proprietary data. Such events, as well as any weaknesses in administration systems (such as those relating to policyholder records) or actuarial reserving processes, may also result in increased expenses, as well as legal and regulatory sanctions, decreased profitability, financial loss, customer conduct risk impacts and may damage Prudential's reputation and relationship with its customers and business partners.

Prudential's business is dependent on processing a large number of transactions for numerous and diverse products. It also employs a large number of complex and interconnected IT and finance systems and models, and user developed applications in its processes to perform a range of operational functions including the calculation of regulatory or internal capital requirements, the valuation of assets and liabilities, determining hedging requirements, and in acquiring new business using artificial intelligence and digital applications. Some of these tools form an integral part of the information and decision-making framework of Prudential and the risk of adverse consequences arising from erroneous or misinterpreted tools used in core business activities, decision making and reporting exists. Errors or limitations in these tools, or inappropriate usage, may lead to regulatory breaches, inappropriate decision-making, financial loss, or reputational damage. The long-term nature of much of the Group's business also means that accurate records have to be maintained securely for significant time periods. Further, Prudential operates in an extensive and evolving legal and regulatory environment (including in relation to tax) which adds to the complexity of the governance and operation of its business processes and controls.

The performance of the Group's core business activities and the uninterrupted availability of services to customers rely significantly on, and require significant investment in, IT infrastructure and security, system development, data governance and management, compliance and other operational systems, personnel, controls and processes. During times of significant change, the resilience and operational effectiveness of these systems and processes at Prudential and/or its third party providers may be adversely impacted. In particular, Prudential and its business partners are making increasing use of emerging technological tools and digital services, or forming strategic partnerships with third parties to provide these capabilities. Automated distribution channels to customers increase the criticality of providing uninterrupted services. A failure to implement appropriate governance and management of the incremental operational risks from emerging technologies may adversely impact Prudential's reputation and brand, the results of its operations, its ability to attract and retain customers and its ability to deliver on its long-term strategy and therefore its competitiveness and long-term financial success.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate governance and controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance as to the resilience of these systems and processes to disruption or that governance and controls will always be effective. Due to human error, among other reasons, operational and model risk incidents do occur from time to time and no system or process can entirely prevent them, although Prudential has not, to date, identified any such incidents that have had a material impact. Prudential's legacy and other IT systems, data and processes, as with operational systems and processes generally, may also be susceptible to failure or security/data breaches.

In addition, Prudential relies on the performance and operations of a number of bancassurance, outsourcing (including external technology and data hosting) and service partners. These include back office support functions, such as those relating to IT infrastructure, development and support and customer facing operations and services, such as product distribution and services (including through digital channels) and investment operations. This creates reliance upon the resilient operational performance of these partners, and failure to adequately oversee the partner, or the failure of a partner (or of its IT and operational systems and processes) could result in significant disruption to business operations and customers, may have reputational or conduct risk implications and which could have a material adverse effect on its business, financial condition, results of operations and prospects.

2.5 Attempts to access or disrupt Prudential's IT systems, and loss or misuse of personal data, could result in loss of trust from Prudential's customers and employees, reputational damage and have material adverse effects on the Group's business, financial condition, results of operations and prospects

Prudential and its business partners are increasingly exposed to the risk that individuals (which includes connected persons such as employees, contractors or representatives of Prudential or its third-party service providers, and unconnected persons) or groups may intentionally or unintentionally disrupt the availability, confidentiality and integrity of its IT systems or compromise the integrity and security of data (both corporate and customer), which could result in disruption to key operations, make it difficult to recover critical services or damage assets, any of which could result in loss of trust from Prudential's customers and employees, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. Prudential's increasing profile in its current markets and those in which it is entering, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness and the 2016 designation of Prudential as a G-SII could also increase the likelihood of Prudential being considered a target by cyber criminals. Further, there have been changes to the threat landscape in recent years and the risk from untargeted but sophisticated and automated attacks has increased.

There is an increasing requirement and expectation on Prudential and its business partners to not only hold customer, shareholder and employee data securely, but also to ensure its ongoing accuracy and that it is being used in a transparent, appropriate and ethical way, including in decision-making where automated processes are employed. A failure to do so may result in regulatory scrutiny and sanctions and may adversely impact the reputation and brand of the Group, its ability to attract and retain customers, its ability to deliver on its long-term strategy and therefore the results of its operations. New and currently unforeseeable regulatory issues may also arise from the increased use of emerging technology.

The risk to the Group of not meeting these requirements and expectations may be increased by the development and usage of digital distribution and service channels, which can collect a broader range of personal and health-related data from individuals at increased scale, and the use of complex tools, machine learning and artificial intelligence technologies to process, analyse and interpret this data. Regulatory developments in data protection worldwide (such as the implementation of EU General Data Protection Regulation that came into force in 2018 and the California Consumer Protection Act that came into force on 1 January 2020) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third-party suppliers') IT systems or data. The international transfer of data may, as a global organisation, increase regulatory risks for the Group. Although Prudential has experienced or has been affected by cyber and data breaches, to date, it has not identified a failure or breach, or an incident of data misuse in relation to its legacy and other IT systems and processes which has had a material impact. However, Prudential has been, and likely will continue to be, subject to potential damage from computer viruses, unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business, financial condition, results of operations and prospects.

2.6 Prudential's digital health application, Pulse, has seen increasing adoption in Asia and as the markets in which it operates, its user base, features, partnerships and product offerings develop, existing business risks to the Group may be increased and new risks may be introduced

Prudential's digital health application, Pulse, is subject to the risks discussed within this 'Risk Factors' section. In particular, these include risks related to legal and regulatory compliance and the conduct of business; the execution of complex change initiatives; information security, cyber and data privacy; the use of models (including those using artificial intelligence) and personal data; the resilience and integrity of IT infrastructure and operations; and those related to the management of third parties. These existing risks for the Group may be increased due to a number of factors:

- The number of current and planned markets in which the application operates, each with their own laws and regulations, regulatory and supervisory authorities, may increase regulatory compliance risks.

- The implementation of planned application features and offerings may require the delivery of complex, inter-connected change initiatives across current and planned markets. This may give rise to design and execution risks, which could be amplified where these change initiatives are delivered concurrently.

- The increased volume, breadth and sensitivity of data on which the business model of the application is dependent and to which the Group has access, holds, analyses and processes through its models, which increases data security, privacy and usage risks. The use of complex models, including where they use artificial intelligence for critical decision-making, in the application's features and offerings may give rise to operational, conduct, litigation and reputational risks where they do not function as intended.

- The application and its services relies on a number of third party partners and providers, which may vary according to market. This may increase operational disruption risks to the uninterrupted provision of services to customers, regulatory compliance and conduct risks, and the potential for reputational risks.

New product offerings may be developed and provided through the application, some of which Prudential may have limited or no experience in providing, which may introduce new regulatory, operational, conduct and strategic risks for Group.

A failure to implement appropriate governance and management of the incremental and new risks detailed above may adversely impact Prudential's reputation and brand, its ability to attract and retain customers, its competitiveness and its ability to deliver on its long-term strategy.

2.7 Prudential operates in certain markets with joint venture partners, minority shareholders and other third parties, resulting in certain risks that Prudential does not face with respect to its wholly-owned subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other joint ownership or third-party arrangements. For such Group operations the level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, those terms providing for the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could be subject to changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions.

Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails or is unable to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential such as bancassurance and agency arrangements in Asia and broker-dealer networks in the US and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party, material failure in controls (such as those pertaining to the third-party system failure or the prevention of financial crime) or failure to meet any regulatory requirements could adversely affect Prudential's reputation and its business, financial condition, results of operations and prospects.

2.8 Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's business, financial condition, results of operations and prospects

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses. The Group's businesses are subject to inflation risk. In particular, the Group's medical insurance businesses in Asia are also exposed to medical inflation risk.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations.

Assumptions about future expected levels of mortality are of relevance to the Guaranteed Minimum Withdrawal Benefit ('GMWB') of Jackson's variable annuity business.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group, especially for Jackson's portfolio of variable annuities and across product lines in Asian markets. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

In addition, Prudential's business may be adversely affected by epidemics, pandemics and other effects that give rise to a large number of deaths or additional sickness claims, as well as increases to the cost of medical claims. Pandemics, significant influenza and other epidemics have occurred a number of times historically but the likelihood, timing, or the severity of future events cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's claims experience. The risks to the Group resulting from the Covid-19 pandemic are included in the 'Covid-19' risk factor detailed in above.

Prudential uses reinsurance to selectively transfer mortality, morbidity and other risks. This exposes the Group to the counterparty risk of a reinsurer being unable to pay reinsurance claims or otherwise meet their commitments; the risk that a reinsurer changes reinsurance terms and conditions of coverage, or increases the price of reinsurance which Prudential is unable to pass on to its customers; and the risk of ambiguity in the reinsurance terms and conditions leading to uncertainty whether an event is covered under a reinsurance contract.

Any of the foregoing, individually or together, could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

2.9 Prudential is exposed to ongoing risks as a result of the demerger of M&G plc (the 'M&G Demerger')

On 21 October 2019, Prudential completed the M&G Demerger and, in connection with this, Prudential entered into a demerger agreement with M&G plc. Among other provisions, the demerger agreement contains a customary indemnity under which Prudential has agreed to indemnify M&G plc against liabilities incurred by the M&G plc group that relate to the business of the Group. Although it is not anticipated that Prudential will be required to pay any substantial amount pursuant to such indemnity obligations, if any amount payable thereunder is substantial this could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

3. LEGAL AND REGULATORY RISK

3.1 Prudential conducts its businesses subject to regulation and associated regulatory risks, including a change to the basis in the regulatory supervision of the Group, the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax), capital control measures on companies and individuals, regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates (including those related to the conduct of business by Prudential or its third party distributors), or decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential. The impact from any regulatory changes may be material to Prudential, for example changes may be required to its product range, distribution channels, handling and usage of data, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may also change solvency requirements, methodologies for determining components of the regulatory or statutory balance sheet including the reserves and the level of capital required to be held by individual businesses (with implications to the Group capital position), the regulation of selling practices, and could introduce changes that impact products sold or that may be sold.

Furthermore, as a result of interventions by governments in light of financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhancement of supervisory powers.

In the markets in which it operates, Prudential is subject to regulatory requirements and obligations with respect to financial crime including anti-money laundering and sanctions compliance, which may either impose obligations on the Group to act in a certain manner or restrict the way that it can act in respect of specified individuals, organisations, businesses and/or governments. A failure to do so may adversely impact the reputation of Prudential and/or result in the imposition of legal or regulatory sanctions for the Group. For internationally active groups such as Prudential, operating across multiple jurisdictions increases the complexity of legal and regulatory compliance. Compliance with Prudential's legal or regulatory obligations in one jurisdiction may conflict with the law or policy objectives of another jurisdiction, or may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional legal, regulatory compliance and reputational risks for the Group. These risks may be increased where uncertainty exists on the scope of regulatory requirements and obligations, and where the complexity of specific cases applicable to the Group is high. Following the demerger of Jackson, these risks may become more pronounced for the Group as markets with higher geopolitical risk exposure will form a larger proportion of Prudential's operations.

Further information on specific areas of regulatory and supervisory requirements and changes are included in the sub-sections below.

(a) Group-wide Supervision

With effect from 21 October 2019, the group-wide supervisor of Prudential plc changed to the Hong Kong Insurance Authority ('IA'). To align Hong Kong's regulatory regime with international standards and practices, the Hong Kong IA has developed a new Group-wide Supervision ('GWS') Framework for multinational insurance groups under its supervision. The GWS Framework is based on a principle-based and outcome-focused approach, and allows the Hong Kong IA to exercise direct regulatory powers over the designated holding companies of multinational insurance groups. On 24 July 2020 the Insurance (Amendment) (No. 2) Ordinance, being the enabling primary legislation providing for the GWS Framework, was enacted. This primary legislation is supported by subsidiary legislation and guidance material from the Hong Kong IA. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will come into operation on 29 March 2021. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements. Prior to the GWS Framework becoming effective for the Group, Prudential remains subject to the Regulatory Letter signed with the Hong Kong IA. This letter outlines the interim supervision arrangements from 21 October 2019 when the Hong Kong IA became the group-wide supervisor of the Group.

Although the GWS Framework is broadly consistent with the interim supervision arrangements that currently apply to the Group under the Regulatory Letter, until all elements of the GWS Framework are finalised the Group cannot be certain of the nature and extent of differences between the interim principles agreed with the Hong Kong IA and the specific regulatory requirements of the GWS Framework. The Group's existing processes and resources may also need to change to comply with the final GWS Framework or any other requirements of the Hong Kong IA. The need to adapt to any such changes or to respond to any such requirements may lead to increased costs or otherwise impact the business, financial condition, results, profitability and/or prospects of the Group.

With the agreement of the Hong Kong IA, Prudential currently applies the Local Capital Summation Method (the 'LCSM') to determine Group regulatory capital requirements under the Regulatory Letter. Prudential currently expects the GWS methodology to be largely consistent with these interim supervisory requirements, with the exception of the treatment of debt instruments outlined below which will be subject to transitional arrangements under the GWS Framework, however any differences in the final requirements adopted under the GWS Framework may lead to changes to the way in which capital requirements are calculated and to the eligibility of the capital instruments issued by Prudential to satisfy such capital requirements.

The Hong Kong IA has agreed that the subordinated debt instruments issued by Prudential at the date of the demerger of M&G plc can be included as part of the Group's capital resources for the purposes of satisfying the capital requirements imposed under the interim LCSM principles agreed with the Hong Kong IA. Senior debt instruments issued by Prudential are not included as part of the Group capital resources under the LCSM. Under the GWS Framework, Prudential's initial analysis indicates that all debt instruments (senior and subordinated) issued by Prudential will meet the transitional conditions set by the Hong Kong IA and will be included as eligible Group capital resources, although this will be subject to approval by the Hong Kong IA. If the Hong Kong IA does not approve the subordinated debt instruments Prudential has in issue as part of the Group's eligible capital resources for the purposes of satisfying the capital requirements imposed under the GWS Framework, Prudential may have less eligible capital resources compared to under the LCSM and may need to raise additional debt instruments, which may in turn lead to increased costs for the Group.

(b) Global regulatory requirements and systematic risk regulation

Currently there are also a number of other global regulatory developments which could impact Prudential's businesses in the many jurisdictions in which they operate. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank Act') and its subsequent amendments in the US which provided for a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets, the work of the Financial Stability Board (the 'FSB') in the area of systemic risk including the reassessment of the designation of Global Systemically Important Insurers ('G-SIIs'), and the Insurance Capital Standard (the 'ICS') being developed by the International Association of Insurance Supervisors (the 'IAIS'). In addition, regulators in a number of jurisdictions in which the Group operates are further developing their local capital regimes. Across Asia this includes China, Hong Kong, Singapore, Thailand and India. There remains a high degree of uncertainty over the potential impact of such changes on the Group.

In November 2019 the IAIS adopted the Common Framework ('ComFrame') which establishes supervisory standards and guidance focusing on the effective group-wide supervision of Internationally Active Insurance Groups ('IAIGs'). The ComFrame proposals, which include the ICS, could result in enhanced capital and regulatory measures for IAIGs. Prudential was included in the first register of IAIGs released by the IAIS on 1 July 2020 and was designated an IAIG by the Hong Kong IA following an assessment against the established criteria in ComFrame.

In November 2019 the FSB endorsed a new Holistic Framework ('HF'), intended for the assessment and mitigation of systemic risk in the insurance sector, for implementation by the IAIS in 2020 and has suspended G-SII designations until completion of a review to be undertaken in 2022. Many of the previous G-SII measures have already been adopted into the Insurance Core Principles ('ICPs') and ComFrame. As an IAIG, Prudential is expected to be subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. As a result of the Covid-19 pandemic, this monitoring requirement has been replaced with a Covid-19-focused exercise for 2020, with annual monitoring expected to recommence in 2021. In November 2020 the IAIS launched a public consultation on phase 1 of a proposed liquidity metric to be used as an ancillary indicator in the monitoring of the build-up of systemic risk. This followed a more general consultation on liquidity metrics earlier in 2020. Consultations on a phase 2 liquidity metric, as well as on macroeconomic elements of the HF, are expected to follow. The FSB published its 2020 Resolution Report in November 2020, highlighting intra-group connectedness and funding in resolution as key areas of attention for its work on resolution planning. Resolution will continue to be a near term focus in the FSB's financial stability work and may inform decisions around the reformed G-SII designation in 2022.

The IAIS continues to develop the ICS as part of ComFrame. The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase.

(c) IFRS 17

The Group's accounts are prepared in accordance with current IFRS applicable to the insurance industry. The International Accounting Standards Board (the 'IASB') introduced a framework that it described as Phase I which, under its standard IFRS 4, permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'). Some targeted amendments to this standard, including to the effective date, were issued in June 2020. IFRS 17, 'Insurance Contracts', as amended, will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2023. The standard is subject to endorsement in the UK via the UK Endorsement Board which is currently being established. Prudential has a group-wide implementation programme underway to implement this new standard. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain particularly as amendments were issued by the IASB in June 2020, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. The implementation of this standard will involve significant enhancements to IT, actuarial and finance systems of the Group.

Any changes or modification of IFRS accounting policies may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

(d) Inter-bank offered rate ('IBOR') reforms

In July 2014, the FSB announced widespread reforms to address the integrity and reliability of IBORs. The discontinuation of IBORs in their current form and their replacement with alternative risk-free reference rates such as the Sterling Overnight Index Average benchmark ('SONIA') in the UK and the Secured Overnight Financing Rate ('SOFR') in the US could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to or which reference IBORs, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

(e) Investor contribution schemes

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise in which Prudential, along with other companies, may be required to make such contributions.

3.2 The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's business, financial condition, results of operations and prospects or on its relations with current and potential customers

Prudential is, and in the future may continue to be, subject to legal and regulatory actions in the ordinary course of its business on matters relevant to the delivery of customer outcomes. Such actions relate, and could in the future relate, to the application of current regulations or the failure to implement new regulations (including those relating to the conduct of business), regulatory reviews of broader industry practices and products sold (including in relation to lines of business already closed) in the past under acceptable industry or market practices at the time and changes to the tax regime affecting products. Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary subjecting the person or entity to certain regulatory requirements. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

Any regulatory action arising out of the Group's position as a product provider could have an adverse impact on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

3.3 Litigation, disputes and regulatory investigations may adversely affect Prudential's business, financial condition, cash flows, results of operations and prospects

Prudential is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material respects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could have an adverse effect on Prudential's business, financial condition, cash flows, results of operations and prospects.

3.4 Changes in tax legislation may result in adverse tax consequences for the Group's business, financial condition, results of operations and prospects

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

4. ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

4.1 The failure to understand and respond effectively to the risks associated with environmental, social or governance ('ESG') factors could adversely affect Prudential's achievement of its long-term strategy

The purpose of a business and the way in which it operates in achieving its objectives, including in relation to ESG-related matters, are an increasingly material consideration for key stakeholders in achieving their own objectives and aims. ESG-related risks may directly or indirectly impact Prudential's business and the achievement of its strategy and consequently those of its key stakeholders, which range from customers, institutional investors, employees and suppliers, to policymakers, regulators, industry organisations and local communities. A failure to transparently and consistently implement the Group's ESG strategy, in its key markets and across operational, underwriting and investment activities, may adversely impact the financial condition and reputation of the Group and may negatively impact the Group's stakeholders, who all have expectations, concerns and aims related to ESG matters, which may differ. In its investment activities, Prudential's stakeholders increasingly place reliance on an approach to responsible investment that demonstrates how ESG considerations are effectively integrated into investment decisions and the performance of fiduciary and stewardship duties, including voting and active engagement decisions with respect to investee companies, as both an asset owner and an asset manager.

A failure to manage the material risks associated with key ESG themes detailed below may adversely impact the reputation and brand of the Group, its ability to attract and retain customers and staff, its ability to deliver on its long-term strategy and therefore the results of its operations and long-term financial success.

(a) Environmental risks

Environmental concerns, notably those associated with climate change, pose significant risks to Prudential and its customers. Prudential's investment horizons are long term and it is therefore exposed to the potential long-term impact of climate change risks, which include the financial and non-financial impact of transition, physical and litigation risks. A failure to understand, manage and provide greater transparency of its exposure to these climate-related risks may have increasing adverse implications for Prudential and its stakeholders.

The global transition to a lower carbon economy may have an adverse impact on investment valuations as the financial assets of carbon-intensive companies re-price, and this could result in some asset sectors facing significantly higher costs and a reduction in demand for their products and services. The speed of this transition, and the extent to which it is orderly and managed, will be influenced by factors such as public policy, technology and changes in market or investor sentiment. This climate-related transition risk may adversely impact the valuation of investments held by the Group, and the potential broader economic impact may adversely affect customer demand for the Group's products. Prudential's stakeholders increasingly expect and/or rely on the Group to support an orderly transition based on an understanding of relevant country and company-level transition plans and which takes into consideration the impact on the economies, businesses and customers in the markets in which it operates and invests. The Group's ability to sufficiently understand and appropriately react to transition risk may be limited by insufficient or unreliable data on carbon exposure and transition plans for the assets in which it invests. The direct physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term changes to climate and the natural environment, will increasingly influence the longevity, mortality and morbidity risk assessments for the Group's life insurance product underwriting and offerings and their associated claims profiles. Climate-driven events in countries in which Prudential or its key third parties operate could impact the Group's operational resilience and its customers.

(b) Social risks

Social risks that could impact Prudential may arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group or its third parties operate. These risks are increased as Prudential operates in multiple jurisdictions with distinct local cultures and considerations. As an employer, the Group is also exposed to the risk of being unable to attract, retain and develop highly-skilled staff, which may increase if Prudential does not have in place responsible working practices or fails to recognise the benefits of diversity or promote a culture of inclusion. The potential for reputational risk extends to the Group's supply chains, which may be exposed to factors such as poor labour standards and abuses of human rights by third parties. Emerging population risks associated with public health trends (such as an increase in obesity) and demographic changes (such as population urbanisation and ageing) may affect customer lifestyles and therefore may impact claims against the Group's insurance product offerings. As a provider of insurance and investment services, the Group is increasingly focused on digital innovation, technologies and distribution methods for a broadening range of products and services. As a result, Prudential has access to extensive amounts of customer personal data, including data related to personal health, and an increasing ability to analyse and interpret this data through the use of complex tools, machine learning and artificial intelligence technologies. The Group is therefore exposed to the regulatory, ethical and reputational risks associated with customer data misuse or security breaches. These risks are explained above. The increasing digitalisation of products, services and processes may also result in new and unforeseen regulatory requirements and stakeholder expectations, including those related to how the Group supports its customers through this transformation.

(c) Governance risks

A failure to maintain high standards of corporate governance may adversely impact the Group and its customers, staff and employees, through poor decision-making and a lack of oversight of its key risks. Poor governance may arise where key governance committees have insufficient independence, a lack of diversity, skills or experience in their members, or unclear (or insufficient) oversight responsibilities and mandates. Inadequate oversight over remuneration increases the risk of poor senior management behaviours. Prudential operates across multiple jurisdictions and has a group and subsidiary governance structure which may add further complexity to these considerations. Participation in joint ventures or partnerships where Prudential does not have direct overall control and the use of third party suppliers increase the potential for reputational risks arising from poor governance.

By order of the Board
Prudential plc
Tom Clarkson
Company Secretary

3 March 2021, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chair
Shriti Vinodkant Vadera

Executive Directors
Michael Andrew Wells *(Group Chief Executive)*, Mark Thomas FitzPatrick CA and Stuart James Turner FCA FCSI FRM

Independent Non-executive Directors
Jeremy David Bruce Anderson CBE, David John Alexander Law ACA, Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP, The Hon. Philip John Remnant CBE FCA, Alice Davey Schroeder, Thomas Ros Watjen, Jane Fields Wicker-Miurin OBE and Yok Tak Amy Yip

** For identification purposes*